Q1 | 2014

A SPECTRUM OF OPPORTUNITY

Positive momentum continues for Perpetual thus far in 2014, driven by execution of our key diversifying strategies coupled with the recovery in natural gas markets.

Perpetual remains focused on five key strategic priorities in 2014:

1. Reduce debt and manage downside risk;
2. Grow Edson liquids-rich gas production, reserves, cash flow, inventory and value;
3. Maximize value of Mannville heavy oil;
4. Maximize cash flow from shallow gas; and
5. Advance and broaden the portfolio of high impact opportunities with risk-management investment

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

Operating highlights

- First quarter average production of 18,794 boe/d was three percent higher than first quarter 2013 (18,244 boe/d) and one percent higher than the preceding fourth quarter of 2013. Including deemed production, total deemed and actual production averaged 22,036 boe/d, down two percent from the first quarter of 2013, reflecting the annual 10 percent reduction in deemed production and the termination of deemed production for multiple wells shut-in during 2003 which reached the end of their 10 year deemed production period.
- Oil and natural gas liquids ("NGL" or "liquids") production of 3,451 bbl/d remained consistent with the prior year (3,483 bbl/d) with additions from the Company's Mannville heavy oil drilling program offsetting declines on liquids production from Edson wells related to changes in plant and liquids recovery operations.
- Natural gas production of 92.1 MMcf/d was up two percent from the preceding fourth quarter and four percent from the first quarter of 2013, reflecting production from new wells drilled at West Edson which more than offset natural declines on Perpetual's shallow gas assets.
- Capital expenditures of $31.4 million were concentrated on the Company's Mannville heavy oil property and liquids-rich natural gas activity in the greater Edson area. Drilling activities in the first quarter included 11 (9.7 net) horizontal heavy oil wells at Mannville and three (2.0 net) horizontal wells in the greater Edson area. Expenditures also included capital costs related to the completion and tie-in of wells drilled at West Edson in the fourth quarter of 2014, facilities costs related to the addition of incremental condensate stabilization and compression equipment at the West Edson plant and spending to reactivate, recomplete and workover eastern Alberta shallow gas wells to optimize production operations in eastern Alberta.

Financial highlights

- Funds flow of $17.4 million ($0.12 per share) was 82 percent higher than the comparative first quarter of 2013 ($9.5 million) and 34 percent higher than the preceding fourth quarter ($13.0 million), reflecting increased natural gas prices, higher average production and higher average heat content gas as the relative proportion of gas produced from West Central Alberta increased 50 percent over the 2013 period.
- Improved natural gas prices were reflected in a first quarter operating netback of $16.23/boe, up 27 percent from the prior year (Q1 2013 - $12.78/boe).
- Perpetual's average natural gas price, before derivatives, was $4.90/Mcf, up 54 percent from $3.18/Mcf for the first quarter of 2013, consistent with the increase in AECO monthly prices. With close to 60 percent of Perpetual's production hedged or sold forward at AECO monthly prices below the settled market prices during the first quarter, the losses on financial natural gas contracts reduced Perpetual's realized gas revenue by $5.0 million resulting in a realized price of $4.35/Mcf.

PERPETUAL ENERGY INC. 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's oil and NGL price, before derivatives, of $77.72/bbl was 42 percent higher than the prior year's first quarter ($54.74/bbl) primarily due to higher crude oil prices and a narrowing of the West Texas Intermediate ("WTI") to Western Canada Select ("WCS") differential price. Perpetual's realized oil and NGL price, including derivatives, was impacted by losses recorded on financial WTI fixed price contracts, resulting in a realized price of $72.06/bbl.
- A net loss of $17.3 million was recorded for the first quarter of 2014, reflecting an unrealized loss on derivatives of $12.7 million, primarily due to outstanding physical and financial natural gas contracts with contract prices below forward market prices at the end of the first quarter.

Downside risk management

- Perpetual continues to target capital spending in 2014 to be fully funded by 2014 funds flow. The 2014 capital program was heavily weighted to the first quarter with an active winter drilling program, resulting in first quarter capital spending of $31.4 million and $48.6 million planned for the remainder of 2014.
- Perpetual has entered into commodity price management contracts for the remainder of 2014 to protect a base level of funds flow. Perpetual has in place natural gas hedges on an estimated 55 percent of forecast actual and deemed production from April to December of 2014 with an average of 64,163 GJ/day of natural gas production hedged at the AECO Monthly Index at an average price of $4.10/GJ. Perpetual also has financial contracts in place for the period from June to October 2014 to fix the basis differential between the NYMEX and AECO for an average of 7,500 MMBtu/d at US$(0.48)/MMBtu.
- Perpetual has oil sales arrangements for 1,500 bbl/d in place from April through December 2014 protecting an average WTI index floor price of US$86.67/bbl with an average ceiling price of US$95.15/bbl. In addition, the Corporation has fixed WTI oil sales contracts in place for 1,000 bbl/d for the period of April through June 2014 and 750 bbl/d for the period of July through December, both at US$90.00/bbl as a result of the trigger of a swaption call on December 31, 2013. The Corporation also has financial contracts in place for 2,000 bbl/d to fix the basis differential between the WTI and WCS trading hubs at an average of US$(21.64)/bbl.
- The lenders under Perpetual's credit facility have completed their semi-annual borrowing base review and total availability under the facility will be increased from $110 to $130 million on or before May 10, 2014. The increase from the previous borrowing base was primarily due to strong gas and NGL reserve additions in West Central Alberta reported in Perpetual's December 31, 2013 external reserve evaluation. Pro forma for the increased borrowing base, Perpetual has approximately $50 million of undrawn credit capacity under the credit facility.

Edson Wilrich liquids-rich gas

- Capital spending in the West Central district during the first quarter totaled $19.1 million, which included drilling three (2.0 net) liquids-rich wells in the greater Edson area as well as the multi-stage fracture stimulation and tie-in of two horizontal wells drilled in the fourth quarter of 2013. The new wells have all performed at or above the type curve for West Edson since being placed on production during the first quarter. Drilling operations on a fourth well (0.5 net) extended into the second quarter. Completion operations for this well are planned for immediately after spring breakup.
- Approximately $1.3 million of capital was also directed to facility enhancements at West Edson during the quarter to add additional condensate stabilization, and prepare for the installation of additional compression in the second quarter. The additional compression and other plant components are projected to increase the capacity at West Edson to 60 MMcf/d plus associated liquids (50 percent working interest) by the end of the second quarter.
- Perpetual plans to spend an additional $26 million in the West Central district during the remainder of 2014 for the drilling of up to 10 (5.5 net) wells and completion of the facility enhancements at the West Edson gas plant.
- Production results from a new tighter spacing infill well drilled at West Edson during the first quarter of 2014 will be monitored to assess the optimal development spacing program for the area.

Mannville heavy oil

- A continuous one-rig winter drilling program resulted in 11 (9.7 net) new heavy oil wells drilled during the first quarter, with $10.9 million of first quarter capital allocated to Mannville heavy oil exploration and development. The winter drilling program resulted in three new heavy oil pool discoveries. Production from these new pools will be closely monitored to evaluate follow-up development drilling potential.
- Drilling activities will resume after spring break-up with capital spending of approximately $15 million budgeted for drilling, completion and tie-in activities on up to 10 (8.8 net) wells for the remainder of 2014, including six (5.1 net) development wells related to the recent new pool discoveries.

- Capital will also be directed to a water handling and injection project to begin pressure maintenance through waterflood on two small pools in the Mannville area.
- Perpetual continues to monitor performance of the waterflood pilot initiated in the Mannville I2I pool in December 2013. Expansion of the waterflood pilot will likely proceed in late 2014.

Shallow gas

- Approximately $1.4 million of first quarter capital was allocated to reactivate shut-in shallow gas wells, workover existing wells and recomplete additional zones. In addition, an estimated $1 million was incurred as one-time operating expenditures to further enhance shallow gas productivity. Production additions of 6.2 MMcf/d (IP 30) were achieved as a result of these capital and operating activities, translating into extremely high capital efficiencies of less than $5,000 per flowing boe/d on this shallow gas optimization program.
- The remaining 2014 capital budget includes an additional $5 million of spending to maximize value and mitigate production declines on the Corporation's legacy shallow gas assets through facility optimization projects, workovers and uphole recompletions.

High impact opportunities

- Project planning and full scale development scoping continued on Perpetual's bitumen recovery pilot project in the Bluesky formation at Panny during the quarter. Regulatory approval of the pilot project to assess the proprietary LEAD (Low-Pressure Electro-Thermal Assisted Drive) technology is expected to be received prior to the end of the third quarter of 2014.

2014 Outlook

Perpetual continues to target capital spending to be fully funded by 2014 funds flow. The Corporation's Board of Directors has approved a $70 to $80 million capital budget for full calendar year 2014. Capital spending for the remainder of the year will be approximately $48 million. The table below summarizes expected capital spending and planned drilling activities in accordance with Perpetual's 2014 strategic priorities for the remainder of 2014.

Capital expenditures for Q2 – Q4 of 2014	$ millions	# of Wells
West Central liquids-rich gas	26	10 (5.5 net)
Mannville heavy oil	15	10 (8.8 net)
Shallow gas	5	–
Abandonment and reclamation	2	–
	48	20 (14.3 net)

Drilling operations are expected to recommence in late June after wet spring breakup conditions dissipate.

Perpetual estimates that 2014 funds flow will total $80 to $90 million based on current forward commodity prices, with oil and liquids production averaging close to 3,400 to 3,500 bbl/d and natural gas sales averaging approximately 90 to 95 MMcf/d. The enhanced heat content of Perpetual's liquids-rich gas in West Central Alberta results in premium pricing to AECO market prices. Perpetual expects to average 36 to 38 MMcf/d of gas production in the greater Edson area in 2014, where the average heat content is estimated at 1.18 GJ/Mcf.

With gas prices strengthening we are well positioned to deliver results for continued growth, diversification and financial flexibility.

Susan Riddell Rose
President and Chief Executive Officer
May 6, 2014

A SPECTRUM OF OPPORTUNITY

FINANCIAL AND OPERATING HIGHLIGHTS

		Three months ended March 31	
(Cdn$ thousands, except as noted)	**2014**	2013	% Change
Financial			
Oil and natural gas revenue	**64,754**	42,477	52
Funds flow [1]	**17,384**	9,534	82
Per share [1] [2]	**0.12**	0.06	100
Net earnings (loss)	**(17,324)**	32,764	(153)
Per share – basic [2]	**(0.12)**	0.22	(153)
Per share – diluted [2]	**(0.12)**	0.21	(157)
Total assets	**770,064**	742,288	4
Net bank debt outstanding [1]	**84,048**	32,062	162
Senior notes, at principal amount	**150,000**	150,000	–
Convertible debentures, at principal amount	**159,779**	159,972	–
Total net debt [1]	**393,827**	342,034	15
Capital expenditures			
Exploration and development [3]	**31,428**	39,507	(20)
Dispositions, net of acquisitions	**151**	(76,178)	100
Net capital expenditures	**31,579**	(36,671)	186
Common shares outstanding (thousands)			
End of period	**148,944**	147,704	1
Weighted average – basic	**148,448**	147,672	1
Weighted average – diluted	**148,448**	171,667	(14)
Operating			
Average production			
Natural gas (MMcf/d) [4]	**92.1**	88.6	4
Oil and NGL (bbl/d) [4]	**3,451**	3,483	(1)
Total (boe/d) [5]	**18,794**	18,244	3
Gas over bitumen deemed production (MMcf/d) [5]	**19.5**	25.0	(22)
Average daily (actual and deemed – boe/d) [4] [5]	**22,036**	22,403	(2)
Average prices			
Natural gas, before derivatives ($/Mcf)	**4.90**	3.18	54
Natural gas, including derivatives ($/Mcf)	**4.35**	3.28	33
Oil and NGL, before derivatives ($/bbl)	**77.72**	54.74	42
Oil and NGL, including derivatives ($/bbl)	**72.06**	56.82	27
Barrel of oil equivalent, including derivatives ($/boe)	**34.51**	26.80	29
Drilling (wells drilled gross/net)			
Gas	**3/2.0**	–/–	
Oil	**11/9.7**	27/25.7	
Total	**14/11.7**	27/25.7	
Success rate (%)	**100/100**	100/100	

1. These are non-GAAP measures. Please refer to "Non-GAAP Measures" in this Management's Discussion and Analysis.
2. Based on weighted average basic or diluted common shares outstanding for the period.
3. Exploration and development costs include geological and geophysical expenditures and other.
4. Production amounts are based on the Corporation's interest before royalty expense.
5. 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 months ended March 31, 2014 as well as information and estimates concerning the Corporation's future outlook based on currently available information. This discussion should be read in conjunction with the Corporation's condensed interim consolidated financial statements and accompanying notes for the three months ended March 31, 2014 as well as the audited consolidated financial statements and accompanying notes for the years ended December 31, 2013 and 2012. The MD&A should be read in conjunction with the Corporation's MD&A for the year ended December 31, 2013 as disclosure which is unchanged from the December 31, 2013 MD&A has not been duplicated herein. The Corporation's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are referred to the advisories for additional information regarding forecasts, assumptions and other forward-looking information contained in the "Forward Looking Information" section of this MD&A. The date of this MD&A is May 6, 2014.

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, exploration, production and marketing company. Perpetual has a spectrum of opportunities in its 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 in eastern Alberta, oil sands leases in northern Alberta and an interest in a natural gas storage business, which all complement its legacy shallow gas production and resource base. Additional information on Perpetual, including the most recent filed Annual Information Form ("AIF"), can be accessed at www.sedar.com or from the Corporation's website at www.perpetualenergyinc.com.

ADVISORIES

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

Operating netback: Perpetual considers operating netback 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, changes in long term Crown receivable, settlement of decommissioning obligations and certain Exploration and Evaluation ("E&E") costs described below ("funds flow"), funds flow per 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 March 31,	
($ thousands, except per share amounts)	**2014**	2013
Cash flow from operating activities	**14,532**	5,584
Exploration and evaluation costs [1]	**13**	774
Expenditures on decommissioning obligations	**2,401**	402
Changes in long term Crown receivable	**(2,772)**	414
Changes in non-cash operating working capital	**3,210**	2,360
Funds flow	**17,384**	9,534
Funds flow per share [2]	**0.12**	0.06

(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 shares outstanding for the period.

Realized revenue: Realized revenue includes oil and natural gas revenue, realized gains (losses) on economic hedges and 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.

Adjusted working capital deficiency (surplus): Adjusted working capital deficiency (surplus) includes total current assets, current liabilities and long term Crown receivables excluding short-term derivative assets and liabilities related to the Corporation's economic hedging activities, assets and liabilities held for sale, share-based payment liabilities, current portion of convertible debentures, and current bank indebtedness.

Net debt and net bank debt: Net bank debt is measured as current and long term bank indebtedness including adjusted working capital deficiency (surplus). Net debt includes the carrying value of net bank debt and the principle amount of senior notes and convertible debentures. Net bank debt and net debt are used by management to analyze leverage.

Total capitalization: Total capitalization is equal to net debt plus market value of issued equity and is used by management to analyze leverage. Total capitalization is not intended to represent the total funds from equity and debt received by the Corporation upon issuance.

Volume conversions: Barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101 ("NI 51-101"), a conversion ratio for natural gas of 6 Mcf:1 bbl has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, utilizing a conversion on a 6 Mcf:1 bbl basis may be misleading as an indicator of value as the value ratio between natural gas and crude oil, based on the current prices of natural gas and crude oil, differ significantly from the energy equivalency of 6 Mcf:1 bbl.

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

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

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

The Corporation believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: volatility in market prices for oil and natural gas products; supply and demand regarding 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.

FIRST QUARTER 2014 RESULTS

Capital expenditures

	Three months ended March 31,	
($ thousands)	**2014**	2013
Exploration and development	**31,340**	38,682
Geological and geophysical costs [(1)]	**13**	774
Acquisitions	**151**	1,752
Dispositions	**–**	(77,930)
Other	**75**	51
Total	**31,579**	(36,671)

(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 spending by area

	Three months ended March 31,	
($ thousands)	**2014**	2013
West Central liquids-rich gas	**19,056**	10,389
Mannville heavy oil	**10,907**	26,601
Shallow gas and other	**1,377**	1,692
Total	**31,340**	38,682

During the first quarter of 2014, exploration and development expenditures of $31.3 million continued to be focused on the Corporation's proven diversifying assets at Mannville for heavy oil and in West Central Alberta for liquids-rich gas.

Exploration and development spending of $19.1 million during the first quarter related to the development of the liquids-rich Wilrich play in the West Edson area with $12.1 million for the drilling of two (1.0 net) horizontal wells, and one (1.0 net) horizontal well in Edson proper. First quarter 2014 spending also included $4.1 million related to the completion of hydraulic fracturing and tie-in activities associated with the fourth quarter 2013 drilling program. Another $1.6 million related to a West Edson well that commenced drilling at the end of the first quarter but was not included in the first quarter well count as it finished drilling in the second quarter of 2014. In addition, an initial $1.3 million was spent on the West Edson facility expansion, including condensate stabilization equipment and compression, to take capacity to 60 MMcf/d (30 MMcf/d net). The new components of the West Edson facility will be commissioned in the second quarter.

Exploration and development spending at Mannville of $10.9 million included the drilling and completion of 11 (9.7 net) horizontal heavy oil wells. Two (1.7 net) wells each encountered new pool discoveries, which started producing during the second quarter of 2014.

There were no disposition proceeds during the first quarter of 2014. Disposition proceeds of $77.9 million in the first quarter of 2013 related primarily to sale of non-producing properties in Elmworth.

Production

	Three months ended March 31,	
	2014	2013
Natural gas (MMcf/d)		
Eastern – North	**34.9**	39.3
Eastern – South	**22.7**	27.2
West Central	**34.5**	22.1
Total natural gas	**92.1**	88.6
Crude oil (bbl/d)		
Eastern – North	**5**	3
Eastern – South [(1)]	**2,861**	2,754
West Central	**45**	29
Total crude oil	**2,911**	2,786
NGL (bbl/d)		
Eastern – North	**–**	–
Eastern – South	**11**	7
West Central	**529**	690
Total NGL	**540**	697
Total actual production (boe/d)	**18,794**	18,244
Deemed natural gas production (MMcf/d)	**19.5**	25.0
Total actual plus deemed production (boe/d)	**22,036**	22,403

(1) Primarily Mannville heavy oil.

Total oil, NGL and natural gas production of 18,794 boe/d was up three percent from first quarter 2013, as production increases from Perpetual's capital investments in 2013 more than offset production declines.

Reported NGL yields in the first quarter of 2014 dropped to 15.6 bbl/MMcf from 31.5 bbl/MMcf as the higher liquids yield wells at Edson declined and spending for liquids-rich gas continued to be focused at West Edson where liquids yields are lower than at Edson proper. In addition, the change in processing arrangements in West Edson, which started up operations on October 1, 2013, reduced the reported liquids recovery. A portion of the previously recovered liquids are now included in higher heat content gas sales resulting in a higher realized gas price and, at the same time, higher grade condensate liquids are now recovered through the new plant.

Perpetual's gas production of 92.1 MMcf/d increased four percent from first quarter 2013 due to a 56 percent increase in West Central deep basin gas production, which was in large part offset by a 13 percent year over year decline in Perpetual's base shallow gas assets.

Oil production of 2,911 bbl/d grew four percent from 2,786 bbl/d in 2013 as a result of a successful 2013 Mannville heavy oil drilling program which more than countered the production declines in this play. 2014 volumes included production from three (2.7 net) wells that drilled two new heavy oil pools, one in late 2013 and the second in early 2014.

Deemed production for the first quarter of 2014 of 19.5 MMcf/d decreased 22 percent from 25.0 MMcf/d in 2013. The decrease reflects the annual 10 percent reduction assessed on deemed production volumes combined with wells reaching the end of their 10 year deemed production period. Wells are only eligible for deemed production and the associated GOB royalty adjustment for 10 years following shut-in.

Commodity prices

	Three months ended March 31,	
	2014	2013
Reference prices		
AECO Monthly Index ($/Mcf)	**4.75**	3.08
AECO Daily Index ($/Mcf)	**5.71**	3.11
Alberta Gas Reference Price ($/Mcf) [(1)]	**4.82**	2.87
West Texas Intermediate ("WTI") light oil (US$/bbl)	**98.68**	93.40
Western Canadian Select ("WCS") differential (US$/bbl)	**(23.13)**	(31.96)
Average Perpetual prices		
Natural gas		
Before derivatives ($/Mcf) [(2)]	**4.90**	3.18
Percent of AECO Monthly Index	**103**	103
Including derivatives ($/Mcf)	**4.35**	3.28
Percent of AECO Monthly Index	**92**	107
Oil and NGL		
Before derivatives ($/bbl)	**77.72**	54.74
Including derivatives ($/bbl)	**72.06**	56.82
Barrel of oil equivalent		
Average realized price ($/boe)	**34.51**	26.80

(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 $4.75/Mcf for the quarter ended March 31, 2014 increased 54 percent from $3.08/Mcf for the same period in 2013. A relatively warm winter in 2013 drove natural gas into an oversupply situation resulting in low gas prices during the 2013 period. In contrast, extreme cold weather during the first quarter of 2014 caused strong heating demand, contributing to natural gas price appreciation through to the end of the first quarter of 2014. Natural gas storage facilities were depleted to well below five year average levels and by the end of the 2014 withdrawal season, a deficit of 865 Bcf in U.S. natural gas storage facilities existed year over year.

Increased AECO monthly index prices were reflected in Perpetual's natural gas price before derivatives with an increase of 54 percent to $4.90/Mcf from $3.18/Mcf in 2013. In addition, high heat content associated with West Central production combined with the Aux Sable and Alliance Pipeline marketing and transportation agreements have allowed Perpetual to realize a higher natural gas price for West Edson production relative to the same period in 2013.

Perpetual's average realized gas price, including derivatives, increased 33 percent in 2014 to $4.35/Mcf from $3.28/Mcf in 2013. The Corporation's realized 2014 natural gas price was reduced by realized losses on natural gas derivatives with close to 60 percent of Perpetual's production being economically hedged below settled market prices during that period. Realized losses of $5.0 million on financial natural gas contracts led to an average first quarter 2014 gas price that was 92 percent of the AECO Monthly Index. To manage the volatility in gas prices created by extreme cold weather during the first quarter of 2014, the Corporation entered into contracts to sell more monthly index gas versus daily index to ensure a higher degree of price certainty. As a consequence, Perpetual's realized natural gas price before derivatives was more closely aligned with the AECO Monthly Index.

Perpetual's oil and NGL price, before derivatives, of $77.72/bbl increased 42 percent in the 2014 period compared to 2013 due to a narrowing of WTI to the WCS differential price combined with increased WTI prices. Perpetual realized further price improvements through the delivery to sales points of higher grade oil related to new drying operations at the majority of the Mannville heavy oil production pads and higher grade NGL from the change in liquid recoveries at West Edson.

Perpetual's realized oil and NGL price, including derivatives, was lower than the price before derivatives due to losses recorded on financial WTI fixed price contracts. Losses of $1.8 million on financial WTI contracts were partially mitigated by $0.4 million in crystallizations primarily related to oil contracts during the first quarter of 2014.

Risk management

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

Natural Gas

Perpetual has in place natural gas hedges on an estimated 55 percent of forecast actual and deemed natural gas production for April to December of 2014 of approximately 116,010 GJ/d. The following tables provide a summary of derivative natural gas contracts in place as at March 31, 2014 as well as any additional contracts entered into prior to the date of this MD&A.

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

Type of contract	Term	Volumes at AECO (GJ/d)	Average price ($/GJ) (1)	Market prices ($/GJ) (2)
Physical	April 2014	9,875	4.30	4.47
Physical	May – October 2014	5,275	4.06	4.54
Financial	April 2014	64,838	4.04	4.47
Financial	May 2014	64,839	4.04	4.49
Financial	June 2014	56,925	3.96	4.53
Financial	July – October 2014	58,600	4.06	4.55
Financial	November – December 2014	57,500	4.40	4.76

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

(2) Market prices are based on settled and closed forward AECO Monthly Index prices as of May 6, 2014.

Sold natural gas call option:

Type of contract	Term	Expiry date	Volumes at AECO (GJ/d)	Strike price ($/GJ)	Market prices ($/GJ) (1)
Call (2)	April	Monthly 2014	10,000	4.25	4.47
Call (2)	May	Monthly 2014	10,000	4.25	4.49
Call	June – December 2014	Monthly 2014	10,000	4.25	4.61

(1) Market prices are based on settled and closed forward AECO Monthly Index prices as of May 6, 2014.

(2) These calls were triggered in April and May of 2014.

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

Type of contract	Term	Volumes at NYMEX-AECO (MMBtu/d)	Average price ($/MMBtu) (1)	Market prices ($/MMBtu) (2)
Financial	June – October 2014	7,500	(0.48)	(0.40)

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

(2) Market prices are based on settled and closed forward NYMEX-AECO differential prices as of May 6, 2014.

Crude Oil

Perpetual has crude oil financial contracts in place for 1,500 bbl/d from April through December 2014 protecting an average WTI index floor price of US$86.67/bbl with an average ceiling price of US$95.15/bbl. In addition, the Corporation has fixed WTI oil sales contracts in place for 1,000 bbl/d for the period of April through June 2014 and 750 bbl/d for the period of July through December, both at US$90.00/bbl as a result of the trigger of a swaption call on December 31, 2013. The Corporation also has financial contracts in place for 2,000 bbl/d to fix the basis differential between the WTI and WCS trading hubs at an average of US$(21.64)/bbl The following tables provide a summary of derivative crude oil contracts in place as at March 31, 2014 as well as any additional contracts entered into prior to the date of this MD&A:

Fixed price oil sales arrangements in US$:

Type of contract	Term	Volumes at WTI (bbl/d)	Price (US$/bbl) (1)	Market prices (US$/bbl) (2)
Financial	April	1,000	90.00	102.04
Financial	May – June 2014	1,000	90.00	98.80
Financial	July – December 2014	250	90.00	95.27

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

(2) Market prices are based on settled and forward WTI oil prices as of May 6, 2014.

Costless collar oil sales arrangements in US$:

Type of contract	Term	Volumes at WTI (bbl/d)	Floor price (US$/bbl)	Ceiling price (US$/bbl)	Market prices (US$/bbl) (1)
Collar	April	500	85.00	91.10	102.04
Collar	April	500	85.00	91.20	102.04
Collar (2)	April	500	85.00	103.15	102.04
Collar	May – December 2014	500	85.00	91.10	96.17
Collar	May – December 2014	500	85.00	91.20	96.17
Collar (2)	May – December 2014	500	90.00	103.15	96.17
Collar (3)	January – December 2015	500	90.00	103.20	89.33

(1) Market prices are based on settled and forward WTI oil prices as of May 6, 2014.

(2) 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 US$103.15/bbl in any month during the contract period Perpetual will receive a price of US$93.00/bbl.

(3) 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 US$103.20/bbl in any month during the contract period Perpetual will receive a price of US$90.00/bbl.

Costless collar oil sales arrangements in Cdn$:

Type of contract	Term	Volumes (bbl/d)	Floor price (Cdn$/bbl)	Ceiling price (Cdn$/bbl)	Market prices (Cdn$/bbl) (1)
Collar	January – December 2015	500	87.50	95.25	98.17
Collar	January – December 2015	500	87.50	95.75	98.17

(1) Market prices are based on forward WTI oil prices as of May 6, 2014.

Basis differential contracts between WTI and WCS trading:

Type of contract	Term	Volumes (bbl/d)	WTI-WCS differential (US$/bbl) (1)	Market prices (US$/bbl) (2)
Financial	April	1,000	(22.63)	(22.47)
Physical	April	1,000	(20.66)	(22.47)
Financial	May	1,000	(22.63)	(19.07)
Physical	May	1,000	(20.66)	(19.07)
Financial	June – December 2014	1,000	(22.63)	(20.39)
Physical	June – December 2014	1,000	(20.66)	(20.39)

(1) 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.

(2) Market prices are based on settled and forward WTI-WCS differential prices as of May 6, 2014.

Sold oil call options:

Type of contract	Term	Expiry date	Volumes at WTI (bbl/d)	Strike price (US$/bbl WTI)	Market prices (US$/bbl WTI) (1)
Call	January – December 2015	Monthly 2015	1,500	100.00	89.33

(1) Market prices are based on forward WTI oil prices as of May 6, 2014.

Foreign Exchange

U.S. dollar forward sales arrangements:

Type of contract	Notional US$/month	Exchange rate (Cdn$/US$)	Term
Financial	1,000,000	1.1000	April 2014 – June 2015

The Corporation receives $1,000 each day during the month that the daily exchange rate is between $1.0000 and $1.1000. If the average monthly exchange rate is greater than $1.1000 the Corporation pays USD$1,000,000 multiplied by the difference between the average monthly exchange rate and $1.1000. No settlement occurs between the Corporation and the counterparty if the average monthly exchange rate settles below $1.0000.

Type of contract	Notional floor US$/month	Notional ceiling US$/month	Exchange rate floor (Cdn$/US$)	Exchange rate ceiling (Cdn$/US$)	Term
Financial	2,500,000	5,000,000	1.0400	1.1410	July 2014 – December 2015

If the average monthly exchange rate is greater than the exchange rate ceiling, the Corporation pays US$5,000,000 multiplied by the difference between the average monthly exchange rate and $1.1000. If the monthly average exchange rate settles below the exchange rate floor, the Corporation receives US$2,500,000 multiplied by the difference between the average monthly exchange rate and the exchange rate floor.

Type of contract	Notional floor US$/month	Notional ceiling US$/month	Exchange rate floor (Cdn$/US$)	Exchange rate ceiling (Cdn$/US$)	Term
Financial	1,000,000	2,000,000	1.1000	1.1225	April – June 2014
Financial	1,000,000	2,000,000	1.1000	1.1305	April – June 2014

If the average monthly exchange rate is less than the exchange rate floor, the Corporation receives US$1,000,000 multiplied by the difference between the average monthly exchange rate and the exchange rate floor. If the monthly average exchange rate is between the exchange rate ceiling and exchange rate floor, the Corporation receives US$1,000,000 multiplied by the difference between the average monthly exchange rate and the exchange rate ceiling. If the average monthly exchange rate is greater than the exchange rate ceiling, the Corporation pays US$2,000,000 multiplied by the difference between the average monthly exchange rate and the exchange rate ceiling.

Revenue

	Three months ended March 31,	
($ thousands, except as noted)	**2014**	2013
Petroleum and natural gas ("P&NG") revenue		
Natural gas [(1)]	**40,616**	25,318
Oil and NGL [(1)]	**24,138**	17,159
Total P&NG revenue	**64,754**	42,477
Other revenue		
Unrealized losses on derivatives	**(12,731)**	(942)
Realized gains (losses) on derivatives	**(6,374)**	537
Total other revenue	**(19,105)**	(405)
Total revenue	**45,649**	42,072
Per boe	**26.99**	25.62

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

Perpetual's P&NG revenue, before derivatives, for the quarter ended March 31, 2014 of $64.8 million increased 52 percent from 2013, mainly due to improved natural gas, oil and NGL prices. Natural gas revenue, before derivatives, of $40.6 million in 2014 increased 60 percent from $25.3 million in 2013 with increased natural gas prices and the 56 percent increase in higher heat content natural gas production associated with 2013 development spending in West Edson. The West Edson area now accounts for 24 percent of total natural gas production, up from seven percent in 2013.

Oil and NGL revenues of $24.1 million were $7.0 million higher than the comparative quarter in 2013 primarily as a result of increased prices related to higher index prices and high grade oil and condensate production which Perpetual now markets as a result of operational changes at Mannville and West Edson, combined with a modest increase in overall oil production.

Realized losses on derivatives in 2014 totaled $6.4 million compared to gains of $0.5 million for the same period in 2013. Losses in 2014 were comprised of $5.0 million and $1.8 million related to natural gas and oil contracts respectively which were partially offset by gains of $0.4 million primarily related to crystallizations of oil contracts.

The Corporation recorded unrealized losses on derivatives of $12.7 million during the first quarter of 2014, an increase of $11.8 million compared to $0.9 million for the same period in 2013. Unrealized losses represent the change in mark-to-market value of derivative contracts as forward commodity prices change. Unrealized gains and losses on derivatives are excluded from the Corporation's calculation of funds flow as they are non-cash. Derivative gains and losses vary depending on the nature and extent of economic hedging contracts in place, which in turn, vary with the Corporation's assessment of commodity price risk, committed capital spending and other factors.

Royalties

($ thousands, except as noted)	Three months ended March 31, 2014	2013
Crown	**4,379**	1,267
Freehold and overriding	**1,795**	1,209
Total	**6,174**	2,476
Crown (% of total P&NG sales)	**6.8**	3.0
Freehold and overriding (% of total P&NG sales)	**2.8**	2.8
Total (% of P&NG sales)	**9.6**	5.8
Per boe	**3.65**	1.51

First quarter 2014 combined average royalty rate on P&NG revenues increased to 9.6 percent from 5.8 percent in 2013 as a result of a 68 percent increase to Crown royalty rates associated with Alberta gas reference prices increasing to $4.82/Mcf from $2.87/Mcf period over period. In addition, certain of the Corporation's Mannville heavy oil wells continue to transition to higher royalty rates after reaching maximum volume recoveries under initial low royalty rate incentive periods.

Crown royalties during the first quarter of 2013 were reduced by deep gas royalty credits assessed in relation to natural gas wells drilled in West Edson during 2012. Going forward, the Corporation began recognizing deep gas royalty credits associated with 2013 Edson gas wells evenly over the period earned.

Production and operating expenses

($ thousands, except as noted)	Three months ended March 31, 2014	2013
Production and operating expenses	**21,767**	18,153
Per boe	**12.87**	11.06

Production expense of $21.8 million in 2014 increased 20 percent from $18.2 million in 2013. On a boe basis, operating costs increased to $12.87/boe from $11.06/boe in 2013. Increases related to one-time costs of $1.0 million for a large workover program to reactivate suspended wells to increase future production from Perpetual's shallow gas assets in northeast Alberta. In addition, $0.5 million was incurred in the greater Edson area on workovers to enhance future natural gas production. Additional increases from the comparative period are the result of shifts in timing related to the recognition of property tax expenses ratably throughout the year, which commenced in the second quarter of 2013 and therefore were not reflected in the first quarter of 2013. The impact was a difference of $3.1 million. The increase to operating expenses were partially offset with the changes in infrastructure in West Edson during 2013 which resulted in decreased operating costs in the West Edson area from $5.23/boe to $2.39/boe. These efficiencies combined with Perpetual's corporate cost saving initiatives resulted in a reduction of $1.0 million.

Transportation costs

($ thousands, except as noted)	Three months ended March 31, 2014	2013
Transportation costs	**2,998**	2,355
Per boe	**1.77**	1.43

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 in 2014 increased to $3.0 million from $2.4 million for the same period in 2013, primarily due to increased Mannville oil transportation costs combined with a change in operating procedure related to Perpetual increasing its onsite processing of oil to meet sales point specifications, primarily to allow increased volumes to be transported by rail. This 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 March 31,	
	2014	2013
Operating netback ($ thousands)		
Realized revenue [1]	**58,380**	43,967
Royalties	**(6,174)**	(2,476)
Operating costs	**(21,767)**	(18,153)
Transportation	**(2,998)**	(2,355)
Total operating netback	**27,441**	20,983
Boe operating netback ($/boe)		
Realized revenue [1]	**34.52**	26.78
Royalties	**(3.65)**	(1.51)
Operating costs	**(12.87)**	(11.06)
Transportation	**(1.77)**	(1.43)
Boe operating netback	**16.23**	12.78

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

Perpetual's first quarter 2014 operating netback of $16.23/boe ($27.4 million) increased 27 percent from $12.78/boe ($21.0 million) in 2013, primarily reflecting increased revenue partially offset by increased royalties due to higher commodity prices, and increased operating and transportation expenses.

GOB revenue

	Three months ended March 31,	
($ thousands, except as noted)	**2014**	2013
GOB revenue [1]	**2,625**	1,552
Per boe	**1.55**	0.95

(1) Prior period amounts have been corrected as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the condensed interim consolidated financial statements for the three months ended March 31, 2014.

Correction of prior period amounts

Perpetual receives temporary assistance under the Natural Gas Royalty Regulation as a result of its working interests in a number of natural gas wells which have been shut-in pursuant to shut-in orders issued by the Government of Alberta (the "GOB Royalty Adjustments"). The GOB Royalty Adjustments are paid to operators through a credit against their Crown royalty invoice, and are subject to repayment provisions should a well return to production (the "GOB Obligation"). The repayment of the GOB Obligation is structured as a gross overriding royalty ("GORR") with a maximum GOB Obligation equal to the GOB Royalty Adjustments received for the well. The GOB Obligation is measured at the discounted amount of the Corporation's best estimate of expected repayments of the GOB Royalty Adjustments.

Prior to the year ended December 31, 2013, Perpetual recognized the full amount of the GOB Royalty Adjustments received as a GOB Obligation, rather than the discounted amount of the expected GORR, as management initially expected that the full amount of the GOB Royalty Adjustments received would be fully repayable. Since the full amount of the GOB Royalty Adjustments received were recorded as a GOB Obligation, Perpetual did not recognize any of the GOB Royalty Adjustments as GOB revenue in earnings unless the GOB Royalty Adjustments related to shut-in wells that had been sold, where the related GOB Obligation was transferred to the purchaser under the respective purchase and sale agreement.

During preparation of the consolidated financial statements for the year ended December 31, 2013, Perpetual determined that:

- The GOB Obligation at January 1 and December 31, 2012 was overstated when compared to the discounted amount of expected repayments of the GOB Royalty Adjustments through the GORR. Accordingly, management determined that the previous GOB Obligation was not being accounted for correctly, and was overstated given that the full undiscounted amount of the GOB Royalty Adjustments were recognized as a provision (GOB Obligation) even though the full amount was unlikely to be repaid based on the discounted amount of the future GORR.
- As a result of recording the GOB Royalty Adjustments received or due as an obligation, the GOB revenue was understated for the period ended March 31, 2013 and prior years. Previously, no GOB revenue was recognized unless it related to shut-in wells that had been sold, where entitlement to the GOB Royalty Adjustments were retained but the obligation for repayment had been transferred to the purchaser.

The comparative financial information as at January 1 and December 31, 2012 and for the year ended December 31, 2012 in the Corporation's consolidated financial statements as at and for the year ended December 31, 2013 was previously restated. The effect of the correction in the consolidated statement of loss and comprehensive loss for the period ended March 31, 2013 is as follows:

			Three months ended March 31,
($ thousands)	As reported	Adjustments	Adjusted
Gas over bitumen revenue	1,120	432	1,552
Net income and comprehensive income	32,332	432	32,764
Net income per share – basic	0.22	–	0.22
Net income per share – diluted	0.21	–	0.21

Perpetual recorded $2.6 million in GOB revenue in the first quarter of 2014 compared to $1.6 million in 2013. The increase was primarily as a result of higher Alberta reference prices which was partially offset by decreased deemed production due to a portion of the wells reaching the end of their 10 year period in addition to the annual 10 percent deemed production decline on the remaining wells.

Collection of GOB royalty adjustments was limited by the Alberta government to deductions from the Corporation's monthly natural gas royalty invoices. Beginning in 2014, royalty adjustments are collected on behalf of Perpetual by one of its partners in the GOB wells with Perpetual's share being received in cash on a monthly basis. As of March 31, 2014, the Corporation had accumulated $15.3 million (December 31, 2013 – $18.1 million) of GOB adjustments receivable from the Crown of which $8.2 million (December 31, 2013 – $11.0 million) has been classified as long term. Perpetual will recover this receivable by applying its monthly future gas Crown royalties against the accumulated receivable.

Perpetual has recorded a GOB provision at March 31, 2014 of $2.9 million (December 31, 2013 - $2.9 million), which is adjusted to its fair value each reporting period. The provision represents an estimated discounted value of a gross overriding royalty on future gas production from shut-in wells that will be repayable to the Crown should the wells resume production within the GOB area.

Exploration and evaluation

		Three months ended March 31,
($ thousands)	**2014**	2013
Lease rentals	**652**	643
Geological and geophysical costs (1)	**13**	774
Lease expiries	**351**	–
Total exploration and evaluation	**1,016**	1,417

(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.

E&E costs include lease rentals on undeveloped acreage, geological and geophysical costs and lease expiries. E&E costs of $1.0 million in 2014 were $0.4 million lower than the prior year as a result of fewer seismic purchases, partially offset by additional lease expiries.

G&A expenses

		Three months ended March 31,
($ thousands, except as noted)	**2014**	2013
Cash G&A expense	**4,762**	5,232
Compensation expense (non-cash)	**1,141**	644
Total G&A Expense	**5,903**	5,876
Cash G&A expense – per boe	**2.82**	3.19
Compensation expense (non-cash) ($/boe)	**0.67**	0.39

Cash G&A expense decreased nine percent to $4.8 million from $5.2 million in 2013, mainly due to decreased salaries and consultant costs. Including non-cash compensation items, G&A expenses for the three months ended March 31, 2014 remained consistent with the comparative period.

Gains on dispositions

During the first quarter of 2014 Perpetual recorded gains of $5.6 million primarily related to a non-cash swap of undeveloped properties within West Central Alberta. Property dispositions during the first quarter of 2013 generated net cash proceeds of $77.9 million, resulting in gains on dispositions of $51.1 million relating to the Elmworth property disposition.

Depletion and depreciation

($ thousands, except as noted)	Three months ended March 31, 2014	2013
Depletion and depreciation	**22,737**	21,692
Per boe	**13.45**	13.21

Perpetual recorded $22.7 million of depletion and depreciation expense in 2014. On a boe basis, 2014 depletion and depreciation expense of $13.45/boe increased two percent from $13.21/boe in 2013 due to an increase to the net book value of Perpetual's producing assets due to 2013 capital additions combined with associated increased future development costs which more than offset reserve additions.

Finance expenses

Interest

($ thousands)	Three months ended March 31, 2014	2013
Interest	**7,268**	7,126
Amortization of debt issue costs	**931**	859
Interest	**8,199**	7,985

Interest expense during the first quarter of 2014 remained relatively consistent with the comparative period as debt levels remained consistent. Interest expense for 2014 included interest on the Corporation's senior notes of $3.4 million (2013 - $3.4 million), interest on convertible debentures of $3.6 million (2013 - $3.6 million) and interest on bank debt of $1.2 million (2013 - $1.0 million).

Other finance expenses

($ thousands)	Three months ended March 31, 2014	2013
Accretion on decommissioning obligations	**1,340**	983
Loss on marketable securities	**–**	39
Loss on call option	**–**	1,274
Other finance expenses	**1,340**	2,296

Other finance expenses for 2014 included accretion on decommissioning obligations of $1.3 million (2013 - $1.0 million). During the first quarter of 2013, a loss of $1.3 million was recorded in relation to the expiry and partial exercise of Perpetual's option to repurchase up to a 30 percent interest in Warwick Gas Storage LP ("WGS LP").

WGS LP income (loss) and dividends

For the three months ended March 31, 2014, Perpetual recorded a loss of $1.1 million on its equity investment in WGS LP compared to a gain of $0.3 million for the same period in 2013. First quarter 2014 losses in WGS LP were primarily due to non-cash unrealized losses in relation to fair value adjustments recognized on WGS LP's gas storage obligation due to increased forward prices. There were no dividends declared or received during the first quarter of 2014 or 2013.

Funds flow

	Three months ended March 31,			
		2014		2013
	($ thousands)	($/boe)	($ thousands)	($/boe)
Realized revenue [1]	**58,380**	**34.52**	43,967	26.78
Royalties	**(6,174)**	**(3.65)**	(2,476)	(1.51)
Operating expenses	**(21,767)**	**(12.87)**	(18,153)	(11.06)
Transportation costs	**(2,998)**	**(1.77)**	(2,355)	(1.43)
Operating netback [1]	**27,441**	**16.23**	20,983	12.78
GOB revenue [2]	**2,625**	**1.55**	1,552	0.95
Exploration and evaluation [3]	**(652)**	**(0.39)**	(643)	(0.39)
Cash G&A	**(4,762)**	**(2.82)**	(5,232)	(3.19)
Interest [3]	**(7,268)**	**(4.30)**	(7,126)	(4.34)
Funds flow [1]	**17,384**	**10.27**	9,534	5.81

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

(2) Prior period amounts have been corrected as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the Corporation's annual audited consolidated financial statements.

(3) Excludes non-cash items.

Funds flow increased 82 percent to $17.4 million ($0.12 per share) for the quarter ended March 31, 2014 as compared to $9.5 million ($0.06 per share) for the same period in 2013, reflecting the increase in the operating netback and GOB royalty adjustments due to higher commodity prices combined with a reduction in cash G&A.

Net income (loss)

	Three months ended March 31,			
		2014		2013
	($ thousands)	($/boe)	($ thousands)	($/boe)
Funds flow [1]	**17,384**	**10.27**	9,534	5.81
Unrealized losses on derivatives	**(12,731)**	**(7.53)**	(942)	(0.57)
Call option premiums received	**–**	**–**	(953)	(0.58)
Exploration and evaluation [3]	**(364)**	**(0.22)**	(774)	(0.47)
Compensation expense, non-cash	**(1,141)**	**(0.67)**	(644)	(0.39)
Gain on dispositions	**5,622**	**3.32**	51,099	31.12
Depletion and depreciation	**(22,737)**	**(13.45)**	(21,692)	(13.21)
Financial items, non-cash [2]	**(2,271)**	**(1.34)**	(3,155)	(1.92)
WGS LP net income (loss) and dividends	**(1,086)**	**(0.64)**	291	0.18
Net income (loss)	**(17,324)**	**(10.26)**	32,764	19.97

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

(2) Prior period amounts have been corrected as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the Corporation's annual audited consolidated financial statements.

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

The Corporation recorded a net loss of $17.3 million ($10.26 per boe) for the quarter ended March 31, 2014 compared to net income of $32.8 million ($19.97 per boe) for the same period in 2013 primarily as a result of gains on property dispositions and unrealized losses on financial derivatives.

SUMMARY OF QUARTERLY RESULTS

($ thousands, except where noted)	**Q1 2014**	Q4 2013	Q3 2013	Q2 2013
Financial				
Oil and natural gas revenues	**64,754**	49,075	52,555	57,187
Funds flow [(1)]	**17,384**	12,998	18,650	17,286
Per share – basic	**0.12**	0.09	0.13	0.12
Net loss [(2)]	**(17,324)**	(13,745)	(6,833)	(4,566)
Per share – basic and diluted [(2)]	**(0.12)**	(0.09)	(0.05)	(0.03)
Capital expenditures				
Exploration and development	**31,340**	24,537	22,325	9,861
Geological and geophysical	**13**	(19)	25	499
Acquisitions	**151**	418	532	5,433
Dispositions	**–**	(901)	(60)	(84)
Other	**75**	2	34	19,162
Net capital expenditures	**31,579**	24,037	22,856	34,871
Operating				
Daily average production				
Natural gas (MMcf/d)	**92.1**	90.3	85.3	91.9
Oil and NGL (bbl/d)	**3,451**	3,509	4,064	4,384
Total (boe/d)	**18,794**	18,559	18,274	19,708
Average prices				
Natural gas – before derivatives ($/Mcf)	**4.90**	3.37	2.79	3.68
Natural gas – including derivatives ($/Mcf)	**4.35**	3.62	3.31	3.90
Oil and NGL – before derivatives ($/bbl)	**77.72**	65.35	82.03	66.18
Oil and NGL – including derivatives ($/bbl)	**72.06**	65.88	76.86	64.84

($ thousands, except where noted)	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Financial				
Oil and natural gas revenues	42,477	44,468	40,028	40,444
Funds flow [(1)]	9,534	11,158	10,760	12,668
Per share – basic	0.06	0.08	0.07	0.09
Net income (loss) [(2)]	32,764	(56,400)	(34,117)	26,511
Per share – basic [(2)]	0.22	(0.38)	(0.22)	0.18
– diluted [(2)]	0.21	(0.38)	(0.22)	0.17
Capital expenditures				
Exploration and development	38,682	21,426	17,913	9,651
Geological and geophysical	774	(241)	9	(45)
Acquisitions	1,752	–	1,709	–
Dispositions	(77,930)	(6,923)	(16,207)	(80,650)
Other	51	23	44	14
Net capital expenditures	(36,671)	14,285	3,468	(71,030)
Operating				
Daily average production				
Natural gas (MMcf/d)	88.6	88.3	93.7	105.1
Oil and NGL (bbl/d)	3,483	3,536	3,336	3,446
Total (boe/d)	18,244	18,250	18,955	20,962
Average prices				
Natural gas – before derivatives ($/Mcf)	3.18	2.99	2.36	2.12
Natural gas – including derivatives ($/Mcf)	3.28	3.56	3.44	3.28
Oil and NGL – before derivatives ($/bbl)	54.74	62.02	64.24	61.10
Oil and NGL – including derivatives ($/bbl)	56.82	71.29	59.63	58.58

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

(2) Prior period amounts have been corrected as a result of the GOB obligation being overstated and GOB revenue being understated. See note 2 of the Corporation's annual audited consolidated financial statements for the year ended December 31, 2013.

LIQUIDITY, CAPITALIZATION AND FINANCIAL RESOURCES

($ thousands, except as noted)	**March 31, 2014**	December 31, 2013
Bank debt	**75,297**	70,618
Senior notes, measured at principal amount	**150,000**	150,000
Convertible debentures, measured at principal amount	**159,779**	159,779
Adjusted working capital deficiency (surplus) [1]	**8,751**	(3,417)
Net debt	**393,827**	376,980
Shares outstanding at end of period (thousands)	**148,944**	148,490
Market price at end of period	**1.41**	1.11
Market value of shares	**210,011**	164,824
Total capitalization [1]	**603,838**	541,804
Net debt as a percentage of total capitalization	**65.2**	69.6
Funds flow [1]	**66,318**	58,468
Net debt to funds flow ratio (times) [2]	**5.9**	6.4

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

(2) Net debt to funds flow is calculated based on trailing funds flow for the most recent four quarters.

Convertible debentures

At March 31, 2014, the Corporation had outstanding 7.25 percent convertible debentures (7.25% Debentures) that mature on January 31, 2015 as well as 7.0 percent convertible debentures (7.0% Debentures) that mature on December 31, 2015. All series of convertible debentures are repayable on the maturity date in cash or in shares, at the option of Perpetual. Additional information on convertible debentures is as follows:

Convertible debentures	7.25%	7.00%
Principal issued ($ millions)	100.0	60.0
Principal outstanding ($ millions)	99.9	59.9
Trading symbol on the Toronto Stock Exchange	PMT.DB.D	PMT.DB.E
Maturity date	January 31, 2015	December 31, 2015
Conversion price ($ per share)	7.50	7.00
Fair market value ($ millions) [1]	100.2	60.1

(1) Fair values of debentures are calculated by multiplying the number of debentures outstanding at May 6, 2014 by the quoted market price per debenture at that date.

While the 7.0% Debentures remain as a long term liability, the 7.25% Debentures have been classified as a current liability at March 31, 2014. Although the Corporation has the option to settle all or a portion of the outstanding 7.25% Debentures and 7.00% Debentures through the issuance of shares by giving notice of such intent to debenture holders not more than 60 and not less than 30 days prior to the maturity date, it is the intention of the Corporation to settle in cash. The syndicate of lenders for the Corporation's revolving credit facility are awaiting more certainty on the Corporation's plans to settle the debenture prior to extending the revolving credit facility which, if not renewed, comes due in October 31, 2014. The Corporation will apply to have the facility renewed prior to the next semi-annual review to be completed on or before October 30, 2014.

In advance of the facility coming due, management is pursuing repayment options for the 7.25% Debentures and 7.00% Debentures including asset dispositions, refinancing, or a combination thereof. There is no assurance that the Corporation will be able to raise additional capital to settle all or a portion of the outstanding 7.25% Debentures and 7.00% Debentures in cash, in which case, the Corporation would have the option to settle all or a portion of the debentures with common shares.

Bank debt and working capital

The Corporation targets to maintain a strong capital base so as to retain investor, creditor and market confidence and to sustain the future development of the business. The Corporation manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. The Corporation considers its capital structure to include share capital, bank debt, senior notes, convertible debentures and adjusted working capital. In order to maintain or adjust the capital structure, the Corporation may from time to time issue shares or debt securities and adjust its capital spending to manage current and projected debt levels.

The Corporation monitors capital based on the ratio of net debt to trailing 12 months funds flow. As at March 31, 2014, the Corporation's ratio of net debt to funds flow decreased eight percent to 5.9 to 1 (December 31, 2013 – 6.4 to 1). This ratio is monitored continuously by the Corporation and the targeted range of net debt to funds flow varies based on such factors as acquisitions or dispositions, commodity prices, forecasts of future commodity prices, price management contracts, projected cash flows, dividends, capital expenditure programs and timing of such programs. As part of the management of this ratio, the Corporation prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. Capital spending budgets are approved by the Board of Directors.

At March 31, 2014, Perpetual had $75.3 million outstanding on its credit facility, up $4.7 million from December 31, 2013 ($70.6 million), as the excess of planned first quarter capital spending over funds flow was funded through the credit facility and working capital. Perpetual continues to target capital spending in 2014 to be fully funded by funds flow on an annual basis, however, the 2014 capital program was heavily weighted to the first quarter with an active winter drilling program.

Perpetual's adjusted working capital deficiency at March 31, 2014 was $8.8 million compared to a surplus of $3.4 million at December 31, 2013. The Corporation has an adjusted working capital deficiency primarily due to increased accounts payable and accrued liabilities related to the Corporations first quarter capital spending program. Working capital deficiencies will be funded from future sales revenues and by additional credit facility borrowings as required.

The Corporation's credit facility is with a syndicate of Canadian chartered banks. On May 6, 2014, the Corporation's lenders completed their semi-annual review of the borrowing base under the credit facility. The lenders advise that total availability under the credit facility will be increased to $130.0 million, including a demand loan of $115.0 million and a working capital facility of $15.0 million. The increase from the previous borrowing base of $110.0 million was primarily due to increased lending values attributable to strong gas and NGL reserve additions in West Central Alberta reported in Perpetual's December 31, 2013 external reserve evaluation. The credit facility has a maturity date of October 30, 2014. The next semi-annual redetermination of the Corporation's borrowing base will occur on or before this date.

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, 2013 (1)	377.0
Capital expenditures (2)	31.4
Acquisitions, net of dispositions	0.2
Funds flow (1)	(17.4)
Expenditures on decommissioning obligations	2.4
Other	0.2
Net debt, March 31, 2014 (1)	**393.8**

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

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

Senior notes

At December 31 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 market value of the senior notes at May 6, 2014 was $148.5 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 depletion and depreciation and non-cash items to be less than 4 to 1 and 3 to 1, respectively. Consolidated debt is defined as the sum of the balance on the credit facility, senior notes and outstanding letters of credit. Consolidated senior debt is defined as consolidated debt less the senior notes. Perpetual was in compliance with these covenants at March 31, 2014. The senior notes indenture also contains restrictions on certain payments including dividends, retirement of subordinated debt and stock repurchases. The permitted amount of any restricted payment is limited to:

- The extent the Corporations consolidated debt to cash flow ratio is less than 3 to 1 pro forma for the proposed restricted payment, the sum of 50 percent of cash flow from operating activities from January 1, 2011 to the end of the most recently completed fiscal quarter plus 100 percent of the fair market value of any equity contributions made to the Corporation during that period less the sum of all restricted payments during that period.
- The extent the Corporations consolidated debt to cash flow ratio is greater than or equal to 3 to 1 pro forma for the proposed restricted payment, $50 million plus 100 percent of the fair market value of any equity contributions made to the Corporation.

Equity

Perpetual's total capitalization was $603.8 million at March 31, 2014. Net debt to total capitalization decreased to 65 percent from 70 percent at December 31, 2013. The decrease was driven by a 27 percent increase in market value of Perpetual's common shares which was partially offset by higher net debt levels from the increase in capital spending over funds flow from planned first quarter capital development programs in the Mannville and the greater Edson areas.

Weighted average shares outstanding for the year ended March 31, 2014 totaled 148.4 million (2013 – 147.7 million). On May 6, 2014 there were 148.9 million shares outstanding.

2014 Outlook

Perpetual's top five strategic priorities for 2014 are as follows:

1. Reduce debt and manage downside risks;
2. Grow Edson liquids-rich gas production, reserves, cash flow, inventory and value;
3. Maximize value of Mannville heavy oil;
4. Maximize cash flow from shallow gas; and
5. Advance and broaden portfolio of high impact opportunities with risk-managed investment.

Perpetual continues to target capital spending in 2014 to be fully funded by 2014 funds flow. The Corporation's Board of Directors has approved a $70 to $80 million capital budget for full calendar year 2014. Capital spending for the remainder of the year will be approximately $48 million. The table below summarizes expected capital spending and planned drilling activities in accordance with Perpetual's 2014 strategic priorities for the remainder of 2014.

Capital expenditures for Q2 – Q4	$ millions	# of Wells
West Central liquids-rich gas	26	10 (5.5 net)
Mannville heavy oil	15	10 (8.8 net)
Shallow gas	5	–
Abandonment and reclamation	2	–
	48	20 (14.3 net)

In addition to drilling activities, Perpetual has allocated $3.9 million of its remaining 2014 budget to install additional plant and compression equipment at its West Edson facility to increase plant capacity, accommodate third party liquefied petroleum gas to enhance Perpetual's heat content, and accommodate incremental production associated with the West Central drilling program. Start up of the new compression at West Edson is expected by June 1, 2014.

Perpetual plans to continue its Mannville horizontal heavy oil well drilling program for the remainder of 2014. Of the remaining 10 (8.8 net) horizontal wells to be drilled, six (5.1 net) are development wells related to two new pool discoveries. To date, three wells are producing from these new pools; one (1.0 net) was drilled in fourth quarter 2013 and two (1.7 net) in first quarter 2014. Capital will also be directed to water handling and injection projects to begin pressure maintenance through waterflood on two small pools in the Mannville area. Perpetual continues to monitor performance of the waterflood pilot initiated in the Mannville I2I pool in December 2013 with the expansion of the waterflood pilot likely proceeding in late 2014.

The capital budget also includes activities focused on maximizing value and mitigating production declines on the Corporation's legacy shallow gas assets through facility optimization projects, workovers and uphole recompletions.

Perpetual estimates that 2014 funds flow will total $80 to $90 million based on current forward commodity prices, with oil and liquids production averaging close to 3,400 – 3,500 bbl/d and natural gas sales averaging approximately 90 to 95 MMcf/d. The enhanced heat content of Perpetual's liquids-rich gas in West Central Alberta results in premium pricing to AECO market prices. Perpetual expects to average 36 to 38 MMcf/d of gas production in the Edson area, where the average heat content is estimated at 1.18 GJ/Mcf.

Sensitivities

The table below highlights the sensitivities of Perpetual's 2014 forecasted funds flow to commodity index prices:

Projected 2014 funds flow (2) ($ millions)		**AECO gas price ($/GJ)** (1)				
		$4.00	**$4.50**	**$5.00**	**$5.50**	**$6.00**
WTI price (US$/bbl) (1)	**$85.00**	80.6	85.4	90.3	95.1	99.9
	$95.00	84.9	89.8	94.6	99.5	104.3
	$100.00	86.6	91.4	96.3	101.1	106.0
	$105.00	86.6	91.4	96.3	101.1	106.0
	$115.00	82.9	87.8	92.6	97.5	102.3

(1) The current settled and forward average AECO and WTI prices for April to December 2014 as of May 6, 2014 were $4.58 per GJ and US$96.82 per bbl, respectively.

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

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.

FUTURE ACCOUNTING PRONOUNCEMENTS

Perpetual will be required to adopt IFRS 9, "Financial Instruments" which establishes principles for the disclosure of financial assets and financial liabilities that will present information that is useful for the assessment of the amounts, timing and uncertainty of an entity's future cash flows. The IFRS is applicable to all items that fall within the scope of IAS 39, "Financial Instruments: Recognition and Measurement". This IFRS is effective for annual periods commencing on or after January 1, 2018 and is to be applied retrospectively. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning January 1, 2018.

Perpetual has not applied this standard as of March 31, 2014. The Corporation is currently evaluating the impact that adoption will have on the consolidated financial statements.

INTERNAL CONTROLS AND PROCEDURES

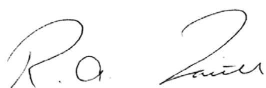
Evaluation of disclosure controls and procedures

The Corporation's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of disclosure controls and procedures and internal control over financial reporting defined in Canada under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. There were no changes in the Corporation's internal control over financial reporting during the period beginning on January 1, 2014 and ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	March 31, 2014	December 31, 2013
(Cdn$ thousands, unaudited)		
Assets		
Current assets		
Accounts receivable	**$ 53,489**	$ 36,099
Prepaid expenses and deposits	**1,252**	1,369
Derivatives (notes 10 and 11)	**22**	326
	54,763	37,794
Long term Crown receivable	**8,225**	10,997
Derivatives (notes 10 and 11)	**–**	19
Property, plant and equipment (note 5)	**585,614**	576,954
Exploration and evaluation (note 6)	**94,201**	88,177
Equity-method investment	**27,261**	28,347
	715,301	704,494
Total assets	**$ 770,064**	$ 742,288
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 71,728**	$ 45,059
Derivatives (notes 10 and 11)	**16,020**	6,468
Bank indebtedness (note 7)	**75,297**	70,618
Convertible debentures (note 8)	**98,506**	–
	261,551	122,145
Derivatives (notes 10 and 11)	**5,634**	2,778
Senior notes (note 9)	**147,853**	147,719
Convertible debentures (note 8)	**56,787**	154,496
Gas over bitumen obligation	**2,948**	2,948
Decommissioning obligation	**213,429**	213,906
	426,651	521,847
Total liabilities	**688,202**	643,992
Equity		
Share capital	**1,257,807**	1,257,315
Shares held in trust (note 13)	**(251)**	–
Equity component of convertible debentures	**13,971**	13,971
Contributed surplus	**22,123**	21,474
Deficit	**(1,211,788)**	(1,194,464)
Total equity	**81,862**	98,296
Total liabilities and equity	**$ 770,064**	$ 742,288

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



Robert A. Maitland
Director

Geoffrey C. Merritt
Director

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

	Three months ended March 31	
	2014	2013
(Cdn$ thousands, except per share amounts, unaudited)		(note 2)
Revenue		
Oil and natural gas	**$ 64,754**	$ 42,477
Royalties	**(6,174)**	(2,476)
	58,580	40,001
Change in fair value of commodity price derivatives (note 11)	**(19,105)**	(405)
Gas over bitumen	**2,625**	1,552
	42,100	41,148
Expenses		
Production and operating	**21,767**	18,153
Transportation	**2,998**	2,355
Exploration and evaluation (note 6)	**1,016**	1,417
General and administrative	**5,903**	5,876
Gain on dispositions	**(5,622)**	(51,099)
Depletion and depreciation (note 5)	**22,737**	21,692
Income (loss) from operating activities	**(6,699)**	42,754
Finance expenses (note 12)	**(9,539)**	(10,281)
Share of net income (loss) of equity-method investment	**(1,086)**	291
Net income (loss) and comprehensive income (loss)	**$ (17,324)**	$ 32,764
Income (loss) per share (note 14)		
Basic	**$ (0.12)**	$ 0.22
Diluted	**$ (0.12)**	$ 0.21

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Cdn$ thousands, unaudited)	Share capital	Shares held in trust	Equity component of convertible debentures	Contributed surplus	Deficit	Total equity
Balance at December 31, 2013	$ 1,257,315	$ –	$ 13,971	$ 21,474	$ (1,194,464)	$ 98,296
Net loss	–	–	–	–	(17,324)	(17,324)
Common shares issued pursuant to share based compensation plans	492	–	–	(492)	–	–
Share based compensation expense	–	–	–	1,141	–	1,141
Shares purchased and held in trust (note 13)	–	(251)	–	–	–	(251)
Balance at March 31, 2014	**$ 1,257,807**	**$ (251)**	**$ 13,971**	**$ 22,123**	**$ (1,211,788)**	**$ 81,862**

(Cdn$ thousands, unaudited)	Share capital	Shares held in trust	Equity component of convertible debentures	Contributed surplus	Deficit	Total equity
Balance at December 31, 2012	$ 1,255,450	$ –	$ 13,988	$ 19,308	$ (1,202,084)	$ 86,662
Net income	–	–	–	–	32,764	32,764
Common shares issued pursuant to share based compensation plans	406	–	–	(406)	–	–
Share based compensation expense	–	–	–	644	–	644
Share based payment liability	–	–	–	10	–	10
Balance at March 31, 2013	$ 1,255,856	$ –	$ 13,988	$ 19,556	$ (1,169,320)	$ 120,080

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Cdn$ thousands, unaudited)	Three months ended March 31, **2014**	2013
Cash flows from operating activities		
Net income (loss)	**$ (17,324)**	$ 32,764
Adjustments to add (deduct) non-cash items:		
Depletion and depreciation	**22,737**	21,692
Exploration and evaluation (note 6)	**351**	–
Share based compensation expense	**1,141**	644
Change in fair value of commodity price derivatives	**12,731**	942
Finance expenses	**2,271**	3,155
Share of net (income) loss of equity-method investment	**1,086**	(291)
Gain on dispositions	**(5,622)**	(51,099)
Call option premiums received	**–**	953
Long term Crown receivable adjustments	**2,772**	(414)
Expenditures on decommissioning obligations	**(2,401)**	(402)
Change in non-cash working capital	**(3,210)**	(2,360)
Net cash from operating activities	**14,532**	5,584
Cash flows from (used in) financing activities		
Change in bank indebtedness	**4,679**	(13,932)
Transactions with trustee	**(251)**	–
Change in non-cash working capital	**(4,089)**	(4,106)
Net cash from (used in) financing activities	**339**	(18,038)
Cash flows from (used in) investing activities		
Acquisitions	**(151)**	(1,752)
Capital expenditures	**(31,415)**	(38,733)
Proceeds on dispositions	**–**	77,930
Change in non-cash working capital	**16,695**	5,002
Net cash from (used in) investing activities	**(14,871)**	42,447
Change in cash	**$ –**	$ 29,993
Cash, beginning of period	**–**	–
Cash, end of period	**$ –**	$ 29,993
Interest paid	**$ 11,494**	$ 11,337

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 months ended March 31, 2014

(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. The Corporation operates a diversified asset portfolio that includes 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 financial statements of the Corporation as at and for the three months ended March 31, 2014 are comprised of the accounts of Perpetual and its wholly owned subsidiaries, Perpetual Energy Operating Corp. and Perpetual Operating Trust, which are incorporated in Canada.

2. CORRECTION OF PRIOR PERIOD AMOUNTS

Perpetual receives temporary assistance under the Natural Gas Royalty Regulation as a result of its working interest in a number of natural gas wells which have been shut-in pursuant to shut-in orders issued by the Government of Alberta. The gas over bitumen Royalty Adjustments ("GOB Royalty Adjustments") are paid to operators through a credit against their crown royalty invoice, and are subject to repayment provisions should a well return to production (the "GOB Obligation"). The repayment of the GOB Obligation is structured as a gross overriding royalty ("GORR") with a maximum GOB Obligation equal to the GOB Royalty Adjustments received for the well. The GOB Obligation is measured at the discounted amount of the Company's best estimate of the expected repayments of the GOB Royalty Adjustments.

Prior to the year ended December 31, 2013, Perpetual has recognized the full amount of the GOB Royalty Adjustments received as a GOB Obligation, rather than the discounted amount of the expected GORR, as management initially expected that the full amount of the GOB Royalty Adjustments received would be fully repayable. Since the full amount of the GOB Royalty Adjustments received were recorded as a GOB Obligation, Perpetual did not recognize any of the GOB Royalty Adjustments as GOB revenue in earnings unless the GOB Royalty Adjustments related to shut-in wells that had been sold, where the related GOB Obligation was transferred to the purchaser under the respective purchase and sale agreement.

During preparation of the consolidated financial statements for the year ended December 31, 2013, Perpetual determined that:

i) The GOB Obligation at January 1 and December 31, 2012 was overstated when compared to the discounted amount of expected repayments of the GOB Royalty Adjustments through the GORR. Accordingly, management determined that the previous GOB Obligation was not being accounted for correctly, and was overstated given that the full undiscounted amount of the GOB Royalty Adjustments were recognized as a provision (GOB Obligation) even though the full amount was unlikely to be repaid based on the discounted amount of the future GORR.

ii) As a result of recording the GOB Royalty Adjustments received or due as an obligation, the gas over bitumen revenue was understated for the period ended March 31, 2013 and prior years. Previously, no gas over bitumen revenue was recognized unless it related to shut-in wells that had been sold, where entitlement to the royalty adjustment was retained but the obligation for repayment had been transferred to the purchaser.

The comparative financial information as at January 1 and December 31, 2012 and for the year ended December 31, 2012 in the Corporation's consolidated financial statements as at and for the year ended December 31, 2013 was previously restated. The effect of the correction in the consolidated statement of loss and comprehensive loss for the period ended March 31, 2013 is as follows:

	Period ended March 31, 2013		
	As reported	Adjustments	Adjusted
Gas over bitumen revenue	1,120	432	1,552
Net income and comprehensive income	32,332	432	32,764
Net income per share – basic	0.22	–	0.22
Net income per share – diluted	0.21	–	0.21

3. CAPITAL MANAGEMENT

The Corporation's 7.25% convertible unsecured subordinated debentures ("7.25% Convertible Debentures") and 7.00% convertible unsecured subordinated debentures ("7.00% Convertible Debentures") mature on January 31, 2015 and December 31, 2015 respectively. While the Corporation has the option to settle all or a portion of the outstanding 7.25% Convertible Debentures and 7.00% Convertible Debentures through the issuance of common shares by giving notice of such intent to debenture holders not more than 60 and not less than 30 days prior to the maturity date, it is the intention of the Corporation to settle with cash. The syndicate of lenders for the Corporation's revolving credit facility is awaiting more certainty on the Corporation's plans to settle the debentures prior to extending the revolving credit facility which, if not renewed, comes due on October 31, 2014. The Corporation will apply to have the facility renewed prior to the next semi-annual review to be completed on or before October 30, 2014.

In advance of the facility coming due, management is pursuing repayment options for the 7.25% Convertible Debentures and 7.00% Convertible Debentures including asset dispositions, refinancing, or a combination thereof. There is no assurance that the Corporation will be able raise additional capital to settle all or a portion of the outstanding 7.25% Convertible Debentures and 7.00% Convertible Debentures in cash, in which case, the Corporation would have the option to settle all or a portion of the debentures with common shares.

4. BASIS OF PREPARATION

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, 2013 which were prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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, 2013 have been applied in the preparation of these interim consolidated financial statements.

These condensed interim consolidated financial statements of the Corporation were approved and authorized for issue by the Board of Directors on May 6, 2014.

Newly adopted accounting policies

The accounting policies applied by the Corporation in these condensed interim consolidated financial statements are the same as those applied in preparation of the consolidated annual financial statements as at and for the year ended December 31, 2013 with the exception of the following new policies adopted on January 1, 2014:

i) Shares held in trust

The Corporation has a compensation program whereby employees may be entitled to receive shares of the Corporation purchased on the open market by a trustee controlled by Perpetual. Shares acquired and held by the trustee for the benefit of employees that have not yet been issued to employees are presented as a separate category of equity. The balance of shares held in trust represents the cumulative cost of shares held by the trustee. Upon the issuance of shares to the employee, the amount attributable to an employee is deducted from the balance of shares held in trust and transferred to share capital along with the associated compensation benefit recognized in contributed surplus.

ii) New pronouncements

a) IFRIC 21, "Levies" provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and states that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. This IFRIC is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively. The Corporation has adopted IFRIC 21 in its financial statements for the annual period beginning January 1, 2014.

b) IAS 32, "Financial Instruments: Presentation" was amended to provide further criteria on the legal right and intention to offset financial assets and financial liabilities. The Corporation has adopted the amended IAS 32 in its financial statements for the annual period beginning January 1, 2014.

Adoption of these standards and amendments has had no measurement or disclosure impact on the Corporation's interim consolidated financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Corporate assets	Total
Cost			
December 31, 2012	2,473,440	6,287	2,479,727
Additions	93,180	120	93,300
Change in decommissioning obligations estimates	2,182	–	2,182
Transferred from exploration and evaluation	1,426	–	1,426
Acquisitions	808	–	808
Dispositions	(8,952)	–	(8,952)
Reclassification to assets held for sale	(1,581)	–	(1,581)
December 31, 2013	2,560,503	6,407	2,566,910
Additions	31,352	75	31,427
Dispositions	(30)	–	(30)
March 31, 2014	**2,591,825**	**6,482**	**2,598,307**
Accumulated depletion, depreciation and impairment losses			
December 31, 2012	(1,903,831)	(5,481)	(1,909,312)
Depletion and depreciation	(92,380)	(497)	(92,877)
Dispositions	7,062	–	7,062
Impairment reversal	5,171	–	5,171
December 31, 2013	(1,983,978)	(5,978)	(1,989,956)
Depletion and depreciation	(22,669)	(68)	(22,737)
March 31, 2014	**(2,006,647)**	**(6,046)**	**(2,012,693)**
Carrying amount			
December 31, 2013	576,525	429	576,954
March 31, 2014	**585,178**	**436**	**585,614**

At March 31, 2014, property, plant and equipment included $5.2 million (December 31, 2013 – $7.9 million) of costs currently not subject to depletion and $19.6 million (December 31, 2013 – $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.

6. EXPLORATION AND EVALUATION

	March 31, 2014	December 31, 2013
Balance, beginning of year	**88,177**	80,494
Additions	**572**	5,617
Acquisitions	**6,151**	7,400
Dispositions	**(348)**	–
Non-cash exploration and evaluation expense	**(351)**	(2,715)
Transferred to property, plant and equipment	**–**	(1,426)
Reclassification to assets held for sale	**–**	(1,193)
Balance, end of period	**94,201**	88,177

During the three months ended March 31, 2014, $0.7 million (2013 - $1.4 million) in costs were charged directly to exploration and evaluation expense in net income.

7. BANK INDEBTEDNESS

The Corporation's credit facility is with a syndicate of Canadian chartered banks. On May 6, 2014, the Corporation's lenders completed their semi-annual review of the borrowing base under the credit facility. The lenders advised that total availability under the facility will be increased to $130 million from $110 million which consists of a demand loan of $115 million and a working capital facility of $15 million. The revolving feature of the credit facility remains at October 30, 2014. The next semi-annual redetermination of the Corporation's borrowing base will occur on or before October 30, 2014.

The Corporation has covenants that require twelve month trailing income before interest, taxes, depletion and depreciation and non-cash items 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 senior debt is defined as the sum of consolidated debt less the period end balance of the senior notes. The Corporation was in compliance with the lender's covenants at March 31, 2014. 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, 2013 – $5.9 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 ratio of debt to twelve months trailing cash flow for the most recently complete reporting period. In the case of prime rate loans, interest is charged at the lenders' prime rate plus a margin. The effective interest rate on outstanding amounts at March 31, 2014 was 5.5 percent (December 31, 2013 – 5.5 percent).

8. CONVERTIBLE DEBENTURES

The Corporation's 7.25% Convertible Debentures amended on December 17, 2009, which trade under the symbol PMT.DB.D, mature on January 31, 2015, bear interest at 7.25 percent per annum paid semi-annually on January 31 and July 31 of each year and are subordinated to substantially all other liabilities of the Corporation including the credit facility and senior notes. The 7.25% Convertible Debentures are convertible at the option of the holder into common shares at any time prior to the maturity date at a conversion price of $7.50 per common share. This series of debentures was re-classified to current in the first quarter of 2014.

At the option of the Corporation, the repayment of the principal amount of the convertible debentures may be settled in common shares. The number of common shares to be issued upon redemption by the Corporation will be calculated by dividing the principal by 95 percent of the weighted average trading price for ten trading days prior to the date of redemption. The interest payable may also be settled with the issuance of sufficient common shares to satisfy the interest obligation.

9. SENIOR NOTES

On March 15, 2011, the Corporation issued $150.0 million in senior notes. The senior notes are direct senior unsecured obligations of Perpetual, ranking pari passu with all other present and future unsecured and unsubordinated indebtedness of the Corporation. The senior notes have a cross-default provision with the Corporation's credit facility which require twelve 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. See note 7.

The senior notes indenture also contains restrictions on certain payments including dividends, retirement of subordinated debt and stock repurchases. The permitted amount of any restricted payment is limited to:

i) To the extent the Corporation's consolidated debt to cash flow ratio is less than 3.0 to 1.0 pro forma for the proposed restricted payment, the sum of 50 percent of cash flow from operating activities from January 1, 2011 to the end of the most recently completed fiscal quarter plus 100 percent of the fair market value of any equity contributions made to the Corporation during that period less the sum of all restricted payments during that period.

ii) To the extent the Corporation's consolidated debt to cash flow ratio is greater than or equal to 3.0 to 1.0 pro forma for the proposed restricted payment, $50 million plus 100 percent of the fair market value of any equity contributions made to the Corporation.

The Corporation was in compliance with the lenders' covenants at March 31, 2014.

The senior notes mature on March 15, 2018 and bear interest at 8.75 percent, payable semi-annually on September 15 and March 15 of each year beginning on September 15, 2011. The Corporation can redeem at a premium to face value, with equity proceeds from common share offerings, up to 35 percent of the principal amount of the senior notes prior to March 15, 2015. The Corporation can repay the senior notes at any time on or after March 15, 2015 to maturity date at a premium to face value based on date of repayment. At December 31, 2013, the senior notes are presented net of $2.3 million in issue costs which are amortized using an effective interest rate of 9.1 percent.

10. COMMODITY AND FOREIGN EXCHANGE CONTRACTS

Realized losses on commodity price derivatives recognized in net income for the three months ended March 31, 2014 were $6.4 million (2013 – gains of $0.5 million). The realized losses on commodity price derivatives for the three months ended March 31, 2014, included gains of $0.4 million in respect of the settlement of contracts prior to maturity (2013 – nil).

Natural gas contracts

At March 31, 2014, the Corporation had entered into financial and forward natural gas sales arrangements at AECO as follows:

Term	Perpetual sold/bought	Volumes at AECO (GJ/d)	Average price ($/GJ)	Type of contract
April 2014	Sold	7,913	4.33	Financial
April 2014	Sold	4,600	4.57	Physical
April 2014 – June 2014	Sold	20,825	4.01	Financial
April 2014 – October 2014	Sold	26,100	4.02	Financial
April 2014 – October 2014	Sold	5,275	4.06	Physical
April 2014 – December 2014	Sold	10,000	3.71	Financial
July 2014 – December 2014	Sold	22,500	4.25	Financial

At March 31, 2014, the Corporation had entered into the following financial call option gas sales arrangements, whereby the Corporation's counterparty has the right to settle the specified volumes of natural gas at the specified prices in the future periods.

Term	Perpetual sold/bought	Volumes at AECO (GJ/d)	Strike price ($/GJ)	Type of contract
April 2014 – December 2014	Sold	10,000	4.25	Call

At March 31, 2014, the Corporation had entered into financial natural gas sales arrangements to fix the basis differential between the New York Mercantile Exchange ("NYMEX") and AECO trading hubs. The price at which these contracts settle is equal to the NYMEX index less a fixed basis amount.

Term	Perpetual sold/bought	Volumes at NYMEX-AECO (MMBtu/d)	Average price (US$/MMBtu)	Type of contract
May 2014 – October 2014	Sold	7,500	(0.48)	Financial

Oil contracts

At March 31, 2014, the Corporation had entered into financial and forward physical oil sales arrangements to fix the basis differential between the West Texas Intermediate ("WTI") and Western Canadian Select ("WCS") trading hubs. The price at which these contracts settle is equal to the WTI index less a fixed basis amount.

Term	Perpetual sold/bought	Volumes at WTI-WCS (bbl/d)	Average differential (US$/bbl)	Type of contract
April 2014 – December 2014	Sold	1,000	(22.63)	Financial
April 2014 – December 2014	Sold	1,000	(20.66)	Physical

At March 31, 2014, the Corporation had entered into the following costless collar oil sales arrangements which settle in US$:

Term	Volumes at WTI (bbls/d)	Floor price (US$/bbl)	Ceiling price (US$/bbl)	Type of contract
April 2014 – December 2014 (1)	500	90.00	103.15	Collar
April 2014 – December 2014	500	85.00	91.10	Collar
April 2014 – December 2014	500	85.00	91.20	Collar
January 2015 – December 2015 (2)	500	90.00	103.20	Collar

(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 US$103.15 per bbl in any month during the contract period Perpetual will receive a price of US$93.00 per bbl.

(2) In this collar arrangement Perpetual received a premium strike price on a purchased call option, and in exchange should the WTI settle above US$103.20 in any month during the contract period Perpetual will receive a price of US$90.00 per bbl.

At March 31, 2013, the Corporation had entered into the following costless collar oil sales arrangements which settle in Cdn$:

Term	Volumes at WTI (bbls/d)	Floor price (Cdn$/bbl)	Ceiling price (Cdn$/bbl)	Type of contract
January 2015 – December 2015	500	87.50	95.25	Collar
January 2015 – December 2015	500	87.50	95.75	Collar

At March 31, 2014, the Corporation has entered into the following fixed price oil sales arrangements:

Term	Perpetual sold/bought	Volumes at WTI (bbl/d)	Average price (US$/bbl)	Type of contract
April 2014 – June 2014	Sold	1,000	90.00	Financial
July 2014 – December 2014	Sold	250	90.00	Financial

At March 31, 2014, 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.

Term	Perpetual sold/bought	Volumes at WTI (bbl/d)	Average price (US$/bbl)	Type of contract
January 2015 – December 2015	Sold	1,500	100.00	Financial

Foreign exchange contracts

At March 31, 2014, the Corporation had entered into the following US$ forward sales arrangement:

Term	Perpetual sold/bought	Notional US$/month	Exchange rate (Cdn$/US$)	Type of contract
April 2014 – June 2015 (1)	Sold	1,000,000	1.1000	Financial

(1) The Corporation receives $1,000 each day during the month that the daily exchange rate is between $1.0000 and $1.1000. If the average monthly exchange rate is greater than $1.1000 the Corporation pays USD$1,000,000 multiplied by the difference between the average monthly exchange rate and $1.1000. No settlement occurs between the Corporation and the counterparty if the average monthly exchange rate settles below $1.0000.

At March 31, 2014, the Corporation had entered into the following US$ forward sales arrangement:

Term	Perpetual sold/bought	Notional floor US$/month	Notional ceiling US$/month	Exchange rate floor (Cdn$/US$)	Exchange rate ceiling (Cdn$/US$)	Type of contract
April 2014 – June 2014 (1)	Sold	1,000,000	2,000,000	1.1000	1.1225	Financial
April 2014 – June 2014 (1)	Sold	1,000,000	2,000,000	1.1000	1.1305	Financial
July 2014 – December 2015 (2)	Sold	2,500,000	5,000,000	1.0400	1.1410	Financial

(1) If the average monthly exchange rate is greater than the exchange rate ceiling the Corporation pays US$2,000,000 multiplied by the difference between the average monthly exchange rate and $1.1000. If the average monthly exchange rate settles below $1.1000 the Corporation receives US$1,000,000 multiplied by the difference between the average monthly exchange rate and $1.1000.

(2) If the monthly average exchange rate is greater than $1.1410 the Corporation pays US$5,000,000 multiplied by the difference between the average monthly exchange rate and $1.1000. If the monthly average exchange rate settles below $1.0400 the Corporation receives US$2,500,000 multiplied by the difference between the average monthly exchange rate and $1.0400.

11. FINANCIAL INSTRUMENTS

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

	Three months ended March 31,	
	2014	2013
Realized loss on financial oil contracts	**(1,393)**	(300)
Realized gain (loss) on financial natural gas contracts	**(5,049)**	796
Realized gain on forward foreign exchange contracts	**68**	41
Unrealized gain (loss) on financial oil contracts	**(2,873)**	1,879
Unrealized gain (loss) on physical oil contracts	**180**	(1,245)
Unrealized loss on financial natural gas contracts	**(7,013)**	(2,360)
Unrealized gain (loss) on physical natural gas contracts	**(408)**	110
Unrealized gain (loss) on forward foreign exchange contracts	**(2,617)**	674
Change in fair value of commodity price derivatives	**(19,105)**	(405)

Natural gas sensitivity analysis

As at March 31, 2014, if future natural gas prices changed by $0.25 per GJ with all other variables held constant, the fair value of commodity price derivatives and after tax net income for the period would change by $4.7 million. Fair value sensitivity was based on published forward AECO and NYMEX prices.

Oil sensitivity analysis

As at March 31, 2014, if future oil prices changed by $5.00 per boe with all other variables held constant, the fair value of commodity price derivative and after tax net income for the period would have changed by $1.4 million. Fair value sensitivity was based on published forward WTI and WCS prices.

Fair value of financial assets and liabilities

Perpetual's fair value measurements are classified as one of the following levels of the fair value hierarchy:

Level 1 – inputs represent unadjusted quoted prices in active markets for identical assets and liabilities. An active market is characterized by a high volume of transactions that provides pricing information on an ongoing basis.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These valuations are based on inputs that can be observed or corroborated in the marketplace, such as market interest rates or forward prices for commodities.

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

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

The fair value of accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. The fair value of the long term Crown receivable approximates the carrying value as the Corporation expects to recover the full carrying amount by way of future gas Crown royalties. Bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying amount. The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels:

				Fair value	
As at March 31, 2014	**Gross**	**Netting [1]**	**Carrying amount**	**Level 1**	**Level 2**
Financial assets					
Fair value through profit and loss					
Derivatives – current	**791**	**(769)**	**22**	**–**	**22**
Financial liabilities					
Financial liabilities at amortized cost					
Senior notes	**147,853**	**–**	**147,853**	**–**	**148,500**
Convertible debentures – current	**98,506**	**–**	**98,506**	**99,401**	**–**
Convertible debentures – non-current	**56,787**	**–**	**56,787**	**59,429**	**–**
Fair value through profit and loss					
Derivatives – current	**16,789**	**(769)**	**16,020**	**–**	**16,020**
Derivatives – non-current	**5,634**	**–**	**5,634**	**–**	**5,634**

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

12. FINANCE EXPENSE

Finance expense for the three months ending March 31, 2014 is comprised of the following:

	For the three months ended March 31,	
	2014	2013
Interest on senior notes	**3,369**	3,369
Interest on convertible debentures	**3,655**	3,569
Interest on bank indebtedness	**1,175**	1,047
Accretion of decommissioning obligations	**1,340**	983
Loss on marketable securities	**–**	39
Loss on call option	**–**	1,274
	9,539	10,281

13. SHARES HELD IN TRUST

The Corporation has compensation agreements in place with employees whereby they may be entitled to receive shares of the Corporation purchased on the open market by a trustee.

The balance of shares held in trust represents the cumulative cost of shares held by the trustee for the benefit of employees that have not yet been issued to employees. The number of shares held by the trustee as at March 31, 2014 is 194,361.

	March 31, 2014
Balance, beginning of period	**–**
Shares purchased and held in trust	**251**
Balance, end of period	**251**

14. PER SHARE INFORMATION

	For the three months ended March 31,	
	2014	2013
(thousands, except per share amounts)		
Net income (loss) – basic	**(17,324)**	32,764
Effect of dilutive securities	**–**	3,569
Net income (loss) – diluted	**(17,324)**	36,333
Issued common shares	**148,551**	147,672
Effect of shares held in trust	**(103)**	–
Weighted average common shares outstanding – basic	**148,448**	147,672
Effective of dilutive securities	**–**	23,995
Weighted average common shares outstanding – diluted	**148,448**	171,667
Income (loss) per share – basic	**(0.12)**	0.22
Income (loss) per share – diluted	**(0.12)**	0.21

DIRECTORS

Clayton H. Riddell
Executive Chairman

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

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

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

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

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

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

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

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

KPMG LLP

BANKERS

Bank of Montreal

Canadian Imperial Bank of Commerce

The Bank of Nova Scotia

The Toronto-Dominion Bank

National Bank of Canada

ATB Financial

RESERVE EVALUATION CONSULTANTS

McDaniel & Associates Consultants Ltd.

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

FORWARD-LOOKING INFORMATION

Certain information regarding Perpetual in this report including management's assessment of future plans and operations and including the information contained under the heading "Outlook" may constitute forward-looking statements under applicable securities laws. The forward-looking information includes, without limitation, statements regarding capital expenditure levels for 2014, prospective drilling activities; forecast production, production type, operations, funds flows, and timing thereof; forecast and realized commodity prices; expected funding, allocation and timing of capital expenditures; projected use of funds flow and anticipated funds flow; planned drilling and development and the results thereof; expected dispositions, anticipated proceeds therefrom and the use of proceeds therefrom; and commodity prices. Various assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking information contained in this report, which assumptions are based on management analysis of historical trends, experience, current conditions, and expected future developments pertaining to Perpetual and the industry in which it operates as well as certain assumptions regarding the matters outlined above. Forward-looking information is based on current expectations, estimates and projections that involve a number of risks, which could cause actual results to vary and in some instances to differ materially from those anticipated by Perpetual and described in the forward looking information contained in this report. Undue reliance should not be placed on forward-looking information, which is not a guarantee of performance and is subject to a number of risks or uncertainties, including without limitation those described under "Risk Factors" in Perpetual's Annual Information Form and MD&A for the year ended December 31, 2013 and those included in other reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR website (www.sedar.com) and at Perpetual's website (www.perpetualenergyinc.com). Readers are cautioned that the foregoing list of risk factors is not exhaustive. Forward-looking information is based on the estimates and opinions of Perpetual's management at the time the information is released and Perpetual disclaims any intent or obligation to update publicly any such forward-looking information, whether as a result of new information, future events or otherwise, other than as expressly required by applicable securities laws. For more information, please refer to "Forward-Looking Information" on page six of this report.

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