Q3 | 2014

PERPETUAL
ENERGY

Perpetual continued to improve its financial flexibility in the third quarter with a reduction in overall debt levels achieved through the successful execution of several transactions including a senior notes offering, the monetization of future gas over bitumen ("GOB") royalty credits and disposition of a royalty interest coupled with a farm-in arrangement under the East Edson joint venture ("East Edson JV"). The Company recorded increases in production, revenues and funds flow compared to the prior year and expects growth to continue through 2014 and 2015 based on positive results from capital activities, combined with enhanced capital funding from the East Edson JV.

THIRD QUARTER HIGHLIGHTS

Capital spending and property dispositions

- Perpetual closed the East Edson JV on July 16, 2014, which provided the Company with net proceeds of $47 million on the disposition of an overriding royalty interest on the Company's East Edson established proven producing reserves, effective July 1, 2014. The arrangement also included the grant of an additional gross overriding royalty on undeveloped lands pursuant to a farm-in agreement. The East Edson JV establishes an accelerated development plan for the area, with $70 million of capital to be drawn from a partner-held escrow account. These costs are not reported in Perpetual's exploration and development expenditures. Perpetual further committed to construct a new 30 MMcf/d gas plant and to drill, complete and tie-in approximately five additional wells for $30 million during 2015. Perpetual continues to operate all activities on the East Edson property.
- Exploration and development expenditures during the third quarter totaled $46.6 million, allocated to heavy oil development at Mannville and liquids rich natural gas activities in the greater Edson area, including primarily drilling activities at West Edson and equipment procurement and site preparation activities for the new gas plant under the East Edson JV. The new gas plant is on track to be completed and operational on or prior to third quarter 2015.
- Drilling operations included seven (6.1 net) heavy oil wells at Mannville; six (3.0 net) operated wells at West Edson and five (5.0 net) locations at East Edson, with capital for four of the East Edson wells funded by the joint venture partner. Perpetual also participated in drilling two (0.1 net) wells at West Edson operated by a third party.
- Perpetual monetized its interest in additional GOB royalty credits during the third quarter for incremental proceeds of $2.8 million, bringing total proceeds on GOB monetization transactions in 2014 to $21.3 million, after closing adjustments.
- Subsequent to the end of the quarter, Perpetual entered into an agreement to divest of non-core heavy oil properties in Mannville for proceeds of $21.6 million, subject to closing adjustments. A deposit of $3.24 million has been paid to Perpetual, with the remaining disposition proceeds due at closing which is expected to occur on November 7, 2014. The disposition will provide the Company with increased liquidity and optionality for capital investment and redemption of the 7.00 percent convertible debentures ("7.00% Debentures"), which mature in December 2015.

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.

A SPECTRUM OF OPPORTUNITY

Production highlights

- Total average production of 19,640 boe/d was seven percent higher than the same period in 2013 (18,274 boe/d) and marginally lower than the preceding second quarter of 2014 (20,053 boe/d). Reported production included volumes associated with the East Edson gross overriding royalty of 1,032 boe/d.
- Oil and natural gas liquids ("NGL" or "liquids") production of 3,324 bbl/d decreased by 11 percent from the second quarter of 2014 and 18 percent from the prior year, reflecting initial declines on new Mannville heavy oil wells drilled in the first quarter, reduced spending on new heavy oil drilling activity and lower reported liquids production from Edson wells related to changes in plant and liquids recovery operations.
- Natural gas production of 97.8 MMcf/d was consistent with the preceding second quarter (97.8 MMcf/d) and 15 percent higher than 85.3 MMcf/d for the same period in 2013 as a result of increased higher heat content deep basin gas production at West Edson, production growth at East and West Edson and high capital efficiency production additions from optimization activities on conventional shallow gas assets, which have reduced annual decline rates to below five percent.

Financial highlights

- Funds flow of $20.8 million ($0.14 per share) was 12 percent higher than the comparative third quarter of 2013 ($18.7 million), reflecting increased commodity prices, higher average production and higher average heat content gas with an increased proportion of gas produced from West Central Alberta. Lower commodity prices and lower oil and NGL production in the third quarter 2014 resulted in a decrease in funds flow compared to the preceding second quarter ($25.9 million).
- Production and operating costs of $9.77/boe were down from $9.99/boe for the second quarter of 2014 and seven percent lower than the prior year ($10.47/boe), reflecting Perpetual's ongoing cost savings initiatives as well as reduced processing charges resulting from infrastructure changes at West Edson.
- The third quarter operating netback of $18.07/boe was two percent higher than the prior year ($17.65/boe) but lower than the second quarter of 2014 ($19.97/boe), reflecting the third quarter reduction in commodity prices and increased royalty expenses with the commencement of the East Edson overriding royalty payment.
- Net income of $36.4 million in the third quarter (Q3 2013 – net loss of $6.8 million) reflected higher revenue and reduced operating expenses, and included a $33.5 million gain recorded on the disposition of the royalty interest under the East Edson JV.
- Increased AECO Monthly Index prices and higher heat content gas sales compared to 2013 were reflected in Perpetual's average natural gas price, before derivatives, of $4.35/Mcf, up 56 percent from $2.79/Mcf in the third quarter of 2013. Financial natural gas contracts had no impact on Perpetual's realized gas price for the third quarter, as settled prices were very close to average forward sales contract prices for the period.
- Perpetual's oil and NGL price, before derivatives, of $78.26/bbl in the third quarter of 2014 decreased five percent compared to the same period in 2013 due to lower West Texas Intermediate ("WTI") prices. Perpetual's realized oil and NGL price, including derivatives, of $75.10/bbl was lower than the price before derivatives due to losses recorded on financial WTI fixed price contracts.
- Significant improvements in financial flexibility have been achieved on the execution of transactions during the third quarter, resulting in the early redemption of the 7.25 percent convertible debentures ("7.25% Debentures") with a principal value of $99.9 million and the temporary repayment of the Company's bank facilities, which was undrawn at September 30, 2014.
- Perpetual's net debt of $340.5 million was $36.5 million lower than December 31, 2013 reflecting several transactions completed in the second and third quarters of 2014, including proceeds received from the East Edson JV, the senior notes offering and monetization of GOB royalty credits.
- The Company's lending syndicate has completed its semi-annual review of Perpetual's borrowing base, resulting in an increase to the lending facility to $105 million effective November 5, 2014, up from $100 million.

2014 STRATEGIC PRIORITIES

Perpetual remains focused on its top five strategic priorities for 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-managed investment.

Debt reduction and downside risk management

- Upon closing of the East Edson JV, Perpetual received $20 million of unrestricted funds which was initially applied against outstanding bank debt. Additional proceeds of $100 million were placed in escrow to be utilized to fund drilling commitments, $70 million of which is joint venture partner funds to be drawn by Perpetual to finance the execution of activities under the farm-in arrangement. The remaining $30 million of restricted cash is attributed to Perpetual's commitments and reported within working capital.
- On July 23, 2014, the Company closed an 8.75 percent senior notes offering for gross proceeds of $125 million. Utilizing proceeds from the senior notes offering, Perpetual redeemed all of the outstanding 7.25% Debentures on August 25, 2014 with total principal payments of $99.9 million plus $0.5 million for accrued interest. The excess $25 million of proceeds from the senior notes offering was initially used to repay bank indebtedness and remains available to assist in the future repayment of the 7.00% Debentures or for general corporate purposes.
- During the third quarter, Perpetual executed a second transaction with a third party to monetize additional remaining future GOB royalty credits for incremental proceeds of $2.8 million, bringing net proceeds on the monetization transactions to $21.3 million.
- As at September 30, 2014, the Corporation was undrawn on its $100 million credit facility, with a working capital deficit of $5.6 million, including $24.9 million of restricted funds in escrow received from the sale of the East Edson gross overriding royalty in July 2014. The working capital deficit excludes cash remaining in escrow funded by the joint venture partner for their capital spending commitments under the East Edson JV.
- On November 5, 2014, Perpetual's borrowing base increased five percent to $105 million as a result of reserve additions driven by drilling activities at East Edson, despite adjustments related to the monetization of additional GOB royalty credits and the pending sale of non-core Mannville heavy oil assets.
- Perpetual has commodity price contracts in place for the remainder of 2014 to protect a base level of funds flow on an estimated 56 percent of forecast production from October to December of 2014 at an average price of $4.22/GJ. In addition, Perpetual has natural gas price management contracts in place for the first quarter of 2015 on 5,000 GJ/d at a price of $4.19/GJ.
- Perpetual has oil sales arrangements for 1,500 bbl/d in place from October 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 for 250 bbl/d for the period October through December at US$90/bbl as a result of the trigger of a swaption call on December 31, 2013. The Corporation also has financial contracts in place for 1,000 bbl/d to fix the basis differential between the WTI and Western Canadian Select ("WCS") trading hubs at an average of US($22.63)/bbl. Further, costless collars are in place for 1,000 bbl/d in 2015, protecting a WTI floor price of Cdn$87.50/bbl with an average ceiling price of Cdn$95.50/bbl.

Edson Wilrich liquids-rich gas

- Perpetual has been actively executing its planned drilling program at East Edson since closing the East Edson JV in July 2014, primarily drawing on the $70 million of farm-in funds established in the joint venture partner escrow account. Nine wells have been rig released thus far, with seven (7.0 net) horizontal wells drilled within the Northeast development area and two (2.0 net) wells terminating within the Southwest development area as defined by McDaniel and Associates Consultants Ltd. ("McDaniel") in the updated reserve report for the East Edson area dated July 14, 2014.
- Four of the nine new East Edson wells have been completed and tied-in through the existing compressor station and are flowing through the Rosevear gas plant. Two of the new wells are on stream and have been producing at nearly double their respective type curves with 30 day average IP rates of close to 9 MMcf/d and 11 MMcf/d plus associated liquids. The additional two completed wells are now flowing on clean up and test. Completion, frac and testing operations are planned to be performed in the remaining five standing wells prior to year end.
- Operations are on track for six (6.0 net) additional wells to be drilled prior to year end with three drilling rigs currently active. Two (2.0 net) wells will be drilled within the same Northeast development area immediately adjacent to two of the previously drilled pads. Four (4.0 net) wells are scheduled within the Southwest development area as defined by McDaniel. Perpetual estimates the majority of the $70 million of joint venture partner escrow funds will be spent in 2014 on drilling, completion and tie-in operations as well as seismic activities related to the East Edson JV commitments.
- Including the start-up of the first two new wells, production at East Edson is currently averaging over 25 MMcf/d, plus associated liquids estimated at approximately 20 to 25 bbl per MMcf. As part of the joint venture, a gross overriding royalty of an estimated 5.6 MMcf/d, plus associated liquids, is payable to the joint venture partner on a monthly basis.
- Perpetual has submitted applications for all required regulatory approvals for the new East Edson gas plant at 10-3-52-17W5. Perpetual committed to construct the new 30 MMcf/d gas plant prior to September 2015 as part of the joint venture arrangement. All equipment has been ordered and construction costs are expected to be on budget, incorporating an enhanced design for the refrigeration plant and several pipeline components to accommodate 60 MMcf/d to facilitate future expansion. Lease construction for the gas plant has begun as planned during the fourth quarter of 2014.

- At West Edson, ten (5.0 net) operated wells have been drilled since the beginning of 2014. Eight (4.0 net) wells had been completed, tested and tied-in by the end of the third quarter. Early production from each of the eight wells has met or exceeded the West Edson type curve, including three wells (1.5 net) which targeted areas of potential reservoir pressure depletion to help assess the optimal spacing and development plan for the Wilrich resource at West Edson. The remaining two (1.0 net) operated standing wells were completed in October, with both wells testing inline on initial clean up at rates above the West Edson type curve of 14 to 19 MMcf/d at flowing pressures in excess of West Edson line pressures. Tie-in operations will be complete during the fourth quarter of 2014 to maintain high heat content gas sales production at full capacity at current average levels of 63.5 MMcf/d (31.75 MMcf/d net), plus associated C5+, for the remainder of 2014.
- Drilling operations at West Edson will continue through to year end as Perpetual plans to spend an additional $7.5 million during the fourth quarter 2014, including the drilling operations on the second well of the two well pad and completion and tie-in of both wells as described above. Fourth quarter capital spending also includes drilling operations on another two-well pad to maintain production levels into 2015.

Mannville heavy oil

- Exploration and development spending of $9.6 million at Mannville during the third quarter of 2014 included the drilling and completion of seven (6.1 net) horizontal heavy oil wells.
- Expansion of the Mannville water handling and injection project continues with five wells converted to injection during the third quarter along with the installation and conversion of related pipelines and facilities. The Company began to inject in more of the converted wells and reactivated an existing injection well during the third quarter, with plans to convert one additional well and bring all five converted wells on injection in the fourth quarter.
- Capital spending for the balance of 2014 will be allocated to the completion of new wells drilled as well as ongoing projects to expand the waterflood pilot in the Mannville I2I pool and begin pressure maintenance through waterflood on two additional pools in the Mannville area.

Shallow gas

- Third quarter capital expenditures of $1.0 million on Eastern Alberta shallow gas assets included the continuation of a recompletion and workover program that will proceed through to the end of 2014. Perpetual continues to forecast an average payout of less than six months for these shallow gas optimization projects.

High impact opportunities

- Regulatory approval of the pilot project to assess the proprietary LEAD (Low-Pressure Electro-Thermal Assisted Drive) technology was received on July 24, 2014. Project planning and full scale development scoping continued on Perpetual's bitumen recovery pilot project in the Bluesky formation at Panny during the quarter. Perpetual is proceeding to execute the first phase of the LEAD pilot project, with expected capital investment of $5 million during fourth quarter 2014 and first quarter 2015. This initial phase of the pilot will evaluate the electrical heater technology and its reservoir impact through cyclical heating and production stages. Phase 1 of the pilot is expected to provide valuable information to better assess the technical and commercial parameters of the LEAD technology and further refine the next phase of the pilot.
- Completion activities commenced on the Company's non-operated Waskahigan Duvernay horizontal well during the third quarter to evaluate the future development potential of Perpetual's Duvernay acreage. The horizontal evaluation well (35 percent net working interest after completion) has been completed with 14 frac stages and is currently awaiting flow back which will follow after a planned soak period of up to two months. Tie-in activities are proceeding with an expected testing and production start-up date early in the first quarter of 2015.

OUTLOOK

Remainder of 2014

Perpetual's success in advancing its top strategic priorities thus far in 2014 has established a foundation for accelerated growth in production, reserves, and funds flow along with improved financial liquidity. Dispositions, combined with the issuance of the $125 million of high yield notes have temporarily eliminated bank debt, providing increased financial flexibility and certainty with respect to the repayment of maturing convertible debentures. To this end, Perpetual intends to provide notice to the Trustee for the early redemption with cash of $25 million of the outstanding $60 million 7.00% Debentures on December 31, 2014.

Perpetual has increased its capital expenditure program for the fourth quarter 2014 and expects to report full year 2014 spending between $124 and $128 million. Additional fourth quarter spending includes accelerated East Edson drilling and completion activities utilizing an estimated $20 million of restricted cash held in Perpetual's escrow account, as well as expedited equipment and construction costs for the new East Edson gas plant to drive an earlier start-up date prior to September 1, 2015.

Closing of the joint venture arrangement in July 2014 is accelerating the development of the Corporation's East Edson asset. In addition to the reported capital, the Company is on track to execute close to $70 million in committed farm-in development spending prior to the end of 2014, utilizing the balance of the joint venture partner's funds from escrow. Currently three rigs are drilling at East Edson where ten (10.0 net) new wells are expected to be rig released during the fourth quarter. Another $4 million is forecast to be spent in the fourth quarter on equipment and lease construction activities for the new 30 MMcf/d East Edson gas plant. All required permits and approvals have been received and construction is on track for a graduated plant start-up in the third quarter of 2015.

At West Edson, Perpetual plans to spend $7.5 million during the fourth quarter, incorporating associated costs to finish drilling operations, complete and tie-in the two well pad currently in clean up and flow testing operations, and drill two (1.0 net) additional horizontal Wilrich wells prior to year end. Based on strong initial test results above the type-curve, new production is expected to maintain throughput above the nameplate plant capacity of 60 MMcf/d (30 MMcf/d net) by utilizing bypass operations for leaner wells.

At Mannville, fourth quarter spending will primarily be directed to water handling and injection projects to expand the waterflood pilot in the Mannville I2I pool and step up pressure maintenance through waterflood on two additional pools.

The fourth quarter capital program also includes modest expenditures to continue to build on the success to date in maximizing value and mitigating production declines on the Corporation's legacy shallow gas assets through facility optimization projects, workovers and uphole recompletions. High capital efficiency projects have arrested the annual decline in conventional base shallow gas assets to approximately five percent.

The table below summarizes expected capital spending and drilling activities in accordance with Perpetual's 2014 strategic priorities for the remainder of 2014.

Exploration and development capital expenditures	**Q4 2014 $ millions**	**# of wells (gross/net)**	**Full Year 2014 $ millions**	**# of wells (gross/net)**
West Central liquids-rich gas (1)	25	4/2.5	87	17/9.1
Mannville heavy oil	3	–	26	20/17.8
Shallow gas and other	6	–	11	–
Total Perpetual reported capital spending (2)	**34**	**4/2.5**	**124**	**37/26.9**
East Edson JV partner funded capital	50	9/9.0	69	13/13.0
Total capital spending	**84**	**13/11.5**	**193**	**50/39.9**

(1) Excludes Perpetual operated capital spending funded by East Edson JV partner escrow funds.

(2) Excludes budgeted abandonment and reclamation spending of $2 million.

With production increases now materializing as a result of the accelerated development spending at East Edson, and giving effect to the non-core Mannville heavy oil disposition effective October 1, 2014, Perpetual expects to exit 2014 at a production rate of 23,400 boe/d, with full year 2014 production averaging between 20,100 boe/d to 20,500 boe/d. Based on these assumptions and the current forward market for commodity prices, Perpetual forecasts 2014 funds flow of $82 million. Incorporating the assumptions outlined above, the following table shows Perpetual's estimated 2014 funds flow based on actual results to September 30 and using various commodity prices for the fourth quarter of 2014:

		Q4 AECO gas price ($/GJ) (1)				
Projected 2014 funds flow (2) ($ millions)		**$3.00**	**$3.50**	**$4.00**	**$4.50**	**$5.00**
Q4 WTI price (US$/bbl) (1)	**$85.00**	79.6	81.9	84.2	86.5	88.7
	$95.00	81.1	83.4	85.7	87.9	90.2
	$100.00	81.7	84.0	86.3	88.5	90.8
	$105.00	81.7	84.0	86.3	88.5	90.8
	$115.00	82.4	84.7	87.0	89.2	91.5

(1) The current settled and forward average AECO and WTI prices for October to December 2014 as of November 6, 2014 were $3.87 per GJ and US$80.07 per bbl, respectively.

(2) Funds flow is a non-GAAP measures. Please refer to "Non-GAAP Measures" below.

2015 Outlook

In 2015, the Company will continue to focus on growing funds flow, strengthening its balance sheet, and optimizing and transforming its asset base. Perpetual's top five key strategic priorities for 2015 are:

1. Grow greater Edson liquids-rich gas production, cash flow, inventory, reserves and value;
2. Optimize value of Mannville heavy oil;
3. Refine elements of production growth strategy for 2017 to 2020;
4. Maximize value of shallow gas; and
5. Reduce debt and improve debt/cash flow ratio.

Capital spending for the first quarter of 2015 is expected to be $64 million, with an estimated $13 million funded from Perpetual's East Edson JV escrow account. Expenditures will be focused as detailed in the table below:

Exploration and development capital expenditures	Q1 2015 $ millions	# of wells (gross/net)
West Central liquids-rich gas (1)	48	7/5.5
Mannville heavy oil	8	5/4.7
Shallow gas	4	–
Panny pilot	4	2/2.0
Total Perpetual reported capital spending (2)	**64**	**14/12.2**
East Edson JV partner funded capital	1	–
Total capital spending	**65**	**14/12.2**

(1) Excludes Perpetual operated capital spending funded by East Edson JV partner escrow funds.

(2) Excludes budgeted abandonment and reclamation spending of $5 million.

In West Central Alberta, operations will be focused on drilling three (1.5 net) wells at West Edson to maintain sales of high heat content gas at over 30 MMcf/d net plus associated liquids. In East Edson, development drilling will continue with four (4.0 net) additional wells planned to maintain gas sales through the existing 16-10 compressor at over 28.5 MMcf/d plus associated liquids and ensure ample supply to fill the new plant at start-up in the third quarter of 2015. Development and exploration in Mannville for heavy oil will continue with the drilling of up to five (4.7 net) wells and additional waterflood implementation activities. Additionally, capital will be directed to winter-only access assets in northeast Alberta. Approximately $4 million net is allocated to implement phase 1 of a pilot project for extraction of low viscosity bitumen at Panny to evaluate the impact of electrical heat stimulation on the Bluesky reservoir and assess multiple operational parameters. Additionally, high return facility optimization projects, well workovers and uphole recompletions as well as abandonment activities will be undertaken to maximize value from shallow gas assets.

Spending for the remainder of 2015 will be finalized after the first quarter with a view to increased certainty on 2015 commodity prices and funds flow as well as operations and drilling performance, particularly in the greater Edson area. Perpetual will target full year 2015 capital spending to be largely funded by 2015 cash flow. Furthermore, Perpetual continues to target additional asset sales in 2015 with funds to be utilized to strengthen the balance sheet and enhance financial flexibility.

Susan Riddell Rose

Susan Riddell Rose

President and Chief Executive Officer

November 6, 2014

FINANCIAL AND OPERATING HIGHLIGHTS

	Three months ended September 30			Nine months ended September 30		
(Cdn$ thousands except as noted)	**2014**	2013 (5)	% Change	**2014**	2013 (5)	% Change
Financial						
Oil and natural gas revenue	**63,126**	52,555	20	**200,228**	152,219	32
Funds flow (1)	**20,831**	18,650	12	**64,079**	45,470	41
Per share (1) (2)	**0.14**	0.13	8	**0.42**	0.31	39
Net earnings (loss)	**36,414**	(6,833)	633	**21,639**	21,365	1
Per share – basic (2)	**0.24**	(0.05)	600	**0.15**	0.14	7
Per share – diluted (2)	**0.23**	(0.05)	580	**0.14**	0.14	–
Total assets	**807,055**	724,783	1	**807,055**	724,783	11
Net bank debt outstanding (1)	**5,618**	55,338	(90)	**5,618**	55,338	(90)
Senior notes, at principal amount	**275,000**	150,000	83	**275,000**	150,000	83
Convertible debentures, at principal amount	**59,878**	159,779	(63)	**59,878**	159,779	(63)
Total net debt (1)	**340,496**	365,117	(7)	**340,496**	365,117	(7)
Capital expenditures						
Exploration and development	**46,583**	22,325	109	**90,174**	70,868	27
Interest in WGS LP	**–**	–	–	**–**	19,129	(100)
Dispositions, net of acquisitions	**(46,998)**	472	n/a	**(49,756)**	(70,357)	(28)
Other (3)	**381**	59	546	**795**	1,416	(44)
Net capital expenditures	**(34)**	22,856	(103)	**41,213**	21,056	93
Common shares outstanding (thousands)						
End of period	**150,014**	148,482	1	**150,014**	148,482	1
Weighted average – basic	**149,574**	148,382	1	**148,957**	148,028	1
Operating						
Average production						
Natural gas (MMcf/d) (4)	**97.8**	85.3	15	**96.1**	88.7	8
Oil and NGL (bbl/d) (4)	**3,324**	4,064	(18)	**3,503**	3,978	(12)
Average daily (boe/d) (4)	**19,640**	18,274	7	**19,499**	18,741	4
Average prices						
Natural gas, before derivatives ($/Mcf)	**4.35**	2.79	56	**4.73**	3.23	46
Natural gas, including derivatives ($/Mcf)	**4.35**	3.31	32	**4.45**	3.50	27
Oil and NGL, before derivatives ($/bbl)	**78.26**	82.03	(5)	**79.80**	68.33	17
Oil and NGL, including derivatives ($/bbl)	**75.10**	76.86	(2)	**74.15**	66.66	11
Barrel of oil equivalent, including derivatives ($/boe)	**34.40**	32.55	6	**35.21**	30.71	15
Drilling (wells drilled gross/net)						
Gas	**13/8.1**	2/1.0		**17/10.6**	2/1.0	
Oil	**7/6.1**	3/3.0		**20/17.8**	32/30.7	
Total	**20/14.2**	5/4.0		**37/28.4**	34/31.7	
Success rate (%)	**100/100**	100/100		**100/100**	100/100	

(1) These are non-GAAP measures. Please refer to "Non-GAAP Measures" below.

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

(3) Other costs include geological and geophysical expenditures.

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

(5) 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 condensed interim consolidated financial statements for the nine months ended Septembe 30, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of Perpetual Energy Inc.'s ("Perpetual" or the "Corporation") operating and financial results for the three and nine months ended September 30, 2014 as well as information and estimates concerning the Corporation's future outlook based on currently available information. The MD&A should be read in conjunction with the Corporation's condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 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 that is unchanged from the December 31, 2013 MD&A has not been duplicated herein. The Corporation's annual 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"). The Corporation's condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting. 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 November 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 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 natural gas assets rich in natural gas liquids ("NGL" or "liquids-rich") 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 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, but after payments on the gas over bitumen ("GOB") related financial obligation, as 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 September 30,		Nine months ended September 30,	
($ thousands, except per share amounts)	**2014**	2013	**2014**	2013
Cash flow from operating activities	**27,279**	17,817	**64,416**	39,980
Exploration and evaluation costs (1)	**34**	25	**265**	1,298
Payments on financial obligation (2)	**(1,383)**	–	**(1,383)**	–
Expenditures on decommissioning obligations	**1,451**	1,174	**4,480**	1,638
Changes in long term Crown receivable	**–**	292	**(10,997)**	1,436
Changes in non-cash operating working capital	**(6,550)**	(658)	**7,298**	1,118
Funds flow	**20,831**	18,650	**64,079**	45,470
Funds flow per share (3)	**0.14**	0.13	**0.43**	0.31

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

(2) These payments are indexed to GOB revenue and recorded as a reduction to the Corporation's financial obligation in accordance with IFRS. To present GOB revenue net of these payments, the Corporation has reclassified these payments from financing to operating activities in the calculation of funds flow.

(3) 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 including management's assessment of future plans and operations and including the information contained under the heading "Outlook", "Remainder of 2014" and "2015 Outlook" may 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 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; the potential redemption of a portion of the outstanding convertible debentures and the timing thereof; 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.

RECENT DEVELOPMENTS

Sale of non-core heavy oil properties

On October 27, 2014, Perpetual announced the signing of a definitive purchase and sale agreement to divest of several non-core heavy oil properties in eastern Alberta for gross proceeds of $21.6 million, excluding certain closing adjustments and transaction costs. The agreement has an effective date of October 1, 2014. A deposit of $3.2 million has been paid to Perpetual, with the remaining disposition proceeds due at closing which is expected to occur on November 7, 2014.

Integrating the McDaniel year end 2013 reserve estimates for these assets, adjusted for 2014 production, and internal estimates for reserve additions driven by Perpetual's 2014 capital spending program, the disposition includes an estimated 870 Mboe of heavy oil reserves and 4,026 net acres of undeveloped Mannville heavy oil rights.

Proceeds from this disposition will initially establish an adjusted working capital surplus providing for interest savings and added optionality for managing the Corporation's 7.0 percent convertible debentures ("7.0% Debentures") which mature on December 31, 2015. This disposition drives further the positive progress on the Corporation's 2014 strategic priority to reduce debt and manage downside risk. The proceeds will bolster Perpetual's financial flexibility to continue to deploy capital to its chosen key diversifying growth strategies both in the Mannville area, where capital spending is concentrating on waterflood implementation in several larger heavy oil pools, and at Edson for development of the economically attractive Wilrich liquids rich gas trend.

THIRD QUARTER 2014 RESULTS

Capital expenditures

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2014**	2013	**2014**	2013
Exploration and development	**46,583**	22,325	**90,174**	70,868
Geological and geophysical costs (1)	**34**	25	**265**	1,298
Interest in gas storage ("WGS LP")	**–**	–	**–**	19,129
Acquisitions	**–**	532	**242**	7,717
Dispositions	**(46,998)**	(60)	**(49,998)**	(78,074)
Other	**347**	34	**530**	118
Total	**(34)**	22,856	**41,213**	21,056

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

East Edson royalty disposition and farm-in agreement ("East Edson Agreements")

During the third quarter of 2014, Perpetual entered into an arrangement for the accelerated development of the Corporation's East Edson property located in West Central Alberta. The arrangement included the disposition of a 50 percent royalty interest in current developed producing reserves in the East Edson area (the "Producing Royalty") for net cash proceeds of $47.0 million. Net proceeds consisted of $17.0 million of unrestricted cash that was applied to reduce bank indebtedness, with the remaining $30 million held in escrow to be used for development spending in East Edson.

Concurrent with the royalty disposition, Perpetual also entered into a farm-in agreement, whereby the partner contributed $70 million to an escrow account to fund the drilling, completion and tie-in of approximately 14 horizontal wells in the Wilrich formation in exchange for a second royalty (the "Drilling Royalty") on new production from the East Edson property. Perpetual recorded $9.4 million in non-monetary deemed proceeds related to the carried farm-in investment. When taking into account both agreements, in exchange for the total acquisition and funding commitment of $120 million, the Drilling and Producing Royalties entitle the partner to receive, on a priority basis, a maximum of 5.6 MMcf/d of natural gas from the East Edson property plus oil and associated NGL from July 1, 2014 to December 31, 2022 and declining thereafter at 10 percent per year until the Drilling Royalty and the Producing Royalty ("East Edson Gross Overriding Royalty") terminate on December 31, 2034.

Pursuant to the East Edson Agreements, Perpetual committed to spend $30 million to drill, complete and tie-in approximately five wells prior to December 31, 2015, substantially following the spending of the $70 million commitment by the partner. In addition, Perpetual committed to construct a new gas plant at East Edson to add 30 MMcf/d of processing capacity at an estimated cost of $30 million. Finally, Perpetual is also committed to invest an additional $30 million to drill, complete and tie-in approximately six additional wells prior to December 31, 2022.

Exploration and development spending

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2014**	2013	**2014**	2013
West Central liquids-rich gas (1)	**35,954**	13,070	**61,965**	26,671
Mannville heavy oil	**9,646**	8,207	**23,403**	40,490
Eastern Alberta shallow gas and other	**983**	1,048	**4,806**	3,707
Total	**46,583**	22,325	**90,174**	70,868

(1) Excludes partner spending from the $70 million escrow account in relation to the East Edson Agreements

Total exploration and development expenditures during the third quarter of 2014 were $46.6 million. Capital spending continues to be focused on the Corporation's proven diversifying assets at Mannville for heavy oil and in West Central Alberta for liquids-rich gas, bringing total year to date spending to $90.2 million.

During the third quarter of 2014, the Corporation commenced development activity on the East Edson property, spending close to $20 million of the $70 million partner escrow funds to drill four (4.0) net wells, two of which were completed, equipped and tied-in during the third quarter. These expenditures are not included in Perpetual's reported capital expenditures as they are part of the partner's farm-in commitment. The two completed wells are on stream, and have been producing at rates well in excess of the anticipated type curve. Planned development spending in the fourth quarter, including ongoing drilling operations for a forecast nine (9.0 net) additional wells, is expected to utilize the remainder of the $70 million held in escrow on behalf of the partner.

In addition to development spending funded by the partner's capital commitment, Perpetual has satisfied $17.1 million of its capital commitments under the East Edson Agreements which included $3.2 million to drill one (1.0 net) well and $13.9 million spent on facility projects relating to increasing capacity at the existing Edson facility, and procuring equipment for the new 30 MMcf/d gas plant. The new gas plant is on track to be completed and operational for start-up during the third quarter 2015.

In West Edson, development of the Corporation's liquids-rich gas was accelerated with drilling after spring breakup targeted to fill the expanded plant capacity of 60 MMcf/d (30 MMcf/d net). During the third quarter of 2014, $18.8 million of expenditures were directed almost exclusively to drilling, completion and tie-in operations with the addition of six (3.0 net) operated wells and two additional (0.1 net) non-operated wells. The facility was at maximum capacity in early August and is expected to remain at or near capacity through 2020 based on the Corporation's forecast drilling operations. Three (1.5 net) additional wells are forecast to be drilled during the fourth quarter to maintain the plant at full capacity.

Exploration and development spending of $9.6 million at Mannville during the third quarter of 2014 included the drilling and completion of seven (6.1 net) horizontal heavy oil wells, as well as the conversion of five wells to injection wells and expenditures for related pipelines and facilities.

Spending of $1.0 million on Eastern Alberta shallow gas and other assets during the third quarter was primarily related to abandonment and facility projects with $0.4 million spent on a recompletion and workover program that will continue to the end of the year. These projects are low cost optimizations that generally payout in less than six months. These high capital efficiency recompletion projects combined with workovers and facility optimization work are expected to arrest the decline in Perpetual's shallow gas assets to less than five percent in 2014.

Acquisitions and dispositions

In addition to the third quarter East Edson disposition, dispositions net of acquisitions during the nine months ended September 30, 2014 of $49.8 million included the sale of a portion of the Corporation's interest in undeveloped land during the second quarter of 2014 acquired through a non-cash swap transaction in the first quarter of 2014 for net proceeds of approximately $3.0 million. Dispositions net of acquisitions for the same period of 2013 of $70.4 million primarily related to the Elmworth property disposition during the first quarter of 2013.

Gas over bitumen monetization

Perpetual receives GOB royalty credits 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. On June 26, 2014, Perpetual closed an initial transaction to effectively monetize the majority of its future GOB royalty credits associated with certain shut-in properties in northeast Alberta. Effective September 1, 2014, the Corporation amended the transaction to monetize the remainder of its future GOB royalty credits. After closing adjustments, Perpetual received net proceeds of $21.3 million for these transactions. In exchange for the proceeds, Perpetual makes monthly payments to the purchaser, which are based on the gas over bitumen formula set out in the Alberta Gas Royalty Regulations. Under IFRS, this transaction has been accounted for as a hybrid financial obligation, which will be adjusted to fair value each reporting period. Future monthly payments will be recorded as a reduction of the outstanding obligation.

Production

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Natural gas (MMcf/d)				
Eastern – North	**36.6**	39.0	**36.5**	39.2
Eastern – South	**23.8**	23.8	**23.2**	25.8
West Central (2)	**37.4**	22.5	**36.4**	23.7
Total natural gas	**97.8**	85.3	**96.1**	88.7
Crude oil (bbl/d)				
Eastern – North	**2**	4	**6**	8
Eastern – South (1)	**2,863**	3,346	**2,948**	3,227
West Central	**29**	50	**42**	49
Total crude oil	**2,894**	3,400	**2,996**	3,284
NGL (bbl/d)				
Eastern – North	**–**	–	**–**	–
Eastern – South	**9**	8	**11**	6
West Central (2)	**421**	656	**496**	688
Total NGL	**430**	664	**507**	694
Total production (boe/d)	**19,640**	18,274	**19,499**	18,741

(1) Primarily Mannville heavy oil.

(2) East Edson Gross Overriding Royalty volumes of approximately 5,426 Mcf/d of natural gas and 128 bbl/d of NGL production which came into effect on July 1, 2014 are not deducted.

Total oil, NGL and natural gas production for the three months ended September 30, 2014 of 19,640 boe/d was marginally lower than the preceding second quarter of 2014 (20,053 boe/d) and seven percent higher than the same period in 2013 (18,274 boe/d). Higher production in 2014 compared to the prior year is primarily due to increased gas production in West Edson. Year to date production was up four percent to 19,499 boe/d from 18,741 boe/d in 2013 as production increases from Perpetual's capital investments continued to more than offset production declines.

Perpetual's third quarter gas production of 97.8 MMcf/d was consistent with the preceding second quarter (97.8 MMcf/d) and 15 percent higher than 85.3 MMcf/d for the same period in 2013. Similarly, an eight percent increase in natural gas production to 96.1 MMcf/d was recorded for the nine months ended September 30, 2014 compared to the prior year. Increased gas production in 2014 comes from an increase in higher heat content deep basin gas production at West Edson which more than offset year over year decline in production from Perpetual's shallow gas assets.

The impact of Perpetual's third quarter capital spending in relation to the East Edson Agreements did not result in a significant increase to third quarter 2014 production as only two of the five wells drilled during the third quarter have been completed, equipped and tied in with production commencing late in the third quarter of 2014. The effect of Perpetual's capital spending program in East Edson will begin to be realized in the fourth quarter of 2014 with additional production from the five wells drilled during the third quarter along with expected production from the forecasted nine (9.0 net) wells to be drilled in the fourth quarter of 2014.

Third quarter oil production of 2,894 bbl/d in 2014 decreased from 3,185 bbl/d in the second quarter of 2014 and 3,400 bbl/d in the third quarter of 2013 as fewer Mannville heavy oil wells were drilled and capital was directed to waterflood activities. Production for the first nine months of 2014 of 2,996 bbl/d decreased nine percent from 3,284 bbl/d in 2013 as production declines offset new production additions and the new drill well count decreased to 20 (17.8 net) as compared to 32 (30.7 net) in the first nine months of 2013.

NGL production for the third quarter of 430 bbl/d reflected reduced NGL yields in 2014 from the Corporation's West Central area. Reported West Central NGL yields during the nine months ended 2014 dropped to 14.9 bbl/MMcf from 29.1 bbl/MMcf for the same period in 2013 as high 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 no longer reports deemed production, beginning in the third quarter of 2014, as Perpetual has entered into transactions to monetize its future GOB royalty credits for the vast majority of the Corporation's remaining future royalty credit entitlements. These transactions are accounted for as a financial obligation under IFRS.

Commodity prices

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Reference prices				
AECO Monthly Index ($/Mcf) (1)	**4.22**	2.82	**4.55**	3.16
AECO Daily Index ($/Mcf) (1)	**4.02**	2.43	**4.81**	3.05
Alberta Gas Reference Price ($/Mcf) (2)	**3.90**	2.53	**4.38**	2.94
West Texas Intermediate ("WTI") light oil (US$/bbl)	**97.17**	105.82	**99.61**	98.14
Western Canadian Select ("WCS") differential (US$/bbl)	**(20.18)**	(17.48)	**(21.12)**	(22.87)
Average Perpetual prices				
Natural gas				
Before derivatives ($/Mcf) (3) (4)	**4.35**	2.79	**4.73**	3.23
Percent of AECO Monthly Index	**103**	99	**104**	102
Including derivatives ($/Mcf)	**4.35**	3.31	**4.45**	3.50
Percent of AECO Monthly Index	**103**	117	**98**	111
Oil and NGL				
Before derivatives ($/bbl)	**78.26**	82.03	**79.80**	68.33
Including derivatives ($/bbl)	**75.10**	76.86	**74.15**	66.66
Barrel of oil equivalent				
Average realized price ($/boe)	**34.40**	32.55	**35.21**	30.71

(1) AECO Index prices are reported in $/GJ and have been converted at a ratio of 1.05 GJ: 1 Mcf.

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

(3) 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.

(4) The average actual conversion ratio for Perpetual's 2014 natural gas production is 1.10 GJ: 1 Mcf.

AECO Monthly Index prices of $4.22/Mcf for the third quarter 2014 increased 50 percent from $2.82/Mcf for the same period in 2013. For the nine months ended September 30, year over year AECO Monthly Index prices increased 44 percent to $4.55/Mcf from $3.16/Mcf in 2013. Price appreciation during the first quarter of 2014 caused by extreme cold weather resulting in strong heating demand, contributed to significantly depleted natural gas storage levels by the end of the 2014 withdrawal season. Continued year over year increases in North American production and a lack of cooling demand in the third quarter reduced the year over year storage deficit, causing gas prices to decline from the higher prices realized in the first half of 2014.

Increased AECO Monthly Index prices were reflected in Perpetual's natural gas price before derivatives with year over year increases of 56 percent and 46 percent, respectively, for the three and nine months ended September 30. In addition, an increased volume of higher heat content natural gas associated with West Central production, combined with the Aux Sable and Alliance Pipeline marketing and transportation agreements, allowed Perpetual to realize a higher average natural gas price relative to the same periods in 2013.

Perpetual's average realized gas price, including derivatives, increased 31 percent to $4.35/Mcf for the three months ended September 30, 2014 from $3.31/Mcf for the same period in 2013. The Corporation's realized 2014 third quarter natural gas price was not impacted by natural gas derivatives with close to 76 percent of Perpetual's production being economically hedged at average prices very close to settled monthly index prices during the third quarter. Realized losses of $7.8 million on financial natural gas contracts for the nine month period ended September 30, 2014 were partially mitigated by $0.4 million realized on the monetization of gains on natural gas contracts during the first quarter of 2014. Realized losses led to an average 2014 gas price that was 98 percent of the AECO Monthly Index.

Perpetual's oil and NGL price, before derivatives, of $78.26/bbl in the third quarter of 2014 decreased five percent compared to the same period in 2013 due to decreased WTI prices and increase WCS differentials, offset by a weaker Cdn$ to US$ exchange rate during the period. The impact of the decline in price was partially offset through the delivery of higher grade oil resulting from new drying operations at the majority of the Mannville heavy oil production pads as well as higher grade NGL from the change in the liquids recovery process at West Edson.

Perpetual's realized oil and NGL price, including derivatives, was lower than the price before derivatives for both the third quarter of 2014 as well as on a year to date basis primarily due to economic hedging losses recorded on financial WTI price contracts. Losses on financial WTI contracts for the nine months ended September 30, 2014 were $5.6 million compared to $2.8 million for the same period in 2013.

Commodity price risk management

Perpetual's commodity price 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 economic hedges on an estimated 56 percent of forecasted actual natural gas production for the remainder of 2014. The following tables provide a summary of derivative natural gas contracts in place as at September 30, 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:

Term	Volumes at AECO (GJ/d)	Average price ($/GJ) (1)	Market prices ($/GJ) (2)	Type of contract
October 2014	10,275	3.94	3.87	Physical
October 2014	64,014	3.99	3.87	Financial
November 2014	57,500	4.34	3.59	Financial
December 2014	60,000	4.35	4.16	Financial
January 2015 – March 2015	5,000	4.19	4.20	Financial

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

(2) Market prices for October and November are based on settled AECO Monthly Index prices. Market prices for subsequent months are based on forward AECO prices as of market close on November 6, 2014.

Sold natural gas call with monthly expiry over the contract term:

Term	Volumes at AECO (GJ/d)	Strike price ($/GJ)	Market prices ($/GJ) (1)	Type of contract
October 2014 (2)	10,000	4.25	3.87	Call
November 2014 (2)	10,000	4.25	3.59	Call
December 2014	10,000	4.25	4.16	Call

(1) Market prices for October and November are based on settled AECO Monthly Index prices. Market prices for subsequent months are based on forward AECO prices as of market close on November 6, 2014.

(2) This call was not triggered in October or November due to the settled market price falling below the strike price.

Crude Oil

The following tables provide a summary of derivative crude oil contracts in place as at September 30, 2014, as well as any additional contracts entered into prior to the date of this MD&A.

Fixed price oil sales arrangements in US$:

Term	Volumes at WTI (bbl/d)	Price (US$/bbl) (1)	Market prices (US$/bbl) (2)	Type of contract
October 2014	250	90.00	84.34	Financial
November 2014 – December 2014	250	90.00	77.93	Financial

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

(2) Market prices for October are based on settled WTI oil prices. Market prices for subsequent months are based on settled and forward WTI oil prices as of market close on November 6, 2014.

Costless collar oil sales arrangements in US$:

Term	Volumes at WTI (bbl/d)	Floor price (US$/bbl)	Ceiling price (US$/bbl)	Market prices (US$/bbl) (1)	Type of contract
October 2014	500	85.00	91.10	84.34	Collar
October 2014	500	85.00	91.20	84.34	Collar
October 2014	500	90.00	103.15	84.34	Asian Collar (2)
November 2014 – December 2014	500	85.00	91.10	77.93	Collar
November 2014 – December 2014	500	85.00	91.20	77.93	Collar
November 2014 – December 2014	500	90.00	103.15	77.93	Asian Collar (2)

(1) Market prices for October are based on settled WTI oil prices. Market prices for subsequent months are based on settled and forward WTI oil prices as of market close on November 6, 2014.

(2) If WTI index settles above US$103.15/bbl in any month, the contract is settled at US$93.00/bbl for that month.

Costless collar oil sales arrangements in Cdn$:

Term	Volumes (bbl/d)	Floor price (Cdn$/bbl)	Ceiling price (Cdn$/bbl)	Market prices (Cdn$/bbl) (1)	Type of contract
January 2015 – December 2015	500	87.50	95.25	89.60	Collar
January 2015 – December 2015	500	87.50	95.75	89.60	Collar

(1) Market prices are based on forward WTI oil prices at a forward foreign exchange rate of 1.14 as of market close on November 6, 2014.

Sold oil call options with monthly expiry over the contract term:

Term	Volumes at WTI (bbl/d)	Strike price (US$/bbl WTI)	Market prices (US$/bbl WTI) (1)	Type of contract
January 2016 – December 2016 (2)	500	106.00	79.82	Knock out call
January 2016 – December 2016 (3)	1,000	104.25	79.82	Knock out call

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

(2) If WTI index settles above US$106.00/bbl in any month, the contract is settled at US$95.40/bbl for that month.

(3) If WTI index settles above US$104.25/bbl in any month, the contract is settled at US$97.00/bbl for that month.

Basis differential contracts between WTI and WCS trading:

Term	Volumes (bbl/d)	WTI-WCS differential (US$/bbl) (1)	Market prices (US$/bbl) (2)	Type of contract
October 2014	1,000	(22.63)	(13.74)	Financial
October 2014	1,000	(20.66)	(13.74)	Physical
November 2014	1,000	(22.63)	(12.94)	Financial
November 2014	1,000	(20.66)	(12.94)	Physical
December 2014	1,000	(22.63)	(17.10)	Financial
December 2014	1,000	(20.66)	(17.10)	Physical

(1) Average price calculated using weighted average price for net open contracts; contracts settle at WTI index less a fixed basis amount.

(2) Market prices for October and November are based on settled WTI-WCS differential prices. Market prices for subsequent months are based on forward WTI-WCS differential prices as of market close on November 6, 2014.

Foreign Exchange

U.S. dollar forward sales arrangements:

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

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 US$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.

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

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.

Term	Notional floor US$/month	Notional ceiling US$/month	Exchange rate floor (Cdn$/US$)	Exchange rate ceiling (Cdn$/US$)	Type of contract
January 2015 – December 2016	2,000,000	3,500,000	1.0400	1.1800	Financial

If the average monthly exchange rate is greater than the exchange rate ceiling, the Corporation pays US$3,500,000 multiplied by the difference between the average monthly exchange rate and $1.1270. If the monthly average exchange rate settles below the exchange rate floor, the Corporation receives US$2,000,000 multiplied by the difference between the average monthly exchange rate and the exchange rate floor.

Revenue

($ thousands, except as noted)	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Petroleum and natural gas ("P&NG") revenue				
Natural gas (1)	**39,200**	21,887	**123,901**	77,989
Oil and NGL (1)	**23,926**	30,668	**76,327**	74,230
Total P&NG revenue	**63,126**	52,555	**200,228**	152,219
Other revenue				
Unrealized gains (losses) on derivatives	**8,329**	(1,854)	**2,592**	3,740
Realized gains (losses) on derivatives	**(963)**	2,170	**(12,815)**	3,980
Total other revenue	**7,366**	316	**(10,223)**	7,720
Total revenue (2)	**70,492**	52,871	**190,005**	159,939
Per boe	**39.01**	31.45	**35.69**	31.26

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

(2) Excludes GOB revenue.

Perpetual's P&NG revenue, before derivatives, of $63.1 million for the third quarter of 2014 decreased 13 percent from the second quarter of 2014 ($72.3 million) mainly due to lower prices and a marginal decline in oil and NGL production. P&NG revenue, before derivatives for the three and nine months ended September 30, 2014 increased 20 percent and 32 percent respectively over the same periods in 2013 primarily due to improved pricing and increased West Central natural gas production.

Natural gas revenue, before derivatives, of $39.2 million for the third quarter of 2014 increased 79 percent from $21.9 million for the same period of 2013 with increased natural gas production, higher natural gas prices and higher heat content natural gas production associated with development spending in West Edson. Similarly, on a year to date basis, natural gas revenues of $123.9 million were 59 percent higher than the first nine months of 2013. However, lower natural gas prices during the third quarter of 2014 resulted in decreased natural gas revenue compared to the second quarter of 2014. Higher heat content production from West Central deep basin accounted for 38 percent of total natural gas production for the nine months ended September 30, 2014 translating into a 10 percent increase to realized natural gas prices compared to dry shallow gas prices.

The impact of Pereptual's third quarter capital spending in relation to the East Edson Agreements did not result in a significant increase to third quarter 2014 revenue as only two of the five wells drilled during the third quarter have been completed, equipped and tied in with production commencing late in the third quarter of 2014. The effect of Perpetual's capital spending program in East Edson on revenue is expected to begin to be realized in the fourth quarter of 2014.

Oil and NGL revenues of $23.9 million in the third quarter of 2014 decreased 15 percent from $28.3 million in the second quarter of 2014 and was 22 percent lower than the $30.7 million reported in the third quarter of 2013. Decreased oil and NGL revenue was a result of lower oil production as recent capital activity has focused on development of liquids-rich natural gas in West Central Alberta.

Realized losses on derivatives for the nine months ended September 30, 2014 totaled $12.8 million compared to gains of $4.0 million for the same period in 2013. Losses in 2014 were comprised of $7.8 million and $5.4 million related to natural gas and oil contracts, respectively, which were partially offset by $0.4 million of crystallized gains on certain economic hedging contracts.

The Corporation recorded unrealized gains on derivatives of $8.3 million during the third quarter of 2014, along with unrealized losses of $5.7 million during the first six months of 2014, resulting in net unrealized gains of $2.6 million for the nine months ended September 30, 2014 compared to a gain of $3.7 million for the same period in 2013. Unrealized gains and losses represent the change in mark-to-market values 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 September 30, 2014	2013	Nine months ended September 30, 2014	2013
Crown	**3,315**	2,685	**12,369**	7,911
Freehold and overriding (1)	**5,158**	2,416	**11,562**	7,054
Total	**8,473**	5,101	**23,931**	14,965
Crown (% of total P&NG sales)	**5.3%**	5.1%	**6.2%**	5.2%
Freehold and overriding (% of total P&NG sales)	**8.2%**	4.6%	**5.8%**	4.6%
Total (% of P&NG sales)	**13.5%**	9.7%	**12.0%**	9.8%
Per boe	**4.69**	3.03	**4.50**	2.93

(1) Includes $2.5 million in East Edson Gross Overriding Royalties paid as part of the East Edson Agreements.

Perpetual recorded royalty expense of $8.5 million in the third quarter of 2014, representing an increase in the combined royalty rate to 13.5 percent compared to 12.9 percent in the second quarter of 2014 and 9.7 percent in the third quarter of 2013. The increase in royalty expense was consistent with Perpetual's East Edson royalty disposition and farm-in agreements which included the sale of a 50 percent royalty interest on current developed producing reserves in the East Edson area, beginning July 1, 2014 as part of the East Edson Agreements. Excluding royalty payments of $2.5 million under the East Edson Agreements, the combined royalty rate for the quarter was 9.5 percent of revenue which was consistent with the comparative period of 2013.

Similarly, for the nine months ended September 30, 2014, Perpetual's combined average royalty rate on P&NG revenues increased to 12.0 percent from 9.8 percent in 2013. Increased royalty rates in 2014 are a result of increases to Crown royalty rates associated with higher Alberta gas reference prices along with the initial royalty payments made under the East Edson Agreements. 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.

Production and operating expenses

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except as noted)	**2014**	2013	**2014**	2013
Production and operating expenses	**17,647**	17,606	**57,648**	57,535
Per boe	**9.77**	10.47	**10.83**	11.25

Production and operating expenses of $17.6 million in the third quarter of 2014 were three percent lower than the second quarter of 2014 ($18.2 million), but remained consistent with the third quarter of 2013 ($17.6 million). Based on increased production in 2014, operating costs have decreased on a per boe basis to $9.77/boe in the third quarter of 2014 from $10.47/boe in 2013. Operating cost per boe savings relate primarily to infrastructure expansion and enhancements at West Edson, resulting in decreased third party processing fees and increased efficiency on a unit-of-production basis. Further operational efficiencies have been realized as a result of pipeline suspensions in eastern Alberta combined with Perpetual's company-wide cost saving initiatives.

Transportation costs

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except as noted)	**2014**	2013	**2014**	2013
Transportation costs	**3,388**	2,352	**9,291**	7,440
Per boe	**1.87**	1.40	**1.75**	1.45

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 the third quarter of 2014 increased to $3.4 million from $2.4 million for the same period in 2013, primarily due to increased Mannville oil transportation costs. Perpetual has increased its onsite processing of oil at Mannville 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). The change to onsite processing has enhanced oil marketing opportunities and improved the overall netback for heavy oil production from the Mannville area.

Operating netbacks

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Operating netback ($ thousands)				
Realized revenue [1]	**62,163**	54,725	**187,413**	157,152
Royalties	**(8,473)**	(5,101)	**(23,931)**	(14,965)
Operating costs	**(17,647)**	(17,606)	**(57,648)**	(57,535)
Transportation	**(3,388)**	(2,352)	**(9,291)**	(7,440)
Total operating netback	**32,655**	29,666	**96,543**	77,212
Boe operating netback ($/boe)				
Realized revenue [1]	**34.40**	32.55	**35.21**	30.71
Royalties	**(4.69)**	(3.03)	**(4.50)**	(2.93)
Operating costs	**(9.77)**	(10.47)	**(10.83)**	(11.25)
Transportation	**(1.87)**	(1.40)	**(1.75)**	(1.45)
Boe operating netback	**18.07**	17.65	**18.13**	15.08

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

Perpetual's third quarter 2014 operating netback of $18.07/boe ($32.7 million) increased marginally from $17.65/boe ($29.7 million) in 2013, with increased revenue more than offsetting higher transportation and royalty expenses. Higher royalty expenses were primarily due to the East Edson Gross Overriding Royalty on existing wells from the East Edson area, which came into effect on July 1, 2014. During the third quarter of 2014, gas volumes associated with the royalty payment reached close to the maximum 5.6 MMcf/d. An increase to production and revenue is expected to follow in the fourth quarter of 2014 and into 2015 as a result of third quarter 2014 development capital spending in East Edson while gas volumes related to the East Edson Gross Overriding Royalty will remain constant resulting in an overall increase to Perpetual's operating netback. Operating netbacks for the three and nine months ended September 30, 2104, excluding royalties paid under the East Edson Agreements, were $19.46/boe ($35.2 million) and $18.61/boe ($99.1 million) respectively.

GOB revenue

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except as noted)	**2014**	2013	**2014**	2013
GOB revenue (1)	**1,792**	1,731	**7,435**	6,979
Payments on financial obligation	**(1,383)**	–	**(1,383)**	–
GOB revenue net of payments	**409**	1,731	**6,052**	6,979
Per boe	**0.23**	1.03	**1.14**	1.36

(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 Corporation's condensed interim consolidated financial statements for the nine months ended September 30, 2014.

Perpetual records revenue in relation to GOB royalty credits received 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. During the third quarter of 2014, Perpetual recorded $1.8 million in GOB revenue which was consistent with the same period in 2013. The annual 10 percent deemed production decline was offset by higher Alberta reference prices.

On June 26, 2014, Perpetual closed an initial transaction to effectively monetize the majority of its future GOB royalty credits associated with certain shut-in properties in northeast Alberta. Effective September 1, 2014, the Corporation amended the transaction to monetize the remainder of its future GOB royalty credits. After closing adjustments, Perpetual received net proceeds of $21.3 million for these transactions. In exchange for the proceeds, Perpetual will make monthly payments to the purchaser, which are based on the gas over bitumen formula set out in the Alberta Gas Royalty Regulations. During the third quarter of 2014, Perpetual recorded $1.4 million in payments.

Pursuant to the terms of the agreement, in the event that the annual average Alberta Gas Reference Price is higher than a price based on the January 1, 2014 price forecast defined in the agreement, the payment will be adjusted for differences between the actual Alberta gas reference price and the January 1, 2014 price forecast, with the Corporation retaining 35 percent of any excess resulting from Alberta Gas Reference prices exceeding a January 1, 2014 third party evaluators price forecast. The monthly payment commitment expires concurrent with the GOB Royalty Adjustment entitlements, with final expiries expected to occur in June 2021. Further, none of the GOB credits included under the monetization transaction have repayment obligations as the underlying shut-in wells were sold in 2010, at which time the liability for future repayment was assumed by the purchasers. As such, the monetization transaction had no impact on the Corporation's recorded GOB obligation.

Under IFRS, this transaction is accounted for as a hybrid financial instrument including a financial host contract obligation with an embedded derivative related to the indexation of the future cash payments to changes in the future Alberta gas reference price. The financial obligation will be restated to fair value each reporting period with monthly payments applied against the obligation. GOB revenue will continue to be recognized separately as revenue in accordance with Perpetual's accounting policies; however, for the purposes of this MD&A, the monthly payments have been included as a reduction to GOB revenue to reflect the substantive monetization of the future GOB royalty credits.

Correction of prior period amounts

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 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 was 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 three and nine months ended September 30, 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 three and nine months ended September 30, 2013 was as follows:

	Three months ended September 30, 2013			Nine months ended September 30, 2013		
($ thousands, except as noted)	Reported	Adjustments	Adjusted	Reported	Adjustments	Adjusted
Gas over bitumen revenue	1,297	434	1,731	5,352	1,627	6,979
Net income (loss) and comprehensive income (loss)	(7,267)	434	(6,833)	19,738	1,627	21,365
Net income per share – basic	(0.05)	–	(0.05)	0.13	0.01	0.14
Net income per share – diluted	(0.05)	–	(0.05)	0.13	0.01	0.14

Collection of GOB Royalty Adjustments is 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 September 30, 2014, the Corporation had accumulated $6.9 million (December 31, 2013 – $18.1 million) of GOB adjustments receivable from the Crown of which nil (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 Obligation at September 30, 2014 of $3.3 million (December 31, 2013 - $2.9 million). Each quarter, the GOB Obligation is measured as the 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 ("E&E") expense

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2014**	2013	**2014**	2013
Lease rentals	**943**	969	**2,256**	2,365
Geological and geophysical costs (1)	**34**	25	**265**	1,298
Lease expiries	**345**	737	**1,097**	1,329
Total E&E expense	**1,322**	1,731	**3,618**	4,992

(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 $1.3 million for the three months ended September 30, 2014 were $0.4 million lower than the prior year as a result of fewer lease expiries.

General and administrative ("G&A") expenses

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except as noted)	**2014**	2013	**2014**	2013
Cash G&A expense	**3,276**	4,916	**13,417**	15,081
Compensation expense (non-cash)	**1,554**	689	**4,223**	2,048
Total G&A expense	**4,830**	5,605	**17,640**	17,129
Cash G&A expense – per boe	**1.81**	2.92	**2.52**	2.95
Compensation expense (non-cash) ($/boe)	**0.86**	0.41	**0.79**	0.40

Cash G&A expense for the third quarter of 2014 decreased 33 percent to $3.3 million from $4.9 million in 2013, mainly due to higher overhead recoveries related to increased capital spending in East Edson combined with lower consulting and professional fees related to Perpetual's cost savings initiatives. Non-cash compensation expenses in the third quarter increased to $1.6 million from $0.7 million for the same period in 2013 as a result of performance multiplier adjustments related to performance share units issued and outstanding, along with the initial vesting of units granted in the current year.

Depletion and depreciation

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except as noted)	**2014**	2013	**2014**	2013
Depletion and depreciation	**22,249**	22,555	**69,478**	68,764
Per boe	**12.31**	13.42	**13.05**	13.44

Perpetual recorded $22.2 million ($12.31/boe) of depletion and depreciation expense in the third quarter of 2014, which is consistent with $22.6 million ($13.42/boe) for the same period in 2013.

Finance expenses

Interest

($ thousands)	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Interest	**8,014**	7,162	**22,843**	21,575
Amortization of debt issue costs	**1,601**	899	**3,486**	2,638
Interest	**9,615**	8,061	**26,329**	24,213

Interest expense during the third quarter of 2014 was 19 percent higher than the third quarter of 2013, primarily associated with the issuance of new senior notes partially offset by reduced short term borrowing costs due to lower levels of bank debt. Interest expense for the nine months ended September 30, 2014 included interest on the Corporation's senior notes of $12.1 million (2013 - $10.2 million), interest on convertible debentures of $10.9 million (2013 - $10.8 million) and interest on bank debt of $3.3 million (2013 - $3.2 million).

Gain on dispositions

During the nine months ended September 30, 2014, Perpetual recorded gains of $39.1 million related to the East Edson Agreements along with a non-cash swap of undeveloped lands within West Central Alberta during the first quarter of 2014. Perpetual closed the East Edson Agreements for net cash proceeds of $47.0 million. Property dispositions during the same period in 2013 generated net cash proceeds of $78.1 million, resulting in gains on dispositions of $51.2 million relating to the Elmworth property disposition during the first quarter of 2013.

Other finance expenses

($ thousands)	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Accretion on decommissioning obligations	**1,357**	1,235	**4,041**	3,200
Accretion on GOB Obligation	**111**	–	**330**	–
Change in fair value of financial obligation	**(176)**	–	**(176)**	–
Loss on marketable securities	**–**	(420)	**–**	125
Loss on call option	**–**	–	**–**	1,274
Other finance expenses	**1,292**	815	**4,195**	4,599

Other finance expenses for the third quarter of 2014 included accretion on decommissioning obligations of $1.4 million (2013 – $1.2 million), accretion on the GOB Obligation of $0.1 million (2013 – nil) and an unrealized gain of $0.2 million due to a change in the fair value of the financial obligation (2013 – nil). For the nine months ended September 30, 2013, a loss of $1.3 million was recorded during the first quarter 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 nine months ended September 30, 2014, Perpetual recorded $2.8 million representing its share of net loss on its equity investment in WGS LP compared to income of $2.8 million for the same period in 2013. Losses in WGS LP in 2014 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 nine months ended September 30, 2014 (2013 – $0.3 million).

Funds flow

	Three months ended September 30, 2014		2013	
	($ thousands)	**($/boe)**	($ thousands)	($/boe)
Realized revenue [1]	**62,163**	**34.40**	54,725	32.55
Royalties[2]	**(8,473)**	**(4.69)**	(5,101)	(3.03)
Operating expenses	**(17,647)**	**(9.77)**	(17,606)	(10.47)
Transportation costs	**(3,388)**	**(1.87)**	(2,352)	(1.40)
Operating netback [1]	**32,655**	**18.07**	29,666	17.65
GOB revenue net of payments [3]	**409**	**0.23**	1,731	1.03
Exploration and evaluation [4]	**(943)**	**(0.52)**	(969)	(0.58)
Cash G&A	**(3,276)**	**(1.81)**	(4,916)	(2.92)
Interest [3]	**(8,014)**	**(4.43)**	(7,162)	(4.26)
Dividends from WGS LP	**–**	**–**	300	0.18
Funds flow [1]	**20,831**	**11.54**	18,650	11.10

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

(2) Includes $2.5 million in East Edson Gross Overriding Royalty payments in relation to the East Edson Agreements.

(3) 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 condensed interim consolidated financial statements for the nine months ended September 30, 2014.

(4) Excludes non-cash items.

	Nine months ended September 30, 2014		2013	
	($ thousands)	**($/boe)**	($ thousands)	($/boe)
Realized revenue [1]	**187,413**	**35.21**	157,152	30.71
Royalties [2]	**(23,931)**	**(4.50)**	(14,965)	(2.93)
Operating expenses	**(57,648)**	**(10.83)**	(57,535)	(11.25)
Transportation costs	**(9,291)**	**(1.75)**	(7,440)	(1.45)
Operating netback [1]	**96,543**	**18.13**	77,212	15.08
GOB revenue net of payments [3]	**6,052**	**1.14**	6,979	1.36
Exploration and evaluation [4]	**(2,256)**	**(0.42)**	(2,365)	(0.46)
Cash G&A	**(13,417)**	**(2.52)**	(15,081)	(2.95)
Interest [3]	**(22,843)**	**(4.29)**	(21,575)	(4.22)
Dividends from WGS LP	**–**	**–**	300	0.06
Funds flow [1]	**64,079**	**12.04**	45,470	8.87

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

(2) Includes $2.5 million in East Edson Gross Overriding Royalty payments in relation to the East Edson Agreements.

(3) 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 condensed interim consolidated financial statements for the nine months ended September 30, 2014.

(4) Excludes non-cash items.

Funds flow increased 12 percent from the third quarter of 2013 to $20.8 million ($0.14 per share) for the quarter ended September 30, 2014. Similarly, on a year to date basis, funds flow increased 41 percent to $64.1 million ($0.43 per share) compared to $45.5 million ($0.31 per share) for the same period in 2013, both of which reflect the increase in operating netbacks.

Net income (loss)

	Three months ended September 30,			
		2014		2013
	($ thousands)	**($/boe)**	($ thousands)	($/boe)
Funds flow (1)	**20,831**	**11.54**	18,650	11.10
Unrealized gains (losses) on derivatives	**8,329**	**4.61**	(1,854)	(1.10)
Payments on financial obligation	**1,383**	**0.77**	–	–
Exploration and evaluation (3)	**(379)**	**(0.21)**	(762)	(0.45)
Compensation expense, non-cash	**(1,554)**	**(0.86)**	(689)	(0.41)
Gain on dispositions	**33,498**	**18.54**	60	0.04
Depletion and depreciation	**(22,249)**	**(12.31)**	(22,555)	(13.42)
Financial items, non-cash (2)	**(2,893)**	**(1.60)**	(1,714)	(1.02)
WGS LP net income (loss) and dividends	**(552)**	**(0.31)**	2,031	1.21
Net income (loss)	**36,414**	**20.17**	(6,833)	(4.05)

(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 condensed interim consolidated financial statements for the nine months ended September 30, 2014.

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

	Nine months ended September 30,			
		2014		2013
	($ thousands)	**($/boe)**	($ thousands)	($/boe)
Funds flow (1)	**64,079**	**12.04**	45,470	8.87
Unrealized gains on derivatives	**2,592**	**0.49**	3,740	0.73
Call option premiums received	**–**	**–**	(953)	(0.19)
Payments on financial obligation	**1,383**	**0.26**	–	–
Exploration and evaluation (3)	**(1,362)**	**(0.26)**	(2,627)	(0.51)
Compensation expense, non-cash	**(4,223)**	**(0.79)**	(2,048)	(0.40)
Gain on dispositions	**39,120**	**7.35**	51,243	10.02
Depletion and depreciation	**(69,478)**	**(13.05)**	(68,764)	(13.44)
Financial items, non-cash (2)	**(7,681)**	**(1.44)**	(7,237)	(1.41)
WGS LP net income (loss) and dividends	**(2,791)**	**(0.52)**	2,541	0.50
Net income	**21,639**	**4.08**	21,365	4.17

(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 condensed interim consolidated financial statements for the nine months ended September 30, 2014.

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

The Corporation recorded net income of $36.4 million ($20.17 per boe) for the quarter ended September 30, 2014 compared to a net loss of $6.8 million ($4.05 per boe) for the same period in 2013 primarily as a result of the gain on disposition of the East Edson Gross Overriding Royalty and unrealized gains on derivatives in 2014. For the nine months ended September 30, 2014, the Corporation recorded net income of $21.6 million ($4.08 per boe) consistent with net income of $21.4 million ($4.17 per boe) in the same period in 2013.

SUMMARY OF QUARTERLY RESULTS

($ thousands, except as noted)	**Q3 2014**	Q2 2014	Q1 2014	Q4 2013
Financial				
Oil and natural gas revenues	**63,126**	72,348	64,754	49,075
Funds flow (1)	**20,831**	25,864	17,384	12,998
Per share – basic	**0.14**	0.17	0.12	0.09
Net income (loss) (2)	**36,414**	2,549	(17,324)	(13,745)
Per share – basic (2)	**0.24**	0.02	(0.12)	(0.09)
– diluted (2)(3)	**0.23**	0.02	(0.12)	(0.09)
Capital expenditures				
Exploration and development	**46,583**	12,251	31,340	24,537
Geological and geophysical	**34**	218	13	(19)
Acquisitions	**–**	91	151	418
Dispositions	**(46,998)**	(3,000)	–	(901)
Other	**347**	108	75	2
Net capital expenditures	**(34)**	9,668	31,579	24,037
Common shares (thousands)				
Weighted average – basic	**149,574**	148,835	148,448	148,489
Operating				
Daily average production				
Natural gas (MMcf/d)	**97.8**	97.8	92.1	90.3
Oil and NGL (bbl/d)	**3,324**	3,738	3,451	3,509
Total (boe/d)	**19,640**	20,053	18,794	18,559
Average prices				
Natural gas – before derivatives ($/Mcf)	**4.35**	4.95	4.90	3.37
Natural gas – including derivatives ($/Mcf)	**4.35**	4.66	4.35	3.62
Oil and NGL – before derivatives ($/bbl)	**78.26**	83.08	77.72	65.35
Oil and NGL – including derivatives ($/bbl)	**75.10**	74.65	72.06	65.88

(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 and note 2 in each of the Corporation's quarterly 2014 condensed interim consolidated financial statements.

(3) Periods in which Perpetual has reported a net loss have an anti-dilutive impact on per share calculations resulting in per share amounts for basic and diluted reported as the same. Diluted per share amounts for periods where Perpetual has reported net income have been calculated based on the weighted average diluted shares of 157.6 million and 160.3 million for the second and the third quarters of 2014, respectively.

continued on next page

SUMMARY OF QUARTERLY RESULTS *continued*

($ thousands, except as noted)	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Financial				
Oil and natural gas revenues	52,555	57,187	42,477	44,468
Funds flow (1)	18,650	17,286	9,534	11,158
Per share – basic	0.13	0.12	0.06	0.08
Net income (loss) (2)	(6,833)	(4,566)	32,764	(56,400)
Per share – basic (2)	(0.05)	(0.03)	0.22	(0.38)
– diluted (2)(3)	(0.05)	(0.03)	0.21	(0.38)
Capital expenditures				
Exploration and development	22,325	9,861	38,682	21,426
Geological and geophysical	25	499	774	(241)
Acquisitions	532	5,433	1,752	–
Dispositions	(60)	(84)	(77,930)	(6,923)
Other	34	19,162	51	23
Net capital expenditures	22,856	34,871	(36,671)	14,285
Common shares (thousands)				
Weighted average – basic	148,382	148,015	147,672	147,184
Operating				
Daily average production				
Natural gas (MMcf/d)	85.3	91.9	88.6	88.3
Oil and NGL (bbl/d)	4,064	4,384	3,483	3,536
Total (boe/d)	18,274	19,708	18,244	18,250
Average prices				
Natural gas – before derivatives ($/Mcf)	2.79	3.68	3.18	2.99
Natural gas – including derivatives ($/Mcf)	3.31	3.90	3.28	3.56
Oil and NGL – before derivatives ($/bbl)	82.03	66.18	54.74	62.02
Oil and NGL – including derivatives ($/bbl)	76.86	64.84	56.82	71.29

(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 and note 2 in each of the Corporation's quarterly 2014 condensed interim consolidated financial statements.

(3) Periods in which Perpetual has reported a net loss have an anti-dilutive impact on per share calculations resulting in per share amounts for basic and diluted reported as the same. Diluted per share amounts for periods where Perpetual has reported net income have been calculated based on the weighted average diluted shares of 171.7 million for first quarter of 2013.

LIQUIDITY, CAPITALIZATION AND FINANCIAL RESOURCES

Perpetual targets to maintain a strong capital base to maintain investor, creditor and market confidence, and to sustain the future development of the business. The Corporation strives to manage 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. Perpetual's capital structure includes share capital, bank debt, senior notes, convertible debentures and adjusted working capital. In order to manage its capital structure, the Corporation may from time to time issue shares or debt securities, enter into business transactions including the sale of assets and adjust its capital spending to manage current and projected debt levels.

To strengthen Perpetual's financial position, the following transactions were executed at the end of the second quarter and during the third quarter of 2014:

- Perpetual completed the monetization of its future GOB credits for net proceeds of $21.3 million. Proceeds were applied to reduce bank indebtedness.
- Perpetual sold a 50 percent royalty interest in current developed producing reserves in the East Edson area which included net cash proceeds of $47.0 million consisting of $17.0 million of unrestricted cash that was applied to reduce bank indebtedness, with the remaining $30 million held in escrow for development spending in East Edson. At the end of the third quarter, $24.9 million remained in escrow. Concurrent with the royalty disposition, Perpetual also entered into a farm-in agreement, whereby the partner contributed $70 million which is held in escrow to be used toward drilling activities in East Edson.
- Perpetual issued $125 million in senior unsecured notes, which bear interest at 8.75 percent annually and mature on July 23, 2019. The net proceeds from this issuance were used to redeem all of Perpetual's outstanding 7.25 percent convertible debentures ("7.25% Debentures") in cash for approximately $99.9 million on August 25, 2014. The remaining balance was applied to further reduce bank indebtedness.

In addition, on October 27, 2014, Perpetual announced the signing of a definitive purchase and sale agreement to divest of several non-core heavy oil properties in eastern Alberta for gross proceeds of $21.6 million, excluding certain closing adjustments and transaction costs. The agreement has an effective date of October 1, 2014. A deposit of $3.2 million has been paid to Perpetual, with the remaining disposition proceeds due at closing which is expected to occur on November 7, 2014.

The combined impact of these transactions has alleviated financial liquidity restraints through the repayment of its current debt obligations resulting in a working capital surplus. In addition, the infusion of cash from both Perpetual's and its partners' East Edson escrow accounts has positioned Perpetual to accelerate its development program which is expected to increase funds flow in 2015. The result of these transactions have provided Perpetual increased flexibility as it reviews repayment options on the remaining outstanding 7.0% Debentures maturing on December 31, 2015. To this end, Perpetual intends to provide notice to the Trustee for the early redemption with cash of $25 million of the outstanding $59.9 million 7.0% Debentures on December 31, 2014.

Capital management

($ thousands, except as noted)	**September 30, 2014**	December 31, 2013
Bank debt	**–**	70,618
Senior notes, measured at principal amount	**275,000**	150,000
Convertible debentures, measured at principal amount	**59,878**	159,779
Adjusted working capital deficiency (surplus) (1) (2)	**5,618**	(3,417)
Net debt	**340,496**	376,980
Shares outstanding at end of period (thousands)	**150,014**	148,490
Market price at end of period	**1.75**	1.11
Market value of shares	**262,525**	164,824
Total capitalization (1)	**603,021**	541,804
Net debt as a percentage of total capitalization	**56.5**	69.6
Trailing twelve months funds flow (1)	**76,509**	58,468
Net debt to funds flow ratio (times) (3)	**4.5**	6.4

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

(2) Includes $24.9 million of restricted cash held in escrow.

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

The Corporation monitors capital based on the ratio of net debt to trailing 12 months ("TTM") funds flow. As at September 30, 2014, the Corporation's ratio of net debt to TTM funds flow had improved significantly, decreasing 30 percent from year end 2013, to 4.5 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 TTM 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 and monthly funds flow forecasts, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment, acquisition and development activities and general industry conditions. Capital spending budgets are approved by the Board of Directors.

At September 30, 2014, Perpetual had net debt of $340.5 million, down $36.5 million from December 31, 2013. The reduction during the first nine months of 2014 was a result of funds flow, combined with proceeds received from dispositions, Perpetual's escrow funds related to the East Edson Agreements and, the monetization of GOB royalty credits, exceeding capital expenditures with the excess funds being applied as an overall reduction to net debt.

Perpetual's adjusted working capital deficiency at September 30, 2014 was $5.6 million compared to a surplus of $3.4 million at December 31, 2013. The Corporation has an adjusted working capital deficiency primarily related to an increase in accounts payables due to increased capital spending during the third quarter of 2014 on Perpetual's share of the East Edson development program as well as spending in West Edson and Mannville. In addition, accounts payable includes $47.4 million of unapplied cash calls in relation to funds being drawn on the partner's escrow account to fund fourth quarter drilling activities in East Edson. The increase in payables is partially offset by increased cash and restricted cash received from the East Edson royalty disposition and additional East Edson partner cash calls. The Corporation continues to reduce its working capital deficiency through lower operating and corporate costs and increased receivables from increased oil and gas revenues.

Reconciliation of net debt ($ millions)	
Net debt, December 31, 2013 (1)	377.0
Capital expenditures (2)	91.0
Acquisitions, net of dispositions	(49.8)
Proceeds on GOB monetization	(21.3)
Funds flow (1)	(64.1)
Expenditures on decommissioning obligations	4.5
Issue fees on senior notes	2.5
Other	0.7
Net debt, September 30, 2014 (1)(3)	**340.5**

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

(2) Capital expenditures consist of exploration and development including geological and geophysical costs.

(3) Excludes $16.3 million of East Edson partner capital held in escrow at September 30, 2014.

Cash and bank indebtedness

At September 30, 2014, Perpetual had cash and cash equivalents of $26.7 million (December 31, 2013 – nil) and restricted cash of $24.9 million (December 31, 2013 – nil) representing Perpetual's escrow funds related to the East Edson Agreements. Perpetual was undrawn on its credit facility compared to $70.6 million drawn at December 31, 2013. The Corporation has outstanding letters of credit in the amount of $8.8 million (December 31, 2013 – $5.9 million).

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. Total availability under the facility was increased to $130 million from $110 million which consists of a demand loan of $115 million and a working capital facility of $15 million. On June 26, 2014, total availability under the credit facility was reduced to $120 million in conjunction with the monetization of the Corporation's gas over bitumen royalty credits. On July 23, 2014, in conjunction with the issuance of new senior notes, the Corporation's credit facility was further reduced from $120 million to $100 million to adjust for future interest payments that will be required pursuant to terms of the senior notes.

On November 5, 2014, the Corporation's lenders completed their next semi-annual review of the borrowing base. Total availability under the facility was increased to $105 million consisting of a demand loan of $90 million and a working capital facility of $15 million. The increase was due to reserve additions driven by the drilling activities at East Edson despite the monetization of additional GOB royalty credits and the pending sale of non-core Mannville heavy oil assets. The revolving feature of the facility expires on April 30, 2015 with a 184 day term to maturity should it not be extended. The next semi-annual redetermination of the Corporation's borrowing base will occur on or before April 30, 2015.

The Corporation has covenants that require consolidated debt to twelve month trailing income before interest, taxes, depletion and depreciation and non-cash items ("Consolidated Debt Ratio") to be less than 4.0 to 1.0. 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. The credit facility also contains covenants that require consolidated senior debt to twelve month trailing income before interest, taxes, depletion and depreciation and non-cash items ("Consolidated Senior Debt Ratio") to be less than 3.0 to 1.0. 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 September 30, 2014.

Advances under the credit facility are made in the form of Banker's Acceptances ("BA"), prime rate loans or letters of credit. 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.

The credit facility bears interest at its lenders' prime rate or BA rates, plus applicable margins and standby fees. The applicable margins range between 1.25 percent and 4.25 percent depending on the form of borrowing and changes in the Corporation's Consolidated Debt Ratio for the most recently completed reporting period.

Convertible debentures

At the beginning of the third quarter of 2014, the Corporation had outstanding 7.25% Debentures that mature on January 31, 2015, as well as 7.0% Debentures that mature on December 31, 2015.

The Corporation had the option to settle all or a portion of the outstanding 7.25% Debentures in cash or through the issuance of shares, with no penalty, by giving notice of such intent to debenture holders not more than 60 and not less than 30 days prior to the maturity date. On July 23, 2014, Perpetual gave notice to debenture holders that the 7.25% Debentures would be settled in cash with proceeds received from the $125 million senior unsecured notes. Settlement of the 7.25% Debentures occurred on August 25, 2014. Redemption of the total principal amount of $99.9 million and accrued interest of $0.5 million was funded from proceeds on the issuance of new senior notes.

The outstanding 7.0% Debentures may also be settled in cash or through the issuance of shares, with no penalty, on or after December 31, 2014, by giving notice of such intent to debenture holders not more than 60 and not less than 30 days prior to the maturity date.

Additional information on the remaining 7.0% Debentures are as follows:

Principal issued ($ millions)	60.0
Principal outstanding ($ millions)	59.9
Trading symbol on the Toronto Stock Exchange	PMT.DB.E
Maturity date	December 31, 2015
Conversion price ($ per share)	7.00
Fair market value ($ millions) (1)	60.8

(1) Fair values of the 7.0% Debentures are calculated by multiplying the number of debentures outstanding at November 6, 2014 by the quoted market price per debenture at that date.

At September 30, 2014, the Corporation's 7.0% Debentures remain outstanding as a long term liability. Perpetual intends to provide notice to the Trustee for the early redemption with cash of $25 million of the outstanding $59.9 million balance on December 31, 2014. For the remaining balance, management is evaluating repayment options including utilizing excess funds flow and bank indebtedness, 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 7.0% Debentures in cash, in which case, the Corporation would have the option to settle all or a portion of the debentures with common shares.

Senior notes

At September 30 2014, Perpetual had $275 million of senior notes outstanding. Additional information on the senior notes is as follows:

	Maturity date	**Principal**	**Interest rate**	**September 30, 2014**	December 31, 2013
2011 senior notes (1)	March 15, 2018	150,000	8.75%	**148,117**	147,719
2014 senior notes (2)	July 23, 2019	125,000	8.75%	**122,585**	–
		275,000		**270,702**	147,719

(1) Issued March 15, 2011, interest payable semi-annually on September 15 and March 15 of each year.

(2) Issued July 23, 2014, interest payable semi-annually on January 23 and July 23 of each year.

The fair market value of the senior notes at November 6, 2014 was $269.5 million.

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 Corporation can redeem up to 35 percent of the principal amount of the senior notes at a premium to face value with proceeds from common share offerings up to three years prior to maturity. Within three years of maturity the Corporation can repay the senior notes at a premium to face value based on the date of repayment.

The senior notes have a cross-default provision with the Corporation's credit facility which require the Consolidated Debt Ratio and the Consolidated Senior Debt Ratio to be less than 4.0 to 1.0 and 3.0 to 1.0, respectively. The Corporation was in compliance with the lenders' covenants at September 30, 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:

- To the extent the Corporation's Consolidated Debt Ratio is less than 3.0 to 1.0, the sum of 50 percent of income before interest, taxes, depletion and depreciation and non-cash items 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.
- To the extent the Corporation's Consolidated Debt Ratio is greater than or equal to 3.0 to 1.0 pro forma for the proposed restricted payment, $50 million plus 100 percent of the fair market value of any equity contributions made to the Corporation.

At September 30, 2014 the senior notes are presented net of $4.3 million in issue costs which are amortized using a weighted average effective interest rate of 9.2 percent.

Equity

Perpetual's total capitalization was $603 million at September 30, 2014. Net debt to total capitalization decreased to 57 percent from 70 percent at December 31, 2013. The decrease was driven by a 59 percent increase in market value of Perpetual's common shares combined with lower net debt levels resulting from proceeds on dispositions, GOB monetization and funds flow exceeding capital spending for the period.

Basic weighted average shares outstanding for the nine months ended September 30, 2014 totaled 149.6 million (2013 – 148.4 million). On November 6, 2014 there were 150.0 million shares outstanding.

OUTLOOK

Remainder of 2014

Perpetual's success in advancing its top strategic priorities thus far in 2014 has established a foundation for accelerated growth in production, reserves, and funds flow along with improved financial liquidity. Dispositions, combined with the issuance of the $125 million of high yield notes has temporarily eliminated bank debt, providing increased financial flexibility and certainty with respect to the repayment of its maturing convertible debentures. To this end, Perpetual intends to provide notice to the Trustee for the early redemption with cash of $25 million of the outstanding $59.9 million 7.0% Debentures on December 31, 2014.

Perpetual has increased its capital expenditure program for the fourth quarter 2014 and expects to report full year 2014 spending between $124 and $128 million. Additional fourth quarter spending includes accelerated East Edson drilling and completion activities utilizing an estimated $20 million of restricted cash held in Perpetual's escrow account, as well as expediated equipment and construction costs for the new East Edson gas plant to drive an earlier start-up date prior to September 1, 2015.

Closing of the East Edson Agreements in July 2014 is accelerating the development of the Corporation's East Edson asset. In addition to the reported capital, the Company is on track to execute close to $70 million in committed farm-in development spending prior to the end of 2014, utilizing the balance of the partner's funds from escrow. Currently, three rigs are drilling at East Edson where 10 (10.0 net) new wells are expected to be rig released during the fourth quarter. Another $4 million is forecast to be spent in the fourth quarter on equipment and lease construction activities for the new 30 MMcf/d East Edson gas plant. All required permits and approvals have been received and construction is on track for a graduated plant start-up in the third quarter of 2015.

At West Edson, Perpetual plans to spend $7.5 million during the fourth quarter, incorporating associated costs to finish drilling operations, complete and tie-in the two well pad currently in clean up and flow testing operations and drill two (1.0 net) additional horizontal Wilrich wells prior to year end. Based on strong initial test results above the type-curve, new production is expected to maintain throughput above the nameplate plant capacity of 60 MMcf/d (30 MMcf/d net) by utilizing bypass operations for leaner wells.

At Mannville, fourth quarter spending will primarily be directed to water handling and injection projects to expand the waterflood pilot in the Mannville I2I pool and step-up pressure maintenance through waterflood on two additional pools.

The fourth quarter capital program also includes modest expenditures to continue to build on the success to date in maximizing value and mitigating production declines on the Corporation's legacy shallow gas assets through facility optimization projects, workovers and uphole recompletions. High capital efficiency projects have arrested the annual decline in conventional base shallow gas assets to approximately five percent.

The table below summarizes expected capital spending and drilling activities in accordance with Perpetual's 2014 strategic priorities for the remainder of 2014.

Exploration and development capital expenditures	Q4 2014 $ millions	# of wells (gross/net)	Full year 2014	# of wells (gross/net)
West Central liquids-rich gas (1)	25	4/2.5	87	17/9.1
Mannville heavy oil	3	–	26	20/17.8
Shallow gas and other	6	–	11	–
Total Perpetual reported capital spending (2)	**34**	**4/2.5**	**124**	**37/26.9**
East Edson partner funded capital	50	9/9.0	69	13/13.0
Total capital spending	**84**	**13/11.5**	**193**	**50/39.9**

(1) Excludes Perpetual operated capital spending funded by East Edson partner escrow funds.

(2) Exludes budgeted abandonment and reclamation spending spending of $2 million.

With production increases now materializing as a result of the accelerated development spending at East Edson, and giving effect to the non-core Mannville heavy oil disposition effective October 1, 2014, Perpetual expects to exit 2014 at a production rate of 23,400 boe/d, with full year 2014 production averaging between 20,100 boe/d to 20,500 boe/d. Based on these assumptions and the current forward market for commodity prices, Perpetual forecast 2014 funds flow of $82 million. Incorporating the assumptions outlined above, the following table shows Perpetual's estimated 2014 funds flow based on actual results to September 30 and using various commodity prices for the fourth quarter of 2014:

				Q4 AECO gas price ($/GJ) (1)		
Projected 2014 funds flow (2) ($ millions)		**$3.00**	**$3.50**	**$4.00**	**$4.50**	**$5.00**
Q4 WTI price (US$/bbl) (1)	**$85.00**	79.6	81.9	84.2	86.5	88.7
	$95.00	81.1	83.4	85.7	87.9	90.2
	$100.00	81.7	84.0	86.3	88.5	90.8
	$105.00	81.7	84.0	86.3	88.5	90.8
	$115.00	82.4	84.7	87.0	89.2	91.5

(1) The current settled and forward average AECO and WTI prices for October to December 2014 as of November 6, 2014 were $3.87 per GJ and US$80.07 per bbl, respectively.

(2) Funds flow is a non-GAAP measure. Please refer to "Non-GAAP Measures".

2015 Outlook

In 2015, the Company will continue to focus on growing funds flow, restoring a healthy balance sheet, and optimizing and transforming its asset base. Perpetual's top five key strategic priorities for 2015 are:

1. Grow greater Edson liquids-rich gas production, cash flow, inventory, reserves and value;
2. Optimize value of Mannville heavy oil;
3. Refine elements of production growth strategy for 2017 to 2020;
4. Maximize value of shallow gas; and
5. Reduce debt and improve debt/cash flow ratio.

Capital spending for the first quarter of 2015 is expected to be $64 million, with an estimated $13 million funded from Perpetual's East Edson escrow account. Expenditures will be focused as detailed in the table below:

Exploration and development capital expenditures	**Q1 2015 $ millions**	**# of wells (gross/net)**
West Central liquids-rich gas [(1)]	48	7/5.5
Mannville heavy oil	8	5/4.7
Shallow gas	4	–
Panny pilot	4	2/2.0
Total Perpetual reported capital spending [(2)]	**64**	**14/12.2**
East Edson partner funded capital	1	–
Total capital spending	**65**	**14/12.2**

(1) Excludes Perpetual operated capital spending funded by East Edson partner escrow funds.

(2) Excludes budgeted abandonment and reclamation spending of $5 million.

In West Central Alberta, operations will be focused on drilling three (1.5 net) wells at West Edson to maintain sales of high heat content gas at over 30 MMcf/d net plus associated liquids. In East Edson, development drilling will continue with four (4.0 net) additional wells planned to maintain gas sales through the existing 16-10 compressor at over 28.5 MMcf/d plus associated liquids and ensure ample supply to fill the new plant at start-up in the third quarter of 2015. Development and exploration in Mannville for heavy oil will continue with the drilling of up to five (4.7 net) wells and additional waterflood implementation activities. Additionally, capital will be directed to winter-only access assets in northeast Alberta. Approximately $4 million net is allocated to implement phase 1 of a pilot project for extraction of low viscosity bitumen at Panny to evaluate the impact of electrical heat stimulation on the bluesky reservoir and assess multiple operational parameters. Additionally, high return facility optimization projects, well workovers and uphole recompletions as well as abandonment activities will be undertaken to maximize value from shallow gas assets.

Spending for the remainder of 2015 will be finalized after the first quarter with a view to increased certainty on 2015 commodity prices and funds flow as well as operations and drilling performance, particularly in the greater Edson area. Perpetual will target full year 2015 capital spending to be largely funded by 2015 cash flow. Furthermore, Perpetual continues to target additional asset sales in 2015 with funds to be utilized to strengthen the balance sheet and enhance financial flexibility.

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 September 30, 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 September 30, 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	September 30, 2014	December 31, 2013
(Cdn$ thousands, unaudited)		
Assets		
Current assets		
Cash and cash equivalents	**$ 26,736**	$ –
Restricted cash (note 4)	**24,937**	–
Accounts receivable	**48,158**	36,099
Prepaid expenses and deposits	**3,929**	1,369
Derivatives (notes 10 and 11)	**895**	326
	104,655	37,794
Long term Crown receivable	**–**	10,997
Derivatives (notes 10 and 11)	**–**	19
Property, plant and equipment (note 4)	**587,953**	576,954
Exploration and evaluation (note 5)	**88,891**	88,177
Equity-method investment	**25,556**	28,347
Total assets	**$ 807,055**	$ 742,288
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 109,389**	$ 45,059
Derivatives (notes 10 and 11)	**4,918**	6,468
Bank indebtedness (note 6)	**–**	70,618
Financial obligation (note 9)	**5,424**	–
	119,731	122,145
Derivatives (notes 10 and 11)	**2,286**	2,778
Senior notes (note 8)	**270,702**	147,719
Convertible debentures (note 7)	**57,614**	154,496
Financial obligation (note 9)	**14,271**	–
Gas over bitumen obligation	**3,278**	2,948
Decommissioning obligations	**215,687**	213,906
Total liabilities	**683,569**	643,992
Equity		
Share capital	**1,258,775**	1,257,315
Shares held in trust (note 13)	**(683)**	–
Equity component of convertible debentures	**5,449**	13,971
Contributed surplus	**32,770**	21,474
Deficit	**(1,172,825)**	(1,194,464)
Total equity	**123,486**	98,296
Total liabilities and equity	**$ 807,055**	$ 742,288

Subsequent event (notes 4 and 6)

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 September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(Cdn$ thousands, except per share amounts, unaudited)		(note 2)		(note 2)
Revenue				
Oil and natural gas	**$ 63,126**	$ 52,555	**$ 200,228**	$ 152,219
Royalties	**(8,473)**	(5,101)	**(23,931)**	(14,965)
	54,653	47,454	**176,297**	137,254
Change in fair value of commodity price derivatives (note 11)	**7,366**	316	**(10,223)**	7,720
Gas over bitumen	**1,792**	1,731	**7,435**	6,979
	63,811	49,501	**173,509**	151,953
Expenses				
Production and operating	**17,647**	17,606	**57,648**	57,535
Transportation	**3,388**	2,352	**9,291**	7,440
Exploration and evaluation (note 5)	**1,322**	1,731	**3,618**	4,992
General and administrative	**4,830**	5,605	**17,640**	17,129
Gain on dispositions (note 4)	**(33,498)**	(60)	**(39,120)**	(51,243)
Depletion and depreciation (note 4)	**22,249**	22,555	**69,478**	68,764
Income (loss) from operating activities	**47,873**	(288)	**54,954**	47,336
Finance expenses (note 12)	**(10,907)**	(8,876)	**(30,524)**	(28,812)
Share of net income (loss) of equity-method investment	**(552)**	2,331	**(2,791)**	2,841
Net income (loss) and comprehensive income (loss)	**$ 36,414**	$ (6,833)	**$ 21,639**	$ 21,365
Income (loss) per share (note 14)				
Basic	**$ 0.24**	$ (0.05)	**$ 0.15**	$ 0.14
Diluted	**$ 0.23**	$ (0.05)	**$ 0.14**	$ 0.14

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 income	–	–	–	–	21,639	21,639
Common shares issued pursuant to share based compensation plans	1,479	–	–	(1,449)	–	30
Share based compensation expense	–	–	–	4,223	–	4,223
Redemption of convertible debentures	–	–	(8,522)	8,522	–	–
Change in shares held in trust (note 13)	(19)	(683)	–	–	–	(702)
Balance at September 30, 2014	**$1,258,775**	**$ (683)**	**$ 5,449**	**$ 32,770**	**$(1,172,825)**	**$ 123,486**

(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	–	–	–	–	21,365	21,365
Common shares issued pursuant to share based compensation plans	1,851	–	–	(1,828)	–	23
Share based compensation expense	–	–	–	2,048	–	2,048
Share based payment liability	–	–	–	13	–	13
Redemption of convertible debentures	–	–	(17)	17	–	–
Balance at September 30, 2013	$ 1,257,301	$ –	$ 13,971	$ 19,558	$ (1,180,719)	$ 110,111

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(Cdn$ thousands, unaudited)				
Cash flows from operating activities				
Net income (loss)	**$ 36,414**	$ (6,833)	**$ 21,639**	$ 21,365
Adjustments to add (deduct) non-cash items:				
Depletion and depreciation	**22,249**	22,555	**69,478**	68,764
Exploration and evaluation (note 5)	**345**	737	**1,097**	1,329
Share based compensation expense	**1,554**	689	**4,223**	2,048
Change in fair value of commodity price derivatives	**(8,329)**	1,854	**(2,592)**	(3,740)
Finance expenses	**2,893**	1,714	**7,681**	7,237
Share of net (income) loss of equity-method investment	**552**	(2,331)	**2,791**	(2,841)
Gain on dispositions	**(33,498)**	(60)	**(39,120)**	(51,243)
Share of dividends from equity-method investment	**–**	300	**–**	300
Call option premiums received	**–**	–	**–**	953
Long term Crown receivable adjustments	**–**	(292)	**10,997**	(1,436)
Expenditures on decommissioning obligations	**(1,451)**	(1,174)	**(4,480)**	(1,638)
Change in non-cash working capital	**6,550**	658	**(7,298)**	(1,118)
Net cash from operating activities	**27,279**	17,817	**64,416**	39,980
Cash flows from (used in) financing activities				
Change in bank indebtedness	**(60,135)**	7,029	**(70,618)**	(12,084)
Redemption of convertible debentures	**(99,902)**	(85)	**(99,902)**	(187)
Net proceeds on senior notes issuance	**122,517**	–	**122,517**	–
Change in financial obligation (note 9)	**1,417**	–	**19,871**	–
Common shares issued	**24**	3	**30**	23
Transactions with trustee (note 13)	**(451)**	–	**(702)**	–
Change in non-cash working capital	**(5,800)**	(6,121)	**(5,854)**	(4,092)
Net cash from (used in) financing activities	**(42,330)**	826	**(34,658)**	(16,340)
Cash flows from (used in) investing activities				
Acquisitions	**–**	(532)	**(242)**	(7,717)
Capital expenditures	**(46,930)**	(22,359)	**(90,704)**	(70,986)
Proceeds on dispositions	**46,998**	60	**49,998**	78,074
Increased interest in equity method investment	**–**	–	**–**	(19,129)
Change in non-cash working capital	**41,719**	4,188	**37,926**	(3,882)
Net cash from (used in) investing activities	**41,787**	(18,643)	**(3,022)**	(23,640)
Change in cash and cash equivalents	**26,736**	–	**26,736**	–
Cash and cash equivalents, beginning of period	**–**	–	**–**	–
Cash and cash equivalents, end of period	**$ 26,736**	$ –	**$ 26,736**	$ –
Interest paid	**$ 11,393**	$ 11,194	**$ 26,296**	$ 25,850

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

SELECTED NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 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 and nine months ended September 30, 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 Corporation's best estimate of the expected repayments of the GOB Royalty Adjustments.

Prior to the year ended December 31, 2013, Perpetual had 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 September 30, 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 three and nine months ended September 30, 2013 is as follows:

	Three months ended September 30, 2013			Nine months ended September 30, 2013		
	As reported	Adjustments	Adjusted	As reported	Adjustments	Adjusted
Gas over bitumen revenue	1,297	434	1,731	5,352	1,627	6,979
Net income and comprehensive income	(7,267)	434	(6,833)	19,738	1,627	21,365
Net income per share – basic	(0.05)	–	(0.05)	0.13	0.01	0.14
Net income per share –diluted	(0.05)	–	(0.05)	0.13	0.01	0.14

3. 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 November 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.

4. 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	91,161	530	91,691
Non-monetary additions	9,362	–	9,362
Transferred from exploration and evaluation	1,038	–	1,038
Acquisitions	54	–	54
Dispositions	(33,845)	–	(33,845)
September 30, 2014	**2,628,273**	**6,937**	**2,635,210**
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	(69,221)	(257)	(69,478)
Dispositions	12,177	–	12,177
September 30, 2014	**(2,041,022)**	**(6,235)**	**(2,047,257)**
Carrying amount			
December 31, 2013	576,525	429	576,954
September 30, 2014	**587,251**	**702**	**587,953**

At September 30, 2014, property, plant and equipment included $17.6 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.

On July 16, 2014 the Corporation closed an arrangement with a partner for a portion of lands in the East Edson area of the Corporation's West Central CGU. Net proceeds consisted of $17.0 million of unrestricted cash and $30 million held in escrow to be used to drill, complete and tie-in approximately five wells in the East Edson property prior to December 31, 2015. As at September 30, 2014, the amount held in Perpetual's escrow account was $24.9 million. The Corporation also recognized $9.4 million in deemed proceeds related to the partner's $70 million farm-in investment which is committed to the drilling, completion and tie-in of approximately 14 wells pursuant to a farm-in agreement. The net book value of assets disposed includes $21.7 million property, plant, and equipment and $1.2 million of exploration and evaluation.

In conjunction with the arrangement the Corporation has additional capital commitments totaling $60 million following spending of the $70 million farm-in investment by the partner. This includes $30 million to drill, complete and tie-in approximately six more wells prior to December 31, 2022 and an estimated $30 million for the construction of a new gas plant expected to be completed and operational by the beginning of the third quarter of 2015.

On October 27, 2014, the Corporation announced the signing of a definitive purchase and sale agreement to divest several non-core heavy oil properties in the Birchwavy East CGU for gross proceeds of $21.6 million, excluding certain closing adjustments and transaction costs. A deposit of $3.2 million has been paid to Perpetual, with the remaining disposition proceeds due at closing which is expected to occur on November 7, 2014.

5. EXPLORATION AND EVALUATION

	September 30, 2014	December 31, 2013
Balance, beginning of period	**88,177**	80,494
Additions	**1,233**	5,617
Non-monetary additions	**6,000**	–
Acquisitions	**188**	7,400
Dispositions	**(4,572)**	(1,193)
Non-cash exploration and evaluation expense	**(1,097)**	(2,715)
Transferred to property, plant and equipment	**(1,038)**	(1,426)
Balance, end of period	**88,891**	88,177

During the nine months ended September 30, 2014, $2.5 million (2013 - $3.7 million) in costs were charged directly to exploration and evaluation expense in net income.

6. BANK INDEBTEDNESS

The Corporation's credit facility is with a syndicate of Canadian chartered banks. As part of the lenders' semi-annual review of the borrowing base on May 6, 2014, total availability under the facility was increased to $130 million from $110 million which consists of a demand loan of $115 million and a working capital facility of $15 million. On June 26, 2014, total availability under the credit facility was reduced to $120 million in conjunction with the monetization of the Corporation's gas over bitumen royalty credits (see note 9). On July 23, 2014, in conjunction with the issuance of new senior notes, the Corporation's credit facility was further reduced from $120 million to $100 million to adjust for future interest payments that will be required pursuant to terms of the senior notes (see note 8).

On November 5, 2014, the Corporation's lenders completed their semi-annual review of the borrowing base. Total availability under the facility was increased to $105 million consisting of a demand loan of $90 million and a working capital facility of $15 million. The revolving feature of the facility expires on April 30, 2015 with a 184 day term to maturity should it not be extended. The next semi-annual redetermination of the Corporation's borrowing base will occur on or before April 30, 2015.

The Corporation has covenants that require consolidated debt to twelve month trailing income before interest, taxes, depletion and depreciation and non-cash items ("Consolidated Debt Ratio") to be less than 4.0 to 1.0. 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. The credit facility also contains covenants that require consolidated senior debt to twelve month trailing income before interest, taxes, depletion and depreciation and non-cash items ("Consolidated Senior Debt Ratio") to be less than 3.0 to 1.0. 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 September 30, 2014.

Advances under the credit facility are made in the form of Banker's Acceptances ("BA"), prime rate loans or letters of credit. The Corporation has outstanding letters of credit in the amount of $8.8 million (December 31, 2013 – $5.9 million) and no BA's or prime rate loans outstanding at September 30, 2014. 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.

The credit facility bears interest at its lenders' prime rate or BA rates, plus applicable margins and standby fees. The applicable margins range between 1.25% and 4.25% depending on the form of borrowing and changes in the Corporation's Consolidated Debt Ratio for the most recently completed reporting period.

7. CONVERTIBLE DEBENTURES

On August 25, 2014, the Corporation redeemed all of the outstanding 7.25% Convertible Debentures. Redemption of the total principal amount of $99.9 million and accrued interest of $0.5 million was funded from proceeds on the issuance of new senior notes (see note 8). Interest expense for the period includes a $0.2 million loss on redemption related to unamortized debt issuance costs.

8. SENIOR NOTES

	Maturity date	Principal	Interest rate	September 30, 2014	December 31, 2013
2011 senior notes (1)	March 15, 2018	150,000	8.75%	**148,117**	147,719
2014 senior notes (2)	July 23, 2019	125,000	8.75%	**122,585**	–
		275,000		**270,702**	147,719

(1) Issued March 15, 2011, interest payable semi-annually on September 15 and March 15 of each year.

(2) Issued July 23, 2014, interest payable semi-annually on January 23 and July 23 of each year.

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 Corporation can redeem up to 35 percent of the principal amount of the senior notes at a premium to face value with proceeds from common share offerings up to three years prior to maturity. Within three years of maturity the Corporation can repay the senior notes at a premium to face value based on the date of repayment.

The senior notes have a cross-default provision with the Corporation's credit facility which require the Consolidated Debt Ratio and the Consolidated Senior Debt Ratio to be less than 4.0 to 1.0 and 3.0 to 1.0, respectively (see note 6). The Corporation was in compliance with the lenders' covenants at September 30, 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:

i) To the extent the Corporation's Consolidated Debt Ratio is less than 3.0 to 1.0, the sum of 50 percent of income before interest, taxes, depletion and depreciation and non-cash items 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 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.

At September 30, 2014 the senior notes are presented net of $4.3 million in issue costs which are amortized using a weighted average effective interest rate of 9.2 percent.

9. FINANCIAL OBLIGATION

	September 30, 2014
Balance, beginning of period	–
Additions	**21,254**
Payments	**(1,383)**
Change in fair value of financial obligation	**(176)**
Balance, end of period	**19,695**

On June 26, 2014, the Corporation entered into an agreement whereby the Corporation received cash proceeds of $18.5 million in exchange for an obligation to make a monthly cash payment equivalent to a portion of the Corporation's monthly GOB Royalty Adjustment entitlements until final expiries in June 2021. On August 27, 2014, the Corporation amended the agreement to include additional GOB Royalty Adjustment entitlements for further cash proceeds of $2.8 million. Monthly payments under the arrangement are due on the 25th day following the entitlement month.

At the inception of the arrangement, the estimated future payments were determined using the same formula as the Corporation's monthly GOB Royalty Adjustment entitlements under the Alberta Natural Gas Royalty Regulation based on a January 1, 2014 forecast for the Alberta gas reference price ("base cash payment"). In the event that the actual Alberta gas reference price for a month results in the actual monthly cash payment under the arrangement to differ from the base cash payment, the Corporation is required to (a) pay 65 percent of any increase from the base cash payment, or (b) deduct 100 percent of any decrease from the base cash payment. This financial obligation is a hybrid financial instrument comprising of a debt host with an embedded derivative related to indexation of the future cash payments to changes in the future Alberta gas reference price. The Corporation has designated the financial obligation as a financial liability which is measured at fair value through profit and loss. For the nine months ended September 30, 2014, an unrealized gain of $0.2 million (2013 – nil) is included in finance expense related to the change in fair value of the financial obligation. See note 11 for a description of the valuation methodology used to estimate the fair value of the financial obligation.

Security for the financial obligation is provided by an interest in certain lands of the Corporation and by the Corporation's entitlement to future GOB Royalty Adjustments.

10. COMMODITY AND FOREIGN EXCHANGE CONTRACTS

Realized losses on commodity price derivatives recognized in net income for the nine months ended September 30, 2014 were $12.8 million (2013 – gains of $4.0 million). The realized losses on commodity price derivatives for the nine months ended September 30, 2014, included gains of $0.4 million in respect of the settlement of contracts prior to maturity (2013 – nil).

Natural gas contracts

The following tables provide a summary of derivative natural gas contracts in place at September 30, 2014.

Fixed price natural gas forward arrangements at the AECO trading hub:

Term	Perpetual sold/bought	Volumes at AECO (GJ/d)	Average price ($/GJ)	Type of contract
October 2014	sold	34,014	3.90	Financial
October 2014	bought	(2,500)	3.88	Financial
October 2014	sold	12,775	3.93	Physical
October 2014	bought	(2,500)	3.92	Physical
October 2014 – December 2014	sold	32,500	4.09	Financial
November 2014	sold	5,000	4.06	Financial
November 2014 – December 2014	sold	25,000	4.80	Financial
November 2014 – December 2014	bought	(5,000)	4.57	Financial

Sold natural gas call with monthly expiry over the contract term:

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

Oil contracts

The following tables provide a summary of derivative crude oil contracts in place as at September 30, 2014.

Fixed price oil sales arrangements in US$:

Term	Perpetual sold/bought	Volumes at WTI (bbl/d)	Average price (US$/bbl)	Type of contract
October 2014 – December 2014	sold	250	90.00	Financial

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
October 2014 – December 2014	sold	1,000	(22.63)	Financial
October 2014 – December 2014	sold	1,000	(20.66)	Physical

Costless collar oil sales arrangements which settle in US$:

Term	Volumes at WTI (bbl/d)	Floor price (US$/bbl)	Ceiling price (US$/bbl)	Type of contract
October 2014 – December 2014 (1)	500	90.00	103.15	Asian collar
October 2014 – December 2014	500	85.00	91.10	Collar
October 2014 – December 2014	500	85.00	91.20	Collar

(1) In this collar arrangement Perpetual receives a price of US$93.00 per bbl should the WTI index settle above US$103.15 per bbl in any month during the contract period.

Costless collar oil sales arrangements which settle in Cdn$:

Term	Volumes at WTI (bbl/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

Financial Asian call 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 (1)	sold	500	103.20	Asian call
January 2016 – December 2016 (2)	sold	1,000	104.25	Asian call

(1) In this Asian call arrangement Perpetual receives a price of US$90.00 should the monthly average WTI settle above US$103.20 in any month during the contract period.

(2) In this Asian call arrangement Perpetual receives a price of US$95.40 should the monthly average WTI settle above US$104.25 in any month during the contract period.

Foreign exchange contracts

The following tables provide a summary of the US$ forward sales arrangements entered by the Corporation at September 30, 2014.

Term	Perpetual sold/bought	Notional US$/month	Exchange rate (Cdn$/US$)	Type of contract
October 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 US$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.

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
October 2014 – December 2015 (1)	sold	2,500,000	5,000,000	1.0400	1.1410	Financial

(1) 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. No settlement occurs between the Corporation and the counterparty if the average monthly exchange rate settles between $1.0400 and $1.1410.

11. FINANCIAL INSTRUMENTS

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Realized loss on financial oil contracts	**(1,016)**	(1,934)	**(5,644)**	(2,769)
Realized gain (loss) on financial natural gas contracts	**2**	3,934	**(7,408)**	6,229
Realized gain on forward foreign exchange contracts	**51**	170	**237**	520
Unrealized gain (loss) on financial oil contracts	**8,063**	(2,596)	**3,896**	3,502
Unrealized gain (loss) on physical oil contracts	**(225)**	2,408	**24**	822
Unrealized gain (loss) on financial natural gas contracts	**2,964**	(1,810)	**953**	(623)
Unrealized gain (loss) on physical natural gas contracts	**118**	(71)	**(86)**	(71)
Unrealized gain (loss) on forward foreign exchange contracts	**(2,591)**	215	**(2,195)**	110
Change in fair value of commodity price derivatives	**7,366**	316	**(10,223)**	7,720

Natural gas sensitivity analysis

As at September 30, 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 $1.4 million. The fair value sensitivity is based on published forward AECO prices.

Oil sensitivity analysis

As at September 30, 2014, if future oil prices changed by $5.00 per boe with all other variables held constant, the fair value of commodity price derivatives and after tax net income for the period would have changed by $1.3 million. The fair value sensitivity is 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 observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

The fair value of cash and cash equivalents, restricted cash, 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 the financial obligation is estimated by discounting future cash payments based on the forecasted Alberta gas reference price (see note 9) multiplied by the contracted deemed volume. This fair value measurement is classified as level 3 as significant unobservable inputs, including the discount rate and forecasted Alberta gas reference prices, are used in determination of the carrying amount. The discount rate of 12.2% was determined on inception of the agreement based on the characteristics of the instrument. The forecasted Alberta gas reference prices for the remaining term are based on AECO forward market pricing with adjustments for historical differences between the Alberta reference price and market prices.

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

					Fair value	
As at September 30, 2014	**Gross**	**Netting [(1)]**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Fair value through profit and loss						
Derivatives – current	**2,287**	**(1,392)**	**895**	**–**	**895**	**–**
Derivatives – non-current	**246**	**(246)**	**–**	**–**	**–**	**–**
Financial liabilities						
Financial liabilities at amortized cost						
Senior notes	**270,702**	**–**	**270,702**	**–**	**274,313**	**–**
Convertible debentures	**57,614**	**–**	**57,614**	**60,926**	**–**	**–**
Fair value through profit and loss						
Derivatives – current	**6,310**	**(1,392)**	**4,918**	**–**	**4,918**	**–**
Derivatives – non-current	**2,532**	**(246)**	**2,286**	**–**	**2,286**	**–**
Financial obligation – current	**5,424**	**–**	**5,424**	**–**	**–**	**5,424**
Financial obligation – non-current	**14,271**	**–**	**14,271**	**–**	**–**	**14,271**

(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 and nine months ended September 30, 2014, is comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Interest on senior notes	**5,342**	3,445	**12,121**	10,221
Interest on convertible debentures	**3,556**	3,617	**10,886**	10,798
Interest on bank indebtedness	**717**	999	**3,322**	3,194
Accretion on decommissioning obligations	**1,357**	1,235	**4,041**	3,200
Accretion on GOB obligation	**111**	–	**330**	–
Change in fair value of financial obligation	**(176)**	–	**(176)**	–
Loss on marketable securities	**–**	(420)	**–**	125
Loss on call option	**–**	–	**–**	1,274
	10,907	8,876	**30,524**	28,812

13. SHARES HELD IN TRUST

	September 30, 2014	
	Shares	**Amount**
Balance, beginning of period	**–**	**–**
Shares purchased and held in trust	**417,655**	**702**
Disbursements to employees	**(11,623)**	**(19)**
Balance, end of period	**406,032**	**683**

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.

14. PER SHARE INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
(thousands, except per share amounts)	**2014**	2013	**2014**	2013
Net income (loss) – basic	**36,414**	(6,833)	**21,639**	21,365
Effect of dilutive securities	**–**	–	**–**	–
Net income (loss) – diluted	**36,414**	(6,833)	**21,639**	21,365
Weighted average shares				
Issued common shares	**149,845**	148,382	**149,147**	148,028
Effect of shares held in trust	**(271)**	–	**(190)**	–
Weighted average common shares outstanding – basic	**149,574**	148,382	**148,957**	148,028
Effective of dilutive securities	**10,708**	–	**9,623**	2,075
Weighted average common shares outstanding – diluted	**160,282**	148,382	**158,580**	150,103
Income (loss) per share – basic	**0.24**	(0.05)	**0.15**	0.14
Income (loss) per share – diluted	**0.23**	(0.05)	**0.14**	0.14

In computing per share amounts for the three months ended September 30, 2014, 16.6 million potentially issuable common shares through the convertible debentures (2013 – 21.9 million) were excluded as they had an anti-dilutive effect on calculated per share amounts. In computing per share amounts for the three months ended September 30, 2013, 8.2 million potentially issuable common shares through the share based compensation plans were excluded as the Corporation had a net loss.

In computing per share amounts for the nine months ended September 30, 2014, 20.1 million potentially issuable common shares through the convertible debentures (2013 – 21.9 million) were excluded as they had an anti-dilutive effect on calculated per share amounts.

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, Acquisitions and Divestitures

Linda L. McKean
Vice President, Exploitation

Marcello M. Rapini
Vice President, Marketing

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CONVERTIBLE DEBENTURES | PMT.DB.E

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", "Remainder of 2014" and "2015 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 and operational activities; forecast production and production type; forecast and realized commodity prices; expected funding, the potential redemption of a portion of the outstanding convertible debentures and the timing thereof, 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 9 of this report.

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