PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at	September 30, 2012	December 31, 2011
($CAD thousands, unaudited)		
Assets		
Current assets		
Accounts receivable	**$ 27,724**	$ 34,209
Prepaid expenses and deposits	**3,194**	3,891
Marketable securities	**1,641**	3,282
Derivatives (note 11)	**7,786**	12,604
Assets held for sale (note 3)	**–**	20,325
	40,345	74,311
Derivatives (note 11)	**14**	7,692
Equity-method investment (note 4)	**6,082**	–
Property, plant and equipment (note 5)	**655,314**	827,928
Exploration and evaluation (note 6)	**100,339**	106,763
	761,749	942,383
Total assets	**$ 802,094**	$ 1,016,694
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 35,939**	$ 53,316
Share based payment liability	**182**	664
Convertible debentures	**–**	74,250
Derivatives (note 11)	**2,992**	6,841
Liabilities associated with assets held for sale (note 3)	**–**	4,843
	39,113	139,914
Derivatives (note 11)	**9,697**	10,865
Long term bank debt (note 7)	**81,545**	130,062
Senior notes	**147,041**	146,634
Convertible debentures	**150,965**	149,020
Gas storage obligation	**–**	41,630
Gas over bitumen royalty obligation (note 8)	**47,357**	74,705
Decommissioning obligations (note 9)	**238,143**	242,860
Deferred tax liability (note 4)	**–**	3,753
	674,748	799,529
Total liabilities	**713,861**	939,443
Equity		
Share capital	**1,254,968**	1,254,273
Equity component of convertible debentures	**13,988**	13,988
Contributed surplus	**19,082**	15,496
Deficit	**(1,199,805)**	(1,206,506)
Total equity	**88,233**	77,251
Total liabilities and equity	**$ 802,094**	$ 1,016,694

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

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

	For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011
($CAD thousands, except per share amounts, unaudited)				
Revenue				
Oil and natural gas	**$ 40,028**	$ 58,400	**$ 131,669**	$ 186,397
Royalties	**(2,374)**	(3,968)	**(9,123)**	(16,438)
	37,654	54,432	**122,546**	169,959
Change in fair value of commodity price derivatives (note 11)	**(13,104)**	(3,218)	**21,146**	(4,169)
Gas over bitumen (note 8)	**29,219**	2,391	**30,978**	5,448
	53,769	53,605	**174,670**	171,238
Expenses				
Production and operating	**20,727**	22,462	**62,606**	63,930
Transportation	**1,965**	2,532	**6,076**	8,141
Exploration and evaluation (note 6)	**2,931**	4,775	**6,577**	11,894
General and administrative	**5,613**	6,902	**21,461**	25,852
Gain on dispositions (notes 4 and 5)	**(7,288)**	(2,153)	**(33,354)**	(9,763)
Depletion and depreciation (note 5)	**26,441**	28,696	**81,886**	88,993
	50,389	63,214	**145,252**	189,047
Earnings (loss) from operating activities	**3,380**	(9,609)	**29,418**	(17,809)
Financial items				
Unrealized loss (gain) on gas storage obligation derivative	**–**	1,352	**(3,636)**	2,042
Loss (gain) on marketable securities	**(729)**	1,298	**(479)**	4,056
Unrealized loss on call option (note 4)	**714**	–	**714**	–
Gain on retained investment in former subsidiary (note 4)	**–**	–	**(2,104)**	–
Interest on convertible debentures	**3,561**	5,040	**13,635**	14,932
Interest on senior notes	**3,445**	3,428	**10,260**	7,429
Interest on debt	**1,478**	1,368	**4,118**	4,760
Accretion on decommissioning obligations (note 9)	**1,141**	1,897	**3,759**	5,873
	9,610	14,383	**26,267**	39,092
Share of net loss (earnings) of equity-method investment (note 4)	**(72)**	–	**203**	–
Earnings (loss) before income tax	**(6,158)**	(23,992)	**2,948**	(56,901)
Deferred income tax expense (benefit) (note 4)	**–**	351	**(3,753)**	328
Net earnings (loss) and comprehensive earnings (loss)	**$ (6,158)**	$ (24,343)	**$ 6,701**	$ (57,229)
Earnings (loss) per share (note 12)				
Basic and diluted	**$ (0.04)**	$ (0.17)	**$ 0.05**	$ (0.39)

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

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Changes in Equity

($CAD thousands, unaudited)	Share capital	Equity component of convertible debentures	Contributed surplus	Deficit	Total equity
Balance at January 1, 2012	$ 1,254,273	$ 13,988	$ 15,496	$ (1,206,506)	$ 77,251
Net earnings	–	–	–	6,701	6,701
Common shares issued - Restricted Rights Plan	695	–	(695)	–	–
Share based compensation expense	–	–	3,952	–	3,952
Share based payment liability	–	–	329	–	329
Balance at September 30, 2012	**$ 1,254,968**	**$ 13,988**	**$ 19,082**	**$ (1,199,805)**	**$ 88,233**

($CAD thousands, unaudited)	Share capital	Equity component of convertible debentures	Contributed surplus	Deficit	Total equity
Balance at January 1, 2011	$ 1,257,462	$ 13,988	$ 9,868	$ (1,078,281)	$ 203,037
Net loss	–	–	–	(57,229)	(57,229)
Dividends to shareholders	–	–	–	(28,865)	(28,865)
Common shares issued - Restricted Rights Plan	599	–	(599)	–	–
Common shares issued - Share Option Plan	494	–	(413)	–	81
Normal course issuer bid	(3,955)	–	–	–	(3,955)
Issue fees incurred	(8)	–	–	–	(8)
Share based compensation expense	–	–	4,347	–	4,347
Share based payment liability	–	–	685	–	685
Balance at September 30, 2011	$ 1,254,592	$ 13,988	$ 13,888	$ (1,164,375)	$ 118,093

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

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Cash Flows

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
($CAD thousands, unaudited)				
Cash flows from operating activities				
Net earnings (loss)	**$ (6,158)**	$ (24,343)	**$ 6,701**	$ (57,229)
Adjustments to add (deduct) non-cash items:				
Change in fair value of commodity price derivatives	**21,049**	5,412	**2,647**	6,936
Exploration and evaluation	**1,708**	2,826	**3,775**	6,280
Share based compensation	**417**	668	**3,799**	3,676
Gain on dispositions	**(7,288)**	(2,153)	**(33,354)**	(9,763)
Depletion and depreciation	**26,441**	28,696	**81,886**	88,993
Unrealized loss (gain) on gas storage obligation derivative	**–**	1,352	**(3,636)**	2,042
Loss (gain) on marketable securities	**(729)**	1,298	**(479)**	4,056
Unrealized loss on call option	**714**	–	**714**	–
Gain on retained investment in former subsidiary	**–**	–	**(2,104)**	–
Interest on convertible debentures	**660**	892	**2,620**	2,685
Interest on senior notes	**137**	273	**407**	273
Accretion on decommissioning obligations	**1,141**	1,897	**3,759**	5,873
Share of net loss (earnings) of equity-method investment	**(72)**	–	**203**	–
Deferred income tax expense (benefit)	**–**	351	**(3,753)**	328
Share of dividends from equity-method investment (note 4)	**690**	–	**690**	–
Gas over bitumen royalty obligation adjustments (note 8)	**522**	1,322	**2,194**	3,986
Gas over bitumen royalty obligation adjustments not yet received (note 8)	**(557)**	(2,480)	**(1,061)**	(845)
Gas over bitumen royalty obligation adjustments on dispositions (note 8)	**(28,481)**	–	**(28,481)**	–
Expenditures on decommissioning obligations (note 9)	**(449)**	(2,596)	**(1,608)**	(4,381)
Change in non-cash working capital (note 10)	**(1,022)**	4,358	**(3,695)**	(2,232)
Net cash from operating activities	**8,723**	17,773	**31,224**	50,678
Cash flows from (used in) financing activities				
Change in bank debt	**(3,945)**	9,097	**(49,273)**	(84,542)
Repayment of convertible debentures	**–**	–	**(74,925)**	–
Senior notes issued net of issue fees	**–**	(112)	**–**	146,231
Gas storage arrangement receipt net of issue fees	**–**	–	**–**	9,909
Dividends to shareholders	**–**	(6,631)	**–**	(28,865)
Common shares issued net of issue fees	**–**	(3)	**–**	219
Commons share repurchased	**–**	(1,485)	**–**	(3,955)
Change in non-cash working capital (note 10)	**(6,077)**	516	**(193)**	(4,211)
Net cash from (used in) financing activities	**(10,022)**	1,382	**(124,391)**	34,786
Cash flows from (used in) investing activities				
Acquisitions	**(1,753)**	(5,342)	**(2,604)**	(7,346)
Capital expenditures	**(17,913)**	(40,272)	**(58,249)**	(108,868)
Proceeds on dispositions (notes 4 and 5)	**16,207**	7,049	**160,247**	38,062
Proceeds on sale of marketable securities	**–**	100	**2,120**	100
Change in non-cash working capital (note 10)	**4,758**	19,310	**(8,347)**	(7,412)
Net cash from (used in) investing activities	**1,299**	(19,155)	**93,167**	(85,464)
Change in cash	**–**	–	**–**	–
Cash, beginning of period	**–**	–	**–**	–
Cash, end of period	**$ –**	$ –	**$ –**	$ –
Interest paid	**$ 11,680**	$ 7,934	**$ 29,020**	$ 21,310
Taxes paid	**$ –**	$ –	**$ –**	$ –

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

1. REPORTING ENTITY

Perpetual Energy Inc. ("Perpetual" or the "Corporation") is a corporation domiciled in Canada. The address of the Corporation's registered office is 3200, 605 – 5 Avenue S.W., Calgary, Alberta. The condensed interim consolidated financial statements of the Corporation as at and for the three and nine months ended September 30, 2012 comprise the Corporation and its subsidiaries.

Perpetual is principally engaged in the acquisition, exploration and development of oil and gas properties in Alberta. Historically the Corporation concentrated on conventional shallow gas properties as a basis for stable production. In recent years, the Corporation has broadened its strategy to take advantage of other more diverse energy opportunities which present themselves, including tight gas, light oil and natural gas storage.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These condensed interim consolidated financial statements are unaudited and have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These 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, 2011 which were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These condensed interim consolidated financial statements of the Corporation were approved and authorized for issue by the Board of Directors on November 12, 2012.

b) Immaterial corrections

Subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2011, the Corporation determined that two immaterial errors occurred in its previously issued consolidated financial statements for the year ended December 31, 2011.

The first immaterial error related to the Corporation not recording an accrual for the year ended December 31, 2011 on a short-term discretionary incentive plan for employees which was approved by the Board of Directors and paid in February 2012 prior to release of the annual financial statements. The Corporation determined that the cumulative impact of the immaterial error, was an increase to accounts payable and accrued liabilities of $2.9 million, general and administrative expense of $2.2 million, production and operating expense of $0.7 million, net loss and comprehensive loss of $2.9 million for the three months and the year ended December 31, 2011. Basic and diluted net loss per share increased by $0.02 for the three months and the year ended December 31, 2011.

The second immaterial error related to the Corporation incorrectly recording revenue and related expenses for oil production held in inventory at December 31, 2011. The Corporation determined that the cumulative impact of the immaterial error, was a decrease to accounts receivable of $1.4 million, oil and natural gas revenue of $1.6 million, royalties of $0.1 million, production and operating expenses of $0.1 million and an increase in net loss and comprehensive loss of $1.4 million for the three months and the year ended December 31, 2011. Basic and diluted net loss per share increased by $0.01 for the three months and the year ended December 31, 2011.

The Corporation has concluded that these adjustments were not material to the consolidated financial statements for the three months and year ended December 31, 2011 and reflected them as immaterial corrections of prior period comparative financial information in these condensed interim consolidated financial statements for the nine months ended September 30, 2012.

c) Basis of measurement

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for financial assets or liabilities measured at fair value through profit or loss and liabilities for cash-settled share based payment arrangements measured at fair value.

d) Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation and its subsidiaries.

e) Use of estimates and judgments

The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. The significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011.

f) Significant accounting policies

The accounting policies applied by the Corporation in these condensed interim consolidated financial statements are the same as those applied by the Corporation in its consolidated financial statements as at and for the year ended December 31, 2011 with the exception of the following new policy adopted:

Investment in jointly controlled entity

The Corporation's investment in Warwick Gas Storage Limited Partnership ("WGS LP") is accounted for as an investment in a jointly controlled entity using the equity method of accounting.

On initial recognition of WGS LP as an investment in a jointly controlled entity, any excess of the Corporation's share of the fair value of WGS LP's net assets over the cost of the investment is included as income in the determination of the Corporation's share of WGS LP's profit or losses. The Corporation's share of WGS LP's profits or losses is recognized in net earnings or loss. WGS LP's accounting policies are the same as those of the Corporation. Appropriate adjustments to the Corporation's share of WGS LP profits or losses are also made to account for depreciation of assets based on their fair values at the date of initial recognition. Dividends receivable are recognized as a reduction to the carrying amount of the investment.

When the Corporation's share of losses equals or exceeds the Corporation's carrying amount of the investment, the Corporation does not recognize further losses unless the Corporation has incurred obligations or made payments on behalf of WGS LP.

After application of the equity method, the Corporation determines whether it is necessary to recognize an impairment loss. Any loss recognized is recorded to net earnings or loss.

3. ASSETS HELD FOR SALE

Assets and liabilities held for sale were as follows:

As at	**September 30, 2012**	December 31,2011
Assets held for sale		
Exploration and evaluation (note 6)	–	4,836
Property, plant and equipment (note 5)	–	15,489
	–	20,325
Liabilities associated with assets held for sale		
Decommissioning obligations (note 9)	–	4,843

During the first quarter of 2012, the Corporation closed the dispositions of all assets and associated liabilities presented as held for sale as at December 31, 2011 for net cash proceeds of $23.9 million. The dispositions consisted of multiple non-core oil and natural gas properties located in the Corporation's West Central and Other South Cash Generating Units. In addition, 90 percent of the assets and associated liabilities representing the Corporation's natural gas storage subsidiary, Warwick Gas Storage Inc. ("WGSI") presented as held for sale as at March 31, 2012 were subsequently sold during the second quarter of 2012 (note 4).

4. DISPOSITION OF WARWICK GAS STORAGE LIMITED PARTNERSHIP

During the second quarter of 2012, 100 percent of the WGSI assets and associated liabilities presented as held for sale at March 31, 2012 were transferred to WGS LP. On April 25, 2012, the Corporation disposed of its 90 percent interest in WGS LP and concurrently received an option, exercisable within one year of closing, to repurchase up to a 30 percent additional ownership interest in WGS LP (the "WGS LP Call Option") for cash proceeds of $81.1 million including transaction costs. The exercise price of the WGS LP Call Option is the same as the initial sale price plus adjustments for interest on the exercise price and WGS LP distributions to partners.

The initial fair value of $3.5 million of the WGS LP Call Option was determined using a Black-Scholes option pricing model as of the closing date and was recorded as a current derivative asset in the Corporation's statement of financial position. The option is classified as held for trading and is re-measured to fair value every reporting date with changes recorded to net earnings or loss. As at September 30, 2012, the fair value of the WGS LP Call Option was $2.8 million.

The fair value, net of transaction costs, of the Corporation's 90 percent interest in WGS LP of $84.6 million exceeded the carrying amount of the Corporation's 90 percent interest in WGS LP net assets of $43.8 million resulting in a gain of $40.8 million which is included in the gain on disposition caption in the Corporation's statement of earnings or loss. In addition, the gain on disposition of WGS LP allowed the Corporation to utilize previously unrecognized deferred income tax assets to offset the deferred income tax liability which resulted in the recognition of a deferred income tax benefit of $3.8 million.

The retained 10 percent interest in WGS LP was determined by the Corporation to be an investment in a jointly controlled entity based on the determination that the Corporation contractually has joint control over the economic activities due to the potential voting rights associated with the WGS LP Call Option and a management service agreement whereby the Corporation will continue to provide management and operational services to WGS LP for an annual fee, over an initial two-year term. The Corporation's retained 10 percent interest in WGS LP was re-measured to its fair value as of the sale date of $7.0 million resulting in a gain of $2.1 million to net earnings or loss. WGS LP remains a privately held entity and consequently does not have published price quotations.

On September 28, 2012, WGS LP declared a dividend of $6.9 million of which the Corporation recorded its 10 percent share as a reduction to the investment. Summary financial information for the Corporation's equity-method investment in WGS LP is as follows:

As at	**September 30, 2012**
Current assets	9,212
Non-current assets	83,318
Total assets	92,530
Current liabilities	7,552
Noncurrent liabilities	44,752
Total liabilities	52,304
Net assets	40,226
Corporation's share of net assets	4,023
Excess of fair value of property, plant and equipment over the cost of the investment at April 25, 2012, net	2,059
Equity-method investment	**6,082**

For the period ended[(1)]	**September 30, 2012**
Revenue	8,084
Expenses	(3,533)
Financial items	(6,128)
Net loss	(1,577)
Corporation's share of net loss	(158)
Amortization of excess of fair value of property, plant and equipment over the cost of the investment at April 25, 2012	(45)
Share of net loss of equity-method investment	**(203)**

(1) The beginning of the period is April 25, 2012

5. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas Properties	Corporate Assets	Total
Cost			
January 1, 2011	2,574,768	5,561	2,580,329
Additions	126,112	588	126,700
Change in decommissioning obligation estimates	10,954	–	10,954
Transferred from exploration and evaluation	9,538	–	9,538
Acquisitions	7,098	–	7,098
Dispositions	(28,681)	–	(28,681)
Reclassification to assets held for sale (note 3)	(59,317)	–	(59,317)
December 31, 2011	2,640,472	6,149	2,646,621
Additions	55,423	197	55,620
Change in decommissioning obligation estimates	9,569	–	9,569
Transferred from exploration and evaluation	4,614	–	4,614
Acquisitions	1,113	–	1,113
Dispositions	(219,253)	(83)	(219,336)
September 30, 2012	**2,491,938**	**6,263**	**2,498,201**
Accumulated depletion, depreciation and impairment losses			
January 1, 2011	(1,716,963)	(3,901)	(1,720,864)
Depletion and depreciation	(115,139)	(911)	(116,050)
Impairment losses	(25,607)	–	(25,607)
Reclassification to assets held for sale (note 3)	43,828	–	43,828
December 31, 2011	(1,813,881)	(4,812)	(1,818,693)
Depletion and depreciation	(81,360)	(526)	(81,886)
Dispositions	57,658	34	57,692
September 30, 2012	**(1,837,583)**	**(5,304)**	**(1,842,887)**
Carrying amount			
January 1, 2011	857,805	1,660	859,465
December 31, 2011	826,591	1,337	827,928
September 30, 2012	**654,355**	**959**	**655,314**

At September 30, 2012, property, plant and equipment included $6.3 million (December 31, 2011 - $4.5 million) currently not subject to depletion and $20.2 million (December 31, 2011 - $28.4 million) of costs related to shut-in gas over bitumen reserves which are not being depleted due to the non-producing status of the wells in the affected properties.

During the nine months ended September 30, 2012, the Corporation disposed of non-core oil and natural gas properties for cash proceeds of $79.1 million (September 30, 2011 - $38.1 million) and recorded losses on dispositions totaling $7.3 million (September 30, 2011 – gains of $9.8 million).

6. EXPLORATION AND EVALUATION

Cost	
January 1, 2011	107,474
Additions	25,787
Acquisitions	609
Dispositions	(4,532)
Transferred to property, plant and equipment	(9,538)
Non-cash exploration and evaluation expense	(8,201)
Reclassification to assets held for sale (note 3)	(4,836)
December 31, 2011	106,763
Additions	3,908
Acquisitions	1,294
Dispositions	(3,237)
Transferred to property, plant and equipment	(4,614)
Non-cash exploration and evaluation expense	(3,775)
September 30, 2012	**100,339**

During the nine months ended September 30, 2012, $2.8 million (2011 - $5.6 million) in costs were charged directly to E&E expense in net earnings or loss.

7. BANK DEBT

The Corporation's credit facility is with a syndicate of Canadian chartered banks. The revolving nature of the credit facility expires on April 30, 2013. Upon expiry of the revolving feature of the facility, should it not be extended, amounts outstanding as of the expiry date will have a term to maturity date of one additional year. On April 26, 2012, the Corporation completed its semi-annual review of the borrowing base with its lenders. The borrowing base was reduced from $171.0 million to $140.0 million. On August 30, 2012, the available portion of the borrowing base was further reduced as a result of dispositions of certain non-core oil and natural gas properties from $140.0 million to $130.0 million, consisting of a demand loan of $115.0 million and a working capital facility of $15.0 million. The next redetermination of the Corporation's borrowing base has been extended from October 31, 2012 to November 30, 2012.

The Corporation has covenants that require twelve month trailing earnings before interest, taxes and depletion and depreciation to consolidated debt and consolidated senior debt to be less than 4:0 to 1:0 and 3:0 to 1:0, respectively. Consolidated debt is defined as the sum of the Corporation's period end balance of the credit facility, senior notes and outstanding letters of credit ("consolidated debt"). Consolidated senior debt is defined as the sum of consolidated debt less the period end balance of the senior notes. The Corporation was in compliance with the lenders' covenants at September 30, 2012. In addition to amounts outstanding under the credit facility, the Corporation has outstanding letters of credit in the amount of $6.1 million (December 31, 2011 – $7.7 million). Collateral for the credit facility is provided by a floating-charge debenture covering all existing and acquired property of the Corporation, as well as unconditional full liability guarantees from all subsidiaries in respect of amounts borrowed under the credit facility.

Advances under the credit facility are made in the form of Banker's Acceptances ("BA"), prime rate loans or letters of credit. In the case of BA advances, interest is a function of the BA rate plus a margin based on the Corporation's current ratio of debt to cash flow. In the case of prime rate loans, interest is charged at the lenders' prime rate plus margin. The effective interest rate on outstanding amounts at September 30, 2012 was 5.4 percent (December 31, 2011 – 5.5 percent).

8. GAS OVER BITUMEN ROYALTY OBLIGATION

On October 4, 2004, the Government of Alberta (the "Crown") enacted amendments to the royalty regulation with respect to natural gas whereby the Crown prescribed reductions to the royalties calculated on natural gas wells which have been denied the right to produce by the Alberta Energy and Utilities Board as a result of bitumen conservation decisions. As a result, the Corporation receives gas over bitumen royalty adjustments as a deduction from the Corporation's monthly natural gas Crown royalty invoices. If or when production recommences from zones previously denied the right to produce, the credits would be recovered by the Crown on production from the reinstated pools.

During the third quarter of 2012, the Corporation disposed of certain shut-in gas wells in the gas over bitumen area. As part of the disposition agreement, the Corporation continues to receive the gas over bitumen royalty adjustments although the ownership of the natural gas reserves and responsibility for paying royalties on future production has been transferred to the buyer. As a result of the disposition, the Corporation extinguished $28.5 million of gas over bitumen royalty obligations and reclassified this amount to gas over bitumen revenue. Adjustments received for these wells going forward will be recorded directly to gas over bitumen revenue.

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

January 1, 2011	70,497
Royalty adjustments	4,772
Royalty adjustments not yet received	(564)
December 31, 2011	74,705
Royalty adjustments	2,194
Royalty adjustments not yet received	(1,061)
Royalty adjustments on dispositions	(28,481)
September 30, 2012	**47,357**

9. DECOMMISIONING OBLIGATIONS

The following table reconciles the Corporation's decommissioning obligations:

January 1, 2011	236,163
Obligations acquired	474
Obligations incurred	4,922
Obligations disposed	(9,587)
Change in risk free rate	16,268
Change in estimates	(5,314)
Obligations settled	(2,514)
Accretion	7,291
Reclassification to liabilities associated with assets held for sale (note 3)	(4,843)
December 31, 2011	242,860
Obligations incurred	1,210
Obligations disposed	(17,647)
Change in risk free rate	9,569
Obligations settled	(1,608)
Accretion	3,759
September 30, 2012	**238,143**

On September 30, 2012, the Corporation used an average risk free rate of 2.1 percent (December 31, 2011, 2.6 percent) to calculate the present value of the decommissioning obligations.

10. NON-CASH WORKING CAPITAL INFORMATION

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Accounts receivable	**(19)**	8,578	**4,324**	7,103
Prepaid expenses and deposits	**(679)**	(872)	**617**	861
Accounts payable and accrued liabilities	**(1,643)**	16,486	**(17,176)**	(19,579)
Dividends payable	**–**	(8)	**–**	(2,240)
Change in non-cash working capital[1]	**(2,341)**	24,184	**(12,235)**	(13,855)

(1) Includes working capital balances sold as part of the disposition of the Corporation's controlling interest in WGS LP.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	**2012**	2011
Operating	**(1,022)**	4,358	**(3,695)**	(2,232)
Financing	**(6,077)**	516	**(193)**	(4,211)
Investing	**4,758**	19,310	**(8,347)**	(7,412)
Change in non-cash working capital[1]	**(2,341)**	24,184	**(12,235)**	(13,855)

(1) Includes working capital balances sold as part of the disposition of the Corporation's controlling interest in WGS LP.

11. FINANCIAL RISK MANAGEMENT

The Corporation has exposure to credit risk, liquidity risk and commodity price risk from its use of financial instruments. The Corporation's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2011.

a) Liquidity risk

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

The Corporation repaid the 6.50 percent convertible unsecured subordinated debentures in cash on the maturity date of June 30, 2012 and decreased its outstanding credit facility balance through proceeds on dispositions of non-core oil and gas assets and the disposition of the Corporation's interest in WGS LP for net proceeds of $160.2 million.

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

The following are the contractual maturities of financial liabilities and associated interest payments as at September 30, 2012:

Contractual repayments of financial liabilities	Total	2012	2013	2014-2017	Thereafter
Accounts payable and accrued liabilities	**35,939**	35,939	–	–	–
Derivative liability	**12,689**	2,992	670	9,027	–
Long term bank debt [1]	**81,545**	–	–	81,545	–
Senior notes – principal	**150,000**	–	–	–	150,000
Convertible debentures – principal [2]	**159,972**	–	–	159,972	–
Total	**440,145**	38,931	670	250,544	150,000

(1) The revolving feature of the credit facility expires on April 30, 2013 if not extended. Upon expiry of the revolving feature of the credit facility, should it not be extended, amounts outstanding as of the expiry date will have a term to maturity date of one additional year.

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

b) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by the world economic events that dictate the levels of supply and demand. The Corporation has attempted to mitigate commodity price risk through the use of various financial derivative and physical delivery sales contracts. The Corporation's policy is to enter into financial and forward physical oil and gas sales contracts up to a maximum of 60 percent of the trailing quarter's production including gas over bitumen deemed production, as outlined in the Corporation's Hedging and Risk Management Policy (the "Policy"). For the remainder of 2012 the Policy has been amended to temporarily increase the maximum financial and forward physical oil and gas sales contracts to 75 percent of the trailing quarter's production including gas over bitumen deemed production.

As at September 30, 2012, the Corporation has variable priced physical natural gas sales contracts based on future market prices. These contracts are not classified as non-financial derivatives due to the fact that the settlement price corresponds directly with fluctuations in natural gas prices.

Natural gas contracts

At September 30, 2012, the Corporation had entered into forward gas sales arrangements at AECO as follows:

Type of Contract	Perpetual Sold/Bought	Volumes at AECO (GJ/d)	Price ($/GJ)	Term
Financial	sold	10,000	$2.85	October 2012
Physical	sold	25,000	$2.59	October 2012 – December 2012
Financial [1]	sold	30,000	$3.63	October 2012 – December 2012
Financial [2]	sold	15,250	$3.90	October 2012 – December 2012
Financial	sold	19,000	$2.60	October 2012 – December 2012
Financial [3]	sold	10,000	$3.81	January 2013 – December 2013
Financial	sold	45,000	$3.15	January 2013 – December 2013
Financial	bought	(45,000)	$3.08	January 2013 – December 2013

(1) This derivative transaction is part of paired transactions in which the proceeds from the sale of 2014 oil call options were used to fund the 2012 natural gas contract at the price indicated.

(2) This derivative transaction is part of paired transaction in which the proceeds from the sale of a December 31, 2012 oil swaption were used to fund the 2012 natural gas contract at the price indicated.

(3) This derivative transaction is part of paired transaction in which the proceeds from the sale of a December 31, 2013 oil swaption were used to fund the 2013 natural gas contract at the price indicated.

At September 30, 2012, the Corporation had entered into financial forward gas sales arrangements to fix the basis differential between the NYMEX and AECO trading hubs as follows. The price at which these contracts settle is equal to the NYMEX index less a fixed basis amount.

Type of Contract	Perpetual Sold/Bought	Volumes at NYMEX (MMBTU/d)	Price ($USD/MMBTU)	Term
Financial	sold	62,500	($0.57)	October 2012
Financial	bought	(62,500)	($0.61)	October 2012

Oil contracts

At September 30, 2012, the Corporation had entered into a financial and forward physical oil sales arrangement to fix the basis differential between the WTI and WCS trading hubs as follows. The price at which this contract settles is equal to the WTI index less a fixed basis amount.

Type of Contract	Perpetual Sold/Bought	Volumes at WTI-WCS (bbls/d)	Differential ($USD/bbls)	Term
Financial	sold	400	($17.35)	October 2012 – December 2012
Financial	sold	500	($28.75)	October 2012 – December 2012
Financial	sold	1,100	($24.65)	October 2012 – December 2012

At September 30, 2012 the Corporation had entered into the following costless collar oil sales arrangements:

Type of Contract	Perpetual Sold/Bought	Volumes at WTI (bbls/d)	Price ($USD/bbls)	Term
Call	sold	500	$89.00	October 2012 – December 2012
Put	bought	(500)	$80.00	October 2012 – December 2012
Call	sold	500	$91.00	October 2012 – December 2012
Put	bought	(500)	$82.00	October 2012 – December 2012
Call	sold	500	$97.00	October 2012 – December 2012
Put	bought	(500)	$85.00	October 2012 – December 2012
Call	sold	500	$109.25	October 2012 – December 2012
Put	bought	(500)	$90.00	October 2012 – December 2012
Call	sold	500	$108.75	January 2013 – December 2013
Put	bought	(500)	$95.00	January 2013 – December 2013
Call(1)	sold	500	$118.15	January 2013 – December 2013
Put	bought	(500)	$95.00	January 2013 – December 2013
Call	sold	500	$89.65	January 2013 – December 2013
Put	bought	(500)	$80.00	January 2013 – December 2013
Call	sold	500	$91.10	January 2014 – December 2014
Put	bought	(500)	$85.00	January 2014 – December 2014
Call	sold	500	$91.20	January 2014 – December 2014
Put	bought	(500)	$85.00	January 2014 – December 2014

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

At September 30, 2012, the Corporation had entered into financial call option oil sales arrangements, whereby the Corporation's counterparty has the right to settle specified volumes of oil at specified prices in the future periods. Any subsequent changes in the fair values of the call options are included in change in fair values of commodity derivatives in net earnings or loss.

Type of Contract	Perpetual Sold/Bought	Volumes at WTI (bbls/d)	Price ($USD/bbls)	Term
Financial	sold	1,000	$105.00	January 2013 – December 2013
Financial (1)	sold	1,000	$95.00	January 2013 – December 2013
Financial (2)	sold	1,000	$105.00	January 2014 – December 2014
Financial (2)	sold	1,000	$105.00	January 2014 – December 2014
Financial (3)	sold	1,000	$90.00	January 2014 – December 2014

(1) In 2011, the Corporation entered into a financial oil call swaption, whereby the Corporation's counterparty has the right to exercise the call option on December 31, 2012 or it expires. If exercised, the Corporation will be entered into the contract.

(2) These oil call options are part of paired transactions in which the proceeds from the sale of the call options were used to fund the 2012 natural gas contract price.

(3) In 2012, the Corporation entered into a financial oil call swaption, whereby the Corporation's counterparty has the right to exercise the call option on December 31, 2013 or it expires. If exercised, the Corporation will be entered into the contract.

At September 30, 2012, the Corporation entered into the following fade-in swap agreement:

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

In this arrangement, if the WTI index settles at or above the strike price in any month the Corporation will receive the fade-in price, and if the index settles below the strike price, the Corporation will receive the strike price.

Foreign exchange contracts

At September 30, 2012, the Corporation had entered into the following $USD forward sales arrangements to limit the Corporation's exposure to the effects of strength in the Canadian dollar on natural gas prices.

Type of Contract	Perpetual Sold/Bought	Notional $USD/month	Exchange rate ($CAD/$USD)	Term
Financial	sold	$1,000,000	$1.0019	October 2012 – December 2012
Financial	sold	$1,000,000	$1.0085	October 2012 – December 2012
Financial	sold	$1,000,000	$1.0125	October 2012 – December 2012
Financial	sold	$2,000,000	$1.0535	October 2012 – December 2012
Financial (1)	sold	$1,000,000	$1.0700	January 2013 – December 2013

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

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

	Current	Non Current	Total
January 1, 2011	4,271	3,562	7,833
Unrealized gain on gas storage obligation derivative	–	4,117	4,117
Unrealized gain on natural gas and oil contracts	4,983	531	5,514
Unrealized loss on financial oil call swaption	(4,242)	–	(4,242)
Unrealized loss on oil call options	–	(11,396)	(11,396)
Unrealized gain on power contracts	424	13	437
Unrealized gain on forward foreign exchange contracts	327	–	327
December 31, 2011	5,763	(3,173)	2,590
Unrealized gain on gas storage obligation derivative	–	3,636	3,636
Unrealized gain (loss) on financial natural gas and oil contracts	(5,212)	(484)	(5,696)
Unrealized loss on physical natural gas contracts	(419)	–	(419)
Unrealized gain (loss) on financial oil call swaptions	2,508	(3,845)	(1,337)
Unrealized gain (loss) on oil call options	(417)	5,497	5,080
Unrealized loss on power contracts	(616)	(15)	(631)
Unrealized gain on forward foreign exchange contracts	342	14	356
Fair value of WGS LP Call Option (note 4)	2,820	–	2,820
Gas storage derivative disposed (note 4)	–	(11,313)	(11,313)
Power contracts disposed (note 4)	25	–	25
September 30, 2012	**4,794**	**(9,683)**	**(4,889)**

	Current	Non Current	Total
Assets	7,786	14	7,800
Liabilities	(2,992)	(9,697)	(12,689)
September 30, 2012	**4,794**	**(9,683)**	**(4,889)**

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Realized gain on natural gas and oil contracts	**7,477**	2,194	**22,718**	2,768
Realized gain on forward foreign exchange contracts	**468**	–	**1,075**	–
Unrealized loss on natural gas and oil contracts	**(16,031)**	(2,811)	**(5,696)**	(821)
Unrealized loss on financial oil call swaption	**(4,000)**	–	**(1,337)**	–
Unrealized gain (loss) on physical natural gas contracts	**(1,270)**	65	**(419)**	(3,655)
Unrealized gain (loss) on oil call options	**(254)**	–	**5,080**	–
Unrealized gain (loss) on power contracts	**–**	262	**(631)**	467
Unrealized gain (loss) on forward foreign exchange contracts	**506**	(2,928)	**356**	(2,928)
	(13,104)	(3,218)	**21,146**	(4,169)

Natural gas sensitivity analysis

As at September 30, 2012, if future natural gas prices changed by $0.25 per GJ for AECO contracts and $0.25 per MMBTU for NYMEX contracts, with all other variables held constant, the fair value of commodity price derivatives and after tax net earnings for the period would have changed by $2.2 million. Fair value sensitivity was based on published forward AECO and NYMEX prices. Gains and losses on NYMEX contracts were calculated based on the $USD foreign exchange rate as at September 30, 2012.

12. PER SHARE INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
(Thousands, except per share amounts)				
Net earnings (loss) – basic	**(6,158)**	(24,343)	**6,701**	(57,229)
Effect of dilutive securities	**–**	–	**–**	–
Net earnings (loss) – diluted	**(6,158)**	(24,343)	**6,701**	(57,229)
Weighted average common shares outstanding – basic	**147,123**	147,408	**147,052**	147,960
Effect of dilutive securities	**–**	–	**1,696**	–
Weighted average common shares outstanding – diluted	**147,123**	147,408	**148,748**	147,960
Earnings (loss) per share				
Basic	**(0.04)**	(0.17)	**0.05**	(0.39)
Diluted	**(0.04)**	(0.17)	**0.05**	(0.39)

13. SHARE OPTION PLAN

The following table summarizes information about share options outstanding as at and for the nine months ended September 30:

Period of grant	**2012**	2011
Dividend yield (%)	**0.0**	0.0 – 5.9
Forfeiture rate (%)	**8.0**	2.6 – 8.0
Expected volatility (%)	**44.1 – 50.8**	41.2 – 50.6
Risk-free interest rate (%)	**1.0 – 1.5**	0.9 – 2.2
Expected life (years)	**2.5 – 3.5**	2.5 – 4.5
Vesting period (years)	**3.0**	3.0 – 4.0
Contractual life (years)	**4.0**	4.0 – 5.0
Weighted average grant date fair value	**$ 0.30**	$ 0.58

	Average exercise price	Share options
December 31, 2010	4.55	12,075,300
Granted	2.14	2,858,300
Forfeited	4.62	(2,381,375)
Exercised	2.09	(255,125)
December 31, 2011	4.00	12,297,100
Granted	0.95	6,857,500
Forfeited	5.25	(2,786,250)
Cancelled	4.12	(5,652,300)
September 30, 2012	**1.66**	**10,716,050**