PERPETUAL ENERGY INC.

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, 2012 as well as information and estimates concerning the Corporation's future outlook based on currently available information. This discussion should be read in conjunction with the Corporation's condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2012 and 2011 as well as the audited consolidated financial statements and accompanying notes and MD&A of the Corporation for the years ended December 31, 2011 and 2010. The Corporation's audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("GAAP"). Readers are referred to the advisories regarding forecasts, assumptions and other forward-looking information contained in the "Forward Looking Information" section of this MD&A. The date of this MD&A is November 12, 2012.

Mcf equivalent ("Mcfe") and barrel of oil equivalent ("BOE") may be misleading, particularly if used in isolation. In accordance with National Instrument 51-101 ("NI 51-101"), a conversion ratio for oil of 1 bbl: 6 Mcf has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead. For natural gas, gigajoules ("GJ") are converted to Mcf at a conversion ratio of 1.0546 GJ: 1 Mcf.

CORPORATE OVERVIEW

Perpetual is an oil and natural gas exploration and production company headquartered in Calgary, Alberta. Building from its legacy shallow gas asset base in eastern Alberta, the Corporation has successfully transitioned its asset base from primarily shallow gas production to a diversified, resource-style platform for growth. Perpetual currently has liquids-rich natural gas assets in the Deep Basin of west central Alberta, heavy oil production in eastern Alberta, oil sands leases in northern Alberta and an interest in a natural gas storage business to complement its shallow gas production and resource base.

The Corporation's top priorities for 2012 include:

1. Profitable capital investment in two chosen proven diversifying growth strategies to increase oil and natural gas liquids ("NGL") production;
2. Debt reduction;
3. Advance assessment and grow value of other large scope, high impact resource opportunities with risk-managed investment; and
4. Manage downside risks related to commodity price volatility.

THIRD QUARTER SUMMARY

Successful execution of a purposeful asset base transformation and commodity diversification strategy has positioned the Corporation to manage commodity price volatility. Significant progress has been made with respect to the Corporation's top priorities and is described in further detail throughout this MD&A.

Operational highlights for the third quarter of 2012 include:

- The Corporation executed a $17.9 million capital program focused on heavy oil exploration and development in the Mannville area of eastern Alberta. Operational results continue to be positive, and development activity in this area will continue in the fourth quarter and throughout 2013.

- Oil and NGL production increased by 67 percent from the third quarter of 2011 to 3,336 bbl/d, representing 18 percent of total production as compared to nine percent in the same period in 2011.

- Perpetual further enhanced financial flexibility with the disposition of non-core oil and gas properties for $16.2 million during the period, reducing net debt by $7.0 million for the quarter. Net debt decreased by $132.0 million in the first nine months of the year to $394.9 million at September 30, 2012.

- Realized gains on derivatives totaled $7.9 million for the three-month period, primarily from natural gas price risk management contracts. Perpetual had an average of 99,250 GJ/d of natural gas sales hedged for the third quarter at an average price of $3.13/GJ, and has 92,600 GJ/d of natural gas sales hedged for the fourth quarter of 2012 at $3.15/GJ.

NON-GAAP MEASURES

Funds flow

Management uses cash flow from operating activities before changes in non-cash working capital, gas over bitumen royalty adjustments not yet received, settlement of decommissioning obligations and certain exploration costs ("funds flow"), funds flow per common share, annualized funds flow and trailing four quarters funds flow to analyze operating performance and leverage. Funds flow as presented does not have any standardized meaning prescribed by GAAP and therefore it may not be comparable to the calculation of similar measures for other entities. Funds flow as presented is not intended to represent operating profits for the period nor should it be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP.

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

Funds flow GAAP reconciliation	Three months ended September 30		Nine months ended September 30	
($ thousands except per common share amounts)	**2012**	2011	**2012**	2011
Cash flow provided by operating activities	**8,723**	17,773	**31,224**	50,678
Exploration costs [1]	**9**	827	**341**	2,957
Expenditures on decommissioning obligations	**449**	2,596	**1,608**	4,381
Gas over bitumen royalty obligation adjustments not yet received	**557**	2,480	**1,061**	845
Changes in non-cash operating working capital	**1,022**	(4,358)	**3,695**	2,232
Funds flow	**10,760**	19,318	**37,929**	61,093
Funds flow per common share	**0.07**	0.13	**0.26**	0.41

[1] Certain exploration costs are added back to funds flow in order to be more comparable to other corporations that capitalize some of these costs. Exploration costs that are added back to funds flow include seismic expenditures and dry hole costs and are considered by Perpetual to be more closely related to investing activities than operating activities.

Additional non-GAAP measures are discussed elsewhere in this MD&A.

OPERATIONS

Capital expenditures

Capital expenditures ($ thousands)	Three months ended September 30 **2012**	2011	Nine months ended September 30 **2012**	2011
Exploration and development [1]	**17,922**	38,562	**58,539**	100,945
Gas storage	**-**	2,537	**51**	10,880
Acquisitions	**1,709**	5,053	**2,407**	6,855
Dispositions	**(16,207)**	(7,049)	**(160,247)**	(38,062)
Other	**44**	289	**197**	491
Total	**3,468**	39,392	**(99,053)**	81,109

[1] Exploration and development expenditures for the three and nine months ended September 30, 2012 include approximately nil and $0.3 million in exploration costs (three and nine months ended September 30, 2011 - $0.8 million and $3.0 million, respectively) which have been expensed directly on the Corporation's statement of earnings (loss). Exploration costs including seismic expenditures and dry hole costs are considered by Perpetual to be more closely related to investing activities than operating activities, and therefore they are included with capital expenditures.

Exploration, development and land expenditures decreased to $17.9 million and $58.5 million for the three and nine months ended September 30, 2012 from $38.6 million and $100.9 million for the comparative periods in 2011. Exploration and development expenditures have decreased in 2012 from the prior year as the Corporation has redirected available cash to the repayment of convertible debentures and overall debt reduction. Capital spending in the current quarter was primarily directed towards heavy oil production at Mannville and Wilrich liquids-rich natural gas development at Edson.

Conventional heavy oil

In the Mannville area of east central Alberta, Perpetual has focused on exploration and development of cretaceous-aged conventional heavy oil pools geographically synergistic with the Corporation's shallow gas assets. Through Perpetual's extensive database of 2D and 3D seismic and low exposure exploration drilling, six Lloyd formation pools, four Sparky pools and one Basal Quartz pool have been identified and development is ongoing at an initial horizontal well spacing

of 400 meters and 200 meters, with a two well trial at 100 meters. Perpetual drilled 12 horizontal oil wells (11.3 net) in the third quarter of 2012 and ten of those wells are currently on production, with two new pool wells still being evaluated.

Edson Wilrich

During the three months ended September 30, 2012, Perpetual spent $2.5 million to complete two (2.0 net) Wilrich natural gas wells (1 vertical and 1 horizontal) drilled in late 2011 and the first quarter of 2012. The Corporation's fourth quarter capital spending program will be focused on continued development at Edson and West Edson, with plans to drill up to four (2.5 net) Wilrich gas wells and tie-in the horizontal well completed in the current quarter.

Elmworth

Perpetual has a 50 percent working interest in 78 sections of Montney liquids-rich natural gas-prone lands at Elmworth in west central Alberta. During the third quarter of 2012 the Corporation participated in one vertical drill (0.5 net) to evaluate the Wapiti block, situated to the southwest of Perpetual's most prospective Elmworth Montney acreage, spending $0.9 million. The drilling operation was complete in October 2012 at a total cost of $1.8 million net to Perpetual.

Dispositions

Net cash proceeds from dispositions increased to $16.2 million for the three months ended September 30, 2012 from $7.0 million for the third quarter in 2011. Dispositions for the current period include non-core natural gas assets in northeast Alberta and a portion of an operated heavy oil pool in the Mannville area for total gains on sale of $7.3 million. The assets disposed in northeast Alberta included wells for which Perpetual receives monthly gas over bitumen royalty adjustments (see "Gas over bitumen royalty adjustments" in this MD&A). As part of the sale agreement Perpetual will continue to receive the royalty adjustments going forward. The heavy oil disposition effectively positioned the Corporation with a technical and financial partner in the Sparky Upper Mannville I2I pool in order to accelerate the implementation of an enhanced oil recovery scheme. Perpetual is currently pursuing technical modeling and preparing the regulatory applications required to initiate a secondary recovery project. The Corporation expects results from this pool will lead to a better understanding of the recoverable oil reserve and value potential of multiple other heavy oil pools in the Mannville region. These dispositions resulted in the sale of 2.0 MMcf/d of natural gas and 150 bbl/d of oil production.

Dispositions of $160.2 million for the nine months ended September 30, 2012 include certain natural gas and oil properties in the West Central and Eastern Districts, as well as a 90 percent interest in the Corporation's natural gas storage business. In 2012, the assets and liabilities associated with the business were transferred to Warwick Gas Storage Limited Partnership ("WGS LP"). On April 25, 2012, the Corporation disposed of a 90 percent interest in WGS LP for cash proceeds of $81.1 million, recording a gain on sale of $40.8 million. As part of the sale Perpetual retained an option, exercisable within one year of closing, to buy back from the purchaser up to a 30 percent additional ownership interest in WGS LP at the same price as the initial sale plus imputed annual interest of 12.5 percent and working capital adjustments, less any dividends paid, for a final ownership interest post any exercise of the buy-back option of up to 40 percent ("WGS Call Option"). The fair value of the WGS Call Option was determined using a Black-Scholes option pricing model as of the closing date and recorded as a current derivative asset of $3.5 million 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 (loss). The change in fair value for the current three-month period resulted in a loss on call option of $0.7 million. In addition, Perpetual has entered into a Management Services and Operations Agreement pursuant to which Perpetual will continue to provide management and operational services to WGS LP for an annual fee, over an initial two-year term.

Perpetual's investment in 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 Perpetual's share of WGS LP's earnings or losses. The Corporation's share of WGS LP's profits or losses is recognized in net earnings or loss. 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.

During the three months ended September 30, 2012 Perpetual included dividends of $0.7 million from WGS LP in cash flows from operating activities and funds flow.

Production

Production by core area and commodity	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Gas (MMcf/d)				
Eastern district	**76.8**	98.8	**82.7**	104.8
West Central district	**16.9**	24.7	**21.4**	26.5
Total (MMcf/d)	**93.7**	123.5	**104.1**	131.3
Oil & NGL (bbl/d)				
Eastern district	**2,625**	718	**2,490**	501
West Central district	**711**	1,277	**928**	1,302
Total (bbl/d)	**3,336**	1,995	**3,418**	1,803
Total (MMcfe/d)				
Eastern district	**92.6**	103.2	**97.7**	107.8
West Central district	**21.1**	32.3	**27.0**	34.3
Total (MMcfe/d)	**113.7**	135.5	**124.7**	142.1
Deemed natural gas production (MMcf/d)	**26.0**	29.8	**27.0**	26.1
Total actual plus deemed production (MMcfe/d)	**139.7**	165.3	**151.7**	168.2

Natural gas production volumes decreased 24 percent to 93.7 MMcf/d for the three months ended September 30, 2012 from 123.5 MMcf/d for the third quarter of 2011 and decreased 21 percent for the nine month period, primarily due to property dispositions combined with the preferential allocation of capital to heavy oil production over the past year, which allowed natural gas production to decline in favor of bringing higher priced heavy oil onstream. Approximately 4.2 MMcfe/d of oil and natural gas production was lost during the quarter due to voluntary shut-ins at higher operating cost fields and a facility turnaround in west central Alberta.

Oil and NGL production volumes increased 67 percent from the third quarter of 2011 and 90 percent on a year-to-date basis due primarily to successful ongoing development of the Corporation's heavy oil pools at Mannville, partially offset by a reduction in NGL volumes related to property dispositions in the West Central district in the first quarter and the facility turnaround at Edson. Heavy oil production in the Mannville area has been maintained at over 2,600 bbl/d for two consecutive quarters, despite the sale of 150 bbl/d of production in August 2012.

Total actual and deemed production decreased 15 percent to 139.7 MMcfe/d for the three months ended September 30, 2012 from 165.3 MMcfe/d for the comparative quarter in 2011, as reduced natural gas production from property dispositions combined with natural declines were partially offset by increasing liquids production. On a year-to-date basis total actual and deemed production decreased ten percent in 2012 compared to 2011. The properties disposed of in the first nine months of 2012 were producing approximately 10.9 MMcf/d of natural gas and 735 bbl/d of oil and NGL at the dates of disposition.

MARKETING

Commodity prices	Three months ended September 30 2012	2011	Nine months ended September 30 2012	2011
Reference prices				
AECO Monthly Index ($/Mcf)	**2.19**	3.72	**2.18**	3.74
AECO Daily Index ($/Mcf)	**2.28**	3.66	**2.12**	3.77
Alberta Gas Reference Price ($/Mcf) [1]	**2.11**	3.51	**2.05**	3.55
West Texas Intermediate ("WTI") light oil (US$/bbl)	**92.22**	91.89	**96.21**	95.39
Average Perpetual prices				
Natural gas				
Before derivatives ($/Mcf) [2]	**2.36**	3.56	**2.33**	3.91
Percent of AECO Monthly Index (%)	**108**	96	**107**	104
Including derivatives ("realized" gas price) ($/Mcf)	**3.44**	3.75	**3.28**	3.98
Percent of AECO Monthly Index (%)	**157**	101	**150**	106
Oil and NGL				
Before derivatives ($/bbl)	**64.24**	70.15	**65.04**	71.28
Including derivatives ("realized" price) ($/bbl)	**59.63**	70.15	**61.64**	71.28
Natural gas equivalent				
Average realized price ($/Mcfe)	**4.58**	4.46	**4.43**	4.58

(1) Alberta Gas Reference Price is the price used to calculate Alberta Crown royalties. Alberta Gas Reference Price for September 2012 is an estimate.

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

AECO Monthly Index prices decreased 41 percent to $2.19 per Mcf from $3.72 per Mcf for the three months ended September 30, 2011. North American natural gas prices have been under continued pressure in 2012 due to strong supply from shale gas plays in the United States combined with unseasonably high natural gas storage levels after an exceptionally warm winter heating season. In the third quarter, the trend of decreasing AECO Monthly Index prices began to reverse as a result of relatively hot weather and strong summer cooling demand across the continent. In addition, low natural gas prices have favored natural gas to fuel power generation driving significant coal-to-gas switching in recent months. Perpetual's natural gas price before derivatives decreased 34 percent to $2.36 per Mcf for the three months ended September 30, 2012 from $3.56 per Mcf for the prior period. Perpetual's gas price before derivatives was eight percent higher than the AECO Monthly Index price for the current quarter as the Corporation benefited from a physical natural gas delivery contract for 25,000 GJ/d at a price of $2.59 per GJ ($2.73 per Mcf).

Perpetual's realized gas prices decreased to $3.44 per Mcf and $3.28 per Mcf, respectively for the third quarter and first nine months of 2012 (2011 - $3.75 per Mcf and $3.98 per Mcf) due to lower AECO prices which averaged $2.19 per Mcf and $2.18 per Mcf for the three and nine month periods respectively (2011 - $3.72 per Mcf and $3.74 per Mcf). The impact of lower gas prices was largely offset by realized gains on derivatives of $9.4 million and $27.0 million respectively.

Perpetual's oil and NGL price before derivatives decreased eight percent for the current quarter as compared to the same quarter in 2011 due to heavy oil comprising an increasing portion of the Corporation's liquids production and a wider heavy oil to WTI price differential ("WTI-WCS differential") in the 2012 period. Perpetual's realized oil and NGL price decreased to $59.63 per bbl for the three months ended September 30, 2012 as a result of wider heavy oil differentials, lower NGL prices and losses of $1.4 million on financial WTI contracts.

Perpetual realized a modest increase in commodity prices on a natural gas equivalent basis to $4.58 per Mcfe for the third quarter of 2012 as compared to $4.46 per Mcfe in the same period in 2011. This demonstrates that the Corporation's risk management and commodity diversification strategies are partially mitigating the negative impacts of reduced commodity prices as the percentage of higher priced oil and NGL production in Perpetual's production mix has grown.

The Corporation has entered into an agreement to deliver 1,000 bbl/d of heavy oil directly to a third party terminal for shipment by railcar, starting on October 1, 2012. Perpetual estimates this sales contract will add approximately $4 per bbl to the Corporation's heavy oil netback for the related volumes.

Risk management

Perpetual's risk management strategy is focused on using derivatives to mitigate the effect of commodity price volatility on funds flow, to lock in economics on capital programs and acquisitions and to take advantage of perceived anomalies in commodity markets. The Corporation uses both financial arrangements and physical forward sales to economically hedge up to a maximum of 60 percent of the trailing quarter's production including gas over bitumen deemed volumes in accordance with the limits under the Corporation's bank credit facility and Hedging and Risk Management Policy. The economic hedging limits were temporarily increased to 75 percent for 2012 as a result of persistent weakness in natural gas prices, and the increasing importance of oil prices to the Corporation's funds flows. Perpetual will also enter into foreign exchange swaps and physical or financial swaps related to the differential between natural gas prices at the AECO and NYMEX trading hubs in order to mitigate the effects of fluctuations in foreign exchange rates and basis differentials on the Corporation's realized gas price. The term "derivatives" includes all financial and physical risk management contracts. Although Perpetual considers the majority of these risk management contracts to be effective economic hedges against potential gas price volatility, the Corporation does not follow hedge accounting for its derivatives.

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

Financial and physical forward sales contracts as of September 30, 2012 are disclosed in note 11 to the Corporation's condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2012. Subsequent to the reporting date, the Corporation entered into contracts to offset 64,250 GJ/d of fixed-price sales contracts for November and December 2012 with purchases at an average price of $3.24 per GJ, crystallizing a gain of $0.6 million. Financial and physical forward sales arrangements (net of related financial and physical fixed-price natural gas purchase contracts) at the AECO trading hub as at November 9, 2012 are as follows:

Type of contract	Term	Volumes at AECO (GJ/d)(1)	Price ($/GJ)(1)	Futures market ($/GJ)(3)	% of 2012 gas production(2)
Financial – AECO	October 2012	74,250	3.32	2.34	54
Physical - AECO	October - December 2012	25,000	2.59	2.85	18
Financial - AECO	January - December 2013	12,500	3.74	3.19	9

(1) Average price calculated using weighted average price for net open sell contracts.
(2) Calculated using estimated 2012 gas production of 136,500 GJ/d including gas over bitumen deemed production.
(3) Futures market price incorporates settled AECO Monthly Index prices for October and November 2012 and forward AECO prices as of November 9, 2012.

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

Type of contract	Term	Volumes at WTI (bbl/d)	Floor price ($US/bbl)[1]	Ceiling price ($US/bbl)[1]	Futures market ($US/bbl)[3]	% of 2012 oil production[2]
Collar	October – December 2012	500	82.00	91.00		14
Collar	October – December 2012	500	80.00	89.00		14
Collar	October – December 2012	500	85.00	97.00		14
Collar	October – December 2012	500	90.00	109.25		14
Period total	October – December 2012	2,000	84.25	96.56	87.23	56
Collar	January – December 2013	500	95.00	108.75		14
Collar	January – December 2013	500	80.00	89.65		14
Collar [5]	January – December 2013	500	82.00	90.25		14
Collar [4]	January – December 2013	500	95.00	118.15		14
Period total	January – December 2013	2,000	88.00	101.70	88.98	56
Collar	January – December 2014	500	85.00	91.10		14
Collar	January – December 2014	500	85.00	91.20		14
Period total	January – December 2014	1,000	85.00	91.15	89.60	28

(1) Average price calculated using weighted average price for net open contracts.
(2) Calculated using estimated 2012 oil and NGL production of 3,500 bbl/d.
(3) Futures market price incorporates settled and forward WTI oil prices as of November 9, 2012.
(4) In this collar arrangement Perpetual received a ceiling price above the market price for such collars, and in exchange should the WTI index settle above $US118.15 per bbl in any month during the contract period Perpetual will receive a price of $US100.00 per bbl.
(5) In this collar arrangement, if the WTI index settles at or above $US82.00 per bbl in any month Perpetual will receive $US90.25 per bbl, and if the index settles below $US82.00 per bbl Perpetual will receive $US82.00 per bbl.

The Corporation has also entered into financial and forward physical oil sales arrangements 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 (bbls/d)	WTI-WCS Differential ($US/bbls)	Term
Financial	sold	2,000	($24.21)	October 2012 – December 2012
Financial	sold	500	($19.50)	January – December 2013

In addition, the Corporation has sold oil call options exercisable and expiring as follows.

Type of contract	Term	Expiry date	Volumes at WTI (bbl/d)	Call price ($US/bbl WTI)	Futures market ($US/bbl WTI) [1]
Call	January - December 2013	Dec 31, 2012	1,000	95.00	88.98
Call	January - December 2013	Monthly 2013	1,000	105.00	88.98
Call	January – December 2014	Dec 31, 2013	1,000	90.00	89.60
Call	January - December 2014	Monthly 2014	2,000	105.00	89.60

(1) Futures market price incorporates forward WTI oil prices as of November 9, 2012.

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

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

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

FINANCIAL RESULTS

Funds flow

	Three months ended September 30				Nine months ended September 30			
		2012		2011		**2012**		2011
Funds flow reconciliation	**$ millions**	**$/Mcfe**	$ millions	$/Mcfe	**$ millions**	**$/Mcfe**	$ millions	$/Mcfe
Production (Bcfe)	**10.5**		12.4		**34.2**		38.8	
Revenue [1]	**48.0**	**4.58**	60.6	4.87	**155.4**	**4.55**	189.2	4.88
Royalties	**(2.4)**	**(0.23)**	(4.0)	(0.32)	**(9.1)**	**(0.27)**	(16.4)	(0.42)
Operating costs	**(20.7)**	**(1.98)**	(22.5)	(1.81)	**(62.6)**	**(1.83)**	(64.0)	(1.65)
Transportation	**(2.0)**	**(0.19)**	(2.5)	(0.20)	**(6.1)**	**(0.18)**	(8.1)	(0.21)
Operating netback [3]	**22.9**	**2.18**	31.6	2.53	**77.6**	**2.27**	100.7	2.60
Gas over bitumen royalty adjustments	**1.3**	**0.12**	3.7	0.30	**4.7**	**0.14**	9.4	0.24
Exploration [2]	**(1.2)**	**(0.12)**	(1.1)	(0.09)	**(2.5)**	**(0.07)**	(2.7)	(0.07)
General and administrative [2]	**(5.2)**	**(0.50)**	(6.2)	(0.50)	**(17.7)**	**(0.52)**	(22.2)	(0.57)
Dividends from WGS LP	**0.7**	**0.07**	-	-	**0.7**	**0.02**	-	-
Interest on bank debt	**(1.5)**	**(0.14)**	(1.4)	(0.11)	**(4.1)**	**(0.12)**	(4.8)	(0.12)
Interest on Senior Notes	**(3.3)**	**(0.32)**	(3.2)	(0.25)	**(9.8)**	**(0.29)**	(7.1)	(0.18)
Interest on convertible debentures [2]	**(2.9)**	**(0.28)**	(4.1)	(0.33)	**(11.0)**	**(0.32)**	(12.2)	(0.32)
Funds flow [2] [3]	**10.8**	**1.01**	19.3	1.56	**37.9**	**1.11**	61.1	1.58

(1) Revenue includes realized gains and losses on derivatives and gas storage revenue.
(2) Excludes non-cash items.
(3) This is a non-GAAP measure; see "Other non-GAAP measures" in this MD&A.

Revenue

Revenue ($ thousands)	Three months ended September 30 **2012**	2011	Nine months ended September 30 **2012**	2011
Natural gas revenue before derivatives [1]	**20,315**	40,446	**66,494**	140,017
Oil and NGL revenue before derivatives	**19,713**	12,880	**60,915**	35,122
Gas storage revenue [3]	**-**	5,074	**4,260**	11,258
Realized gains (losses) on derivatives [2]	**7,945**	2,194	**23,793**	2,768
Total revenue	**47,973**	60,594	**155,462**	189,165

(1) Includes revenues related to physical forward sales contracts which settled during the period.
(2) Realized gains (losses) on financial instruments include settled financial forward contracts and options.
(3) 90 percent of WGS LP was sold effective April 25, 2012, and as such Perpetual no longer accounts for WGS LP activities on a consolidated basis. Gas storage revenues subsequent to the sale date are not included with Perpetual's revenues. Dividends from WGS LP are recorded as operating cash flows in the period declared.

Natural gas revenue before derivatives decreased 50 percent to $20.3 million for the three months ended September 30, 2012 from $40.4 million for the comparative quarter in 2011, due to a 34 percent decrease in natural gas prices before derivatives and lower production levels. Oil and NGL revenue increased by $6.8 million or 53 percent over the prior period as a result of a 67 percent increase in production levels, partially offset by lower prices caused by widening WTI-WCS oil differentials. Gas storage revenue decreased from $5.1 million and $11.3 million for the three and nine months ended September 30, 2011 to nil and $4.3 million for the 2012 periods as 90 percent of the gas storage business was sold effective April 25, 2012.

Total revenue decreased 21 percent to $48.0 million for the three months ended September 30, 2012 from $60.6 million for the third quarter of 2012 primarily due to lower natural gas revenue, partially offset by higher oil and NGL revenues and a $5.8 million increase in realized gains on derivatives related to the Corporation's gas price management program.

Perpetual also recorded an unrealized loss on derivatives of $21.0 million for the three months ended September 30, 2012, related to the change in mark to market value of derivatives contracts, compared to an unrealized loss of $5.4 million for the 2011 quarter.

Royalties

Royalty expense decreased to $2.4 million for the three months ended September 30, 2012 from $4.0 million for the third quarter of 2011 due to lower oil and gas revenues. For the first nine months of 2012 royalty expense decreased $7.3 million from 2011, as previous year royalties were affected by negative gas cost allowance adjustments totaling $4.5 million. Perpetual's average royalty rate on oil and natural gas revenues before derivatives decreased to 6.0 percent for the three months ended September 30, 2012 from 7.4 percent for the comparative quarter in 2011. Perpetual's royalty rate has decreased over the past two years as natural gas prices decreased to lower levels on the price-adjusted sliding scale used for provincial royalty calculations. Further, the Alberta government has implemented a five percent crown royalty rate on all new wells drilled in Alberta for the first 12 months of production, up to a maximum of 500,000 Mcf of natural gas or 50,000 bbls of oil. As heavy oil wells drilled in Mannville in 2011 produce beyond the first year the Corporation expects its average royalty rate to gradually increase in future periods.

Production and operating costs

Total production and operating costs decreased to $20.7 million for the third quarter of 2012 from $22.5 million for the same period in 2011, due primarily to reduced labour costs and dispositions, including the disposition of 90 percent of WGS LP effective April 25, 2012, partially offset by higher well suspension costs. Unit operating costs increased to $1.98 per Mcfe and $1.83 per Mcfe for the three and nine months ended September 30, 2012 from $1.81 per Mcfe and $1.65 per Mcfe for comparative periods in 2011 due to reduced natural gas production volumes, and higher costs associated with increasing heavy oil production in the Eastern district.

Transportation costs

Transportation costs decreased to $2.0 million and $6.1 million respectively for the three and nine month periods ended September 30, 2012 from $2.5 million and $8.1 million for the comparative periods in 2011 due to lower natural gas production levels. Transportation costs on oil volumes are included in the net price received for the product depending on the sales point at which custody of the product is transferred to the buyer, and as such are included as a reduction to revenues.

Operating netback

Perpetual's operating netback decreased by $8.7 million to $22.9 million for the three months ended September 30, 2012 from $31.6 million for the same period in 2011 due primarily to a decrease in natural gas prices and production, partially offset by increased oil and NGL production, lower operating and transportation costs and realized gains on derivatives.#

Operating netback [1] reconciliation	($ millions)
Natural gas price decrease	(10.4)
Natural gas production decrease	(9.7)
Oil and NGL price decrease	(1.8)
Oil and NGL production increase	8.7
Increase in realized gains on derivatives	5.7
Gas storage revenue decrease	(5.1)
Royalty expense decrease	1.6
Operating cost decrease	1.8
Transportation cost decrease	0.5
Decrease in operating netback [1]	(8.7)

[1] This is a non-GAAP measure; see "Other non-GAAP measures" in this MD&A.

Gas over bitumen royalty adjustments

In 2004 and 2005 the Government of Alberta enacted amendments to the royalty regulation with respect to natural gas ("Royalty Regulation"), which provide a mechanism whereby the Government may prescribe additional royalty components to effect a reduction in the royalty calculated through the Crown royalty system for operators of gas wells which have been denied the right to produce by the Alberta Energy and Utilities Board, or its successor the ERCB as a result of certain bitumen conservation decisions. The formula for calculation of the royalty reduction provided in the Royalty Regulation is:

0.5 x ((deemed production volume x 0.80) x (Alberta Gas Reference Price - $0.3791/GJ))

Deemed production represents all Perpetual natural gas production shut-in or denied production pursuant to a decision report, corresponding order or general bulletin of the AEUB or ERCB, or through correspondence in relation to an AEUB ID 99-1 application. In accordance with IL 2004-36, the deemed production volume related to wells shut-in is reduced by ten percent per year on the anniversary date of the shut-in order. Deemed production decreased to 26.0 MMcf/d for the third quarter of 2012 from 29.8 MMcf/d for the three months ended September 30, 2011 due to the annual ten percent reduction in deemed production volumes.#

A portion of the royalty adjustments received have been recorded on Perpetual's statement of financial position rather than reported as revenue as the Corporation cannot determine if, when or to what extent the royalty adjustments may be repayable through incremental royalties if and when gas production recommences. Royalty adjustments may be repayable to the Crown in the form of an overriding royalty on gas production from wells which resume production within the gas over bitumen area. However, all royalty adjustments are recorded as a component of funds flow. Gas over bitumen royalty adjustments decreased to $0.5 million for the three months ended September 30, 2012 from $1.3 million for the third quarter of 2011 due primarily to a 40 percent decrease in Alberta Gas Reference Prices and lower deemed production volumes.

During the third quarter of 2012, Perpetual 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 related to the wells disposed, although the ownership of the natural gas reserves is transferred to the buyer. As such, any overriding royalty payable to the Crown when gas production recommences from the affected wells is no longer Perpetual's responsibility. As a result of these dispositions, gas over bitumen royalty adjustments of $28.5 million received to date by the Corporation for the affected wells were reclassified from the gas over bitumen royalty obligation on Perpetual's statement of financial position to gas over bitumen revenue since they will not be repaid to the Crown.

Gas over bitumen royalty adjustments are not paid to Perpetual in cash, but are a deduction from the Corporation's monthly natural gas royalty invoices. In periods of exceptionally low gas prices, the Corporation's net Crown royalty expenses have been too low to recover the full amount of the gas over bitumen royalty adjustments, and as such royalty adjustments for past periods will be recovered in future periods. Eventual realization of the royalty adjustments is highly likely as deemed production is reduced by ten percent annually, whereas the Corporation is focused on maintaining production and reserves year over year through capital spending programs, complemented with strategic acquisitions. Perpetual has a total of $10.1 million in royalty adjustments receivable as at September 30, 2012, which

are netted against the gas over bitumen liability on the Corporation's statement of financial position. These amounts have been included in funds flows, however the royalty adjustments receivable are netted against the gas over bitumen liability and therefore are not included in total net debt. The change in Perpetual's gas over bitumen royalty obligation during 2011 and the first nine months of 2012 is as follows.

Gas over bitumen royalty obligation ($ thousands)	
Balance, December 31, 2010	70,497
Royalty adjustments	4,772
Royalty adjustments not yet received	(564)
Balance, December 31, 2011	74,705
Royalty adjustments	2,194
Royalty adjustments not yet received	(1,061)
Royalty adjustments reclassified to revenue	(28,481)
Balance, September 30, 2012	**47,357**

General and administrative expenses

	Three months ended September 30		Nine months ended September 30	
General and administrative expenses ($ thousands)	**2012**	2011	**2012**	2011
Cash general & administrative	**5,196**	6,234	**17,662**	22,176
Share based payments [1]	**417**	668	**3,799**	3,676
Total general & administrative	**5,613**	6,902	**21,461**	25,852

[1] Non-cash item

General and administrative costs for the third quarter of 2012 totaled $5.6 million as compared to $6.9 million for the comparable period in 2011 primarily due to lower salaries expense. General and administrative expenses for the first nine months of 2012 decreased 17 percent to $21.5 million from $25.9 million for the comparable period in 2011 due to lower consulting fees and salaries expense. The 2011 period includes annual employee incentive payments in respect of the 2010 fiscal year, while employee incentive payments for 2011 were accrued in the fourth quarter of 2011 due to a change in timing of the incentive program payments.

Finance expenses

Interest expense on bank debt was relatively unchanged at $1.5 million for the three months ended September 30, 2012, compared to $1.4 million for the 2011 period, as a $10.0 million reduction in average bank debt balances was offset by higher interest rates. Interest expense for the first nine months of 2012 decreased to $4.1 million from $4.8 million for 2011 due to lower borrowings under the credit facility.

Interest on Senior Notes was unchanged at $3.4 million for the third quarter of 2012 and 2011. Interest on Senior Notes increased $2.8 million for the nine months ended September 30, 2012 from the prior year as the Senior Notes were issued on March 15, 2011.

Interest on convertible debentures for the three and nine months ended September 30, 2012 decreased to $3.6 million and $13.6 million respectively from $5.0 million and $14.9 million incurred for the 2011 periods as the Corporation repaid $74.9 million in 6.50 percent convertible debentures ("6.50% Debentures") on the maturity date of June 30, 2012.

Funds flow

Funds flow netbacks decreased 35 percent to $1.01 per Mcfe in the third quarter of 2012 from $1.56 per Mcfe in the comparable period for 2011, driven primarily by lower gas prices and production, partially offset by higher realized gains on derivatives, lower cash costs and a 67 percent increase in oil and NGL production. Funds flow declined to $10.8 million ($0.07 per common share) from $19.3 million ($0.13 per common share) for the third quarter of 2011. Funds flow for the nine months ended September 30, 2012 totaled $37.9 million ($0.26 per common share) as compared to $61.1 million ($0.41 per common share) for the first nine months of 2011. The decrease was caused primarily by lower natural gas revenues, partially offset by higher oil and NGL production and realized gains on derivatives, and a decrease in royalties and general and administrative expenses.

Accretion on decommissioning obligations

The Corporation's decommissioning obligation is estimated internally based on Perpetual's net ownership interest in all wells and facilities and estimated costs to abandon wells, decommission facilities and reclaim leases and roads, and is

discounted at a risk-free interest rate to arrive at a net present value figure. The timing of decommissioning expenditures is estimated based on the reserve life of assets according to the Corporation's external reserve report prepared as of December 31, 2011. These expenditures are currently expected to occur over the next 25 years with the majority of costs incurred between 2016 and 2021. Perpetual's decommissioning obligations decreased from $242.9 million at December 31, 2011 to $238.1 million at September 30, 2012 primarily due to property dispositions, partially offset by a downward revision in the average risk-free interest rate used to measure the obligation from 2.6 percent at December 31, 2011 to 2.1 percent at September 30, 2012. Accretion expense for the three and nine months ended September 30, 2012 decreased to $1.1 million and $3.8 million respectively from $1.9 million and $5.9 million, respectively for the comparative periods in 2011 due to lower discount rates and property dispositions.

Exploration and evaluation expenses

Exploration and evaluation expenses include lease rentals paid on undeveloped lands, seismic expenditures, dry hole costs and expired leases. Seismic expenditures, expired leases and dry hole costs are deducted from Perpetual's net earnings (loss) in accordance with GAAP, but are not deducted in the calculation of funds flow. Exploration and evaluation expenses decreased to $2.9 million and $6.6 million for the three and nine months ended September 30, 2012 from $4.8 million and $11.9 million for the comparable periods in 2011 due to a reduction in lease expiries and lower seismic expenditures.

Depletion and depreciation

Depletion and depreciation ("D&D") expense decreased from $28.7 million and $89.0 million for the three and nine months ended September 30, 2011 to $26.4 million and $81.9 million for the same periods in 2012 due primarily to lower production levels. D&D expense on a unit-of-production basis was $2.40 per Mcfe for the first nine months of 2012 compared to $2.29 per Mcfe for 2011.

Gains on dispositions

Gains on dispositions increased to $7.3 million and $33.4 million for the three and nine months ended September 30, 2012 from $2.2 million and $9.8 million, respectively for the comparative periods in 2011, due to an increase in dispositions in the current year. Perpetual recorded a gain on the sale of 90 percent of WGS LP of $40.8 million in 2012, and an additional gain on the retained interest in WGS LP of $2.1 million.

Income taxes

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, resulting in deferred income tax benefits of $3.8 million for the nine months ended September 30, 2012 (nine months ended September 30, 2011 – deferred tax expense of $0.3 million).

Net earnings (loss)

The Corporation reported a net loss of $6.2 million ($0.04 per basic and diluted common share) for the three months ended September 30, 2012 as compared to a net loss of $24.3 million ($0.17 per basic and diluted common share) for the 2011 period. The lower net loss was primarily a result of the reclassification of $28.5 million in gas over bitumen royalty adjustments to revenue in the current period and gains on property dispositions of $7.3 million, partially offset by an unrealized loss on derivatives of $21.0 million. Net earnings for the first nine months of 2012 increased to $6.7 million ($0.05 per basic and diluted common share) from a loss of $57.2 million ($0.39 per basic and diluted common share) in 2011 as a result of the gain on WGS LP of $40.8 million and the reclassification of gas over bitumen adjustments to revenue.

SUMMARY OF QUARTERLY RESULTS

Quarterly results				Three months ended
($ thousands except where noted)	**Sep 30, 2012**	June 30, 2012	Mar 31, 2012	Dec 31, 2011 [4]
Oil and natural gas revenues [1]	**40,028**	40,444	51,197	59,859
Oil and natural gas production (MMcfe/d)	**113.7**	125.8	134.6	141.7
Funds flow [2]	**10,760**	12,668	14,501	11,586
Per common share - basic	**0.07**	0.09	0.10	0.08
Net earnings (loss)	**(6,158)**	25,899	(13,040)	(42,998)
Per common share - basic	**(0.04)**	0.18	(0.09)	(0.29)
- diluted	**(0.04)**	0.17	(0.09)	(0.29)
Realized commodity price ($/Mcfe) [3]	**4.58**	4.35	4.37	4.58
Average AECO Monthly Index price ($/Mcf)	**2.19**	1.84	2.52	3.44

Quarterly results				Three months ended
($ thousands except where noted)	Sep 30, 2011	June 30, 2011	Mar 31, 2011	Dec 31, 2010
Oil and natural gas revenues [(1)]	58,400	67,097	60,900	61,718
Oil and natural gas production (MMcfe/d)	135.5	150.3	140.7	145.1
Funds flow [(2)]	19,318	17,852	23,923	70,509
Per common share - basic	0.13	0.12	0.16	0.48
Net loss	(24,343)	(5,626)	(27,260)	(28,193)
Per common share - basic	(0.17)	(0.04)	(0.18)	(0.19)
- diluted	(0.17)	(0.04)	(0.18)	(0.19)
Realized commodity price ($/Mcfe) [(3)]	4.46	4.61	4.68	7.83
Average AECO Monthly Index price ($/Mcf)	3.72	3.74	3.77	4.13

(1) Excludes realized gains (losses) on financial instruments, but includes gas storage revenue.
(2) These are non-GAAP measures; see “Other non-GAAP measures” in this MD&A.
(3) Realized commodity price includes natural gas, oil and NGL sales, realized gains and losses on financial hedging and physical forward sales contracts.
(4) Perpetual’s financial statements for the year and three months ended December 31, 2011 have been amended to correct certain immaterial errors involving oil revenues, operating costs and general and administrative expenses. For additional information please see note 2 to the condensed interim consolidated financial statements for the three and nine months ended September 30, 2012.

Oil and natural gas revenues are a function of production levels and oil and natural gas prices, as well as WTI-WCS differentials. Revenues were lowest in the third quarter of 2012 due to low AECO monthly index prices combined with reduced natural gas production compared to previous quarters. Perpetual uses derivatives to mitigate the effect of volatility in oil and natural gas prices on funds flows, and has implemented an asset base transformation and commodity diversification strategy to enhance the corporate production base with higher-priced oil and NGL volumes. Therefore funds flows will trend with Perpetual’s production mix, realized commodity prices and changes in production levels. Funds flows were highest in the fourth quarter of 2010 as a result of a realized commodity price of $7.83 per Mcfe, and lowest in the third quarter of 2012 due to a realized price of $4.58 per Mcfe combined with lower production levels.

Net earnings (loss) are a function of funds flows and non-cash charges such as D&D, impairment losses, gains and losses on asset dispositions and unrealized gains (losses) on derivatives. Due to the volatility of natural gas prices and the Corporation’s risk management position, net earnings (losses) also fluctuated with changes in AECO gas prices as of each balance sheet date. Perpetual has incurred net losses in most quarters presented as a result of persistently low natural gas prices during the two-year period. The largest net loss was in the fourth quarter of 2011, due in part to an impairment charge of $25.6 million. The Corporation reported net earnings of $25.9 million in the second quarter of 2012 as a result of a gain on sale of 90 percent of WGS LP of $40.8 million.

LIQUIDITY, CAPITALIZATION AND FINANCIAL RESOURCES

Capitalization and financial resources

($ thousands except per common share and percent amounts)	**Sep 30, 2012**	December 31, 2011 [(3)]
Long term bank debt	**81,545**	130,062
Senior Notes, measured at principal amount	**150,000**	150,000
Convertible debentures, measured at principal amount	**159,972**	234,897
Adjusted working capital deficiency [(2)]	**3,380**	11,934
Net debt	**394,897**	526,893
Common Shares outstanding at end of period (thousands) [(4)]	**147,126**	146,966
Market price at end of period	**1.23**	1.17
Market value of Common Shares	**180,965**	171,950
Total capitalization [(1)]	**575,862**	698,843
Net debt as a percentage of total capitalization (%)	**68.6%**	75.4
Trailing four quarters funds flow [(1)]	**49,515**	72,679
Net debt to funds flow ratio (times) [(1)]	**8.0**	7.2

(1) These are non-GAAP measures; see “Other non-GAAP measures” in this MD&A.
(2) Adjusted working capital deficiency excludes short-term derivative assets and liabilities related to the Corporation’s economic hedging activities, the current portion of convertible debentures, assets and liabilities held for sale and share based payment liabilities.
(3) Perpetual’s financial statements for the year and three months ended December 31, 2011 have been amended to correct certain immaterial errors involving oil revenues, operating costs and general and administrative expenses. For additional information please see note 2 to the condensed interim consolidated financial statements for the three and nine months ended September 30, 2012.
(4) Common Shares outstanding at November 9, 2012 were 147,136,591.

Long term bank debt

Perpetual has a revolving credit facility ("Credit Facility") with a syndicate of Canadian chartered banks. The revolving nature of the facility expires on April 30, 2013 if not extended. On August 30, 2012, the available portion of the borrowing base was 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. At current interest rates and applicable margins, the effective interest rate on the Corporation's bank debt is approximately 5.4 percent. Collateral for the Credit Facility is provided by a floating-charge debenture covering all existing and acquired property of the Corporation as well as unconditional full liability guarantees from all subsidiaries in respect of amounts borrowed under the facility. Including funds drawn for the repayment of $74.9 million of 6.50% Debentures maturing on June 30, 2012, bank debt drawn on the Credit Facility decreased $48.5 million or 37 percent from December 31, 2011 as a result of a successful asset disposition program in the first nine months of 2012.

Perpetual has an adjusted working capital deficiency of $3.4 million at September 30, 2012, as compared to a deficiency of $11.9 million at December 31, 2011. Working capital deficiency does not include $10.1 million owing from gas over bitumen royalty adjustments not yet received. The Corporation will typically have a working capital deficiency as revenues are collected 25 days after the month of delivery, whereas operating and capital expenditures are paid on 30 to 45 day terms. The working capital deficiency will be funded from future sales revenues and by additional Credit Facility borrowings as required.

Senior notes

On March 15, 2011 Perpetual issued $150 million of seven-year senior unsecured notes ("Senior Notes"). The Senior Notes are direct senior unsecured obligations of Perpetual ranking *pari passu* with all other present and future unsecured and unsubordinated indebtedness of the Corporation. The Senior Notes bear interest at 8.75%, payable semi-annually, and mature on March 15, 2018. The notes are carried on the statement of financial position at the par value less unamortized debt issue costs.

As part of the Senior Notes indenture and the Credit Facility, the Corporation has covenants that require the ratios of consolidated debt and consolidated senior debt to twelve month trailing earnings before interest, taxes and depletion and depreciation to be less than 4 to 1 and 3 to 1, respectively. Consolidated debt is defined as the sum of the balance on the Credit Facility, Senior Notes and outstanding letters of credit. Consolidated senior debt is defined as consolidated debt less the Senior Notes. Perpetual was in compliance with these covenants at September 30, 2012.

Convertible debentures

As at September 30, 2012, the Corporation has 7.25 percent convertible debentures issued in April 2006 and amended in 2009 (7.25% Debentures) and 7.0 percent convertible debentures issued in May 2010 (7.0% Debentures). The 6.50% Debentures were repaid in cash on the maturity date. All series of debentures are repayable on the maturity date in cash or in Common Shares, at the option of Perpetual. Additional information on convertible debentures is as follows.

Convertible debentures	6.50% [2]	7.25%	7.00%
Principal issued ($ millions)	75.0	100.0	60.0
Principal outstanding ($ millions)	-	100.0	60.0
Trading symbol on the Toronto Stock Exchange ("TSX")	PMT.DB.C	PMT.DB.D	PMT.DB.E
Maturity date	June 30, 2012	January 31, 2015	December 31, 2015
Conversion price ($ per Common Share)	14.20	7.50	7.00
Fair market value ($ millions) [1]	-	94.2	53.7

(1) Fair values of debentures are calculated by multiplying the number of debentures outstanding at September 30, 2012 by the quoted market price per debenture at that date.

(2) The 6.50% Debentures were repaid in cash on the maturity date.

All series of debentures are redeemable by the Corporation at a premium to face value, pay interest semi-annually and are subordinated to substantially all other liabilities of Perpetual including the Credit Facility and the Senior Notes. The 7.0% Debentures are also subordinated to all other series of convertible debentures. None of the convertible debentures were converted into common shares during the nine months ended September 30, 2012.

Net debt

Net debt decreased 25 percent or $132.0 million over the first nine months of 2012, as a result of a successful asset disposition program announced in late 2011. Net debt to trailing four quarters' funds flow increased to 8.0 times for the three months ended September 30, 2012 compared to 7.2 times for the quarter ended December 31, 2011, primarily due a decrease in funds flows for the trailing four quarters driven by lower natural gas prices. A reconciliation of the decrease in net debt from December 31, 2011 to September 30, 2012 is as follows:

Reconciliation of net debt	($ millions)
Net debt, December 31, 2011	526.9
Capital expenditures (exploration & development, gas storage and other)	58.8
Dispositions, net of acquisitions	(157.8)
Working capital included in WGS LP disposition	2.8
Funds flow [1]	(37.9)
Expenditures on decommissioning obligations	1.6
Gain on marketable securities	(0.5)
Gas over bitumen royalty adjustments not yet received [2]	1.0
Net debt, September 30, 2012	**394.9**

(1) These are non-GAAP measures; see "Other non-GAAP measures" in this MD&A.
(2) Net debt excludes $10.1 million of gas over bitumen royalty adjustments not yet received.

In order to facilitate the repayment of $74.9 million of 6.50% Debentures and provide additional financial capacity to execute capital programs, Perpetual decreased its outstanding credit facility balance through proceeds on dispositions of non-core assets for $160.2 million to date in 2012. In addition, the Corporation entered into financial forward oil and natural gas sales contracts to mitigate its exposure to future declines in funds flow due to decreases in commodity prices. The Corporation anticipates that cash flow from operating activities, proceeds from closed and potential future asset dispositions and available credit facilities will provide the required financial resources to discharge obligations, carry out exploration and development programs and fund ongoing operations for the foreseeable future.

Outlook and sensitivities

The Board of Directors of Perpetual has approved an expansion to the capital spending budget for the fourth quarter of 2012 to $16.4 million, bringing total capital spending to $75 million for 2012. Spending will be focused primarily on Wilrich drilling in the Edson area, where Perpetual is planning to drill up to four (2.5 net) natural gas wells to further delineate the West Edson Wilrich trends.

The Corporation has risk management contracts in place for approximately 40 percent of estimated actual plus deemed natural gas production for the fourth quarter of 2012 at an average price of $2.96 per GJ and 11 percent of projected 2013 actual plus deemed natural gas production at an average price of $3.74 per GJ. Oil price management contracts are also in place to protect average WTI floor prices of $US84.25 for the fourth quarter of 2012 and $US88.00 for 2013 on 2,000 bbl/d of production.

The following sensitivity table reflects Perpetual's projected funds flow for the fourth quarter of 2012 at various commodity price levels. These sensitivities incorporate average daily production of 3,300 bbl/d of oil & NGL, 92 MMcf/d of natural gas, operating costs of $20 million, cash general and administrative expenses of $7 million and an interest rate on bank debt of 5.4 percent.

Projected funds flow, fourth quarter of 2012 [2] ($millions) — **AECO Gas Price [1] ($/GJ)**

WTI oil price ($US/bbl)		**$3.00**	**$3.25**	**$3.50**	**$4.00**
	$75.00	7	9	10	13
	$85.00	8	9	11	14
	$95.00	9	11	12	15
	$105.00	10	11	13	16

(1) The current settled and forward average AECO and WTI prices for October to December 2012 as of November 9, 2012 were $2.85 per GJ and $US87.23 per bbl, respectively.
(2) These are non-GAAP measures; see "Other non-GAAP measures" in this MD&A.

For 2013 Perpetual's Board of Directors has approved a capital spending plan of up to $76 million which will be highly focused on continued development of heavy oil in the Mannville area of eastern Alberta and liquids-rich natural gas at Edson. The program incorporates a two rig development drilling program for Mannville heavy oil in the first quarter but allows flexibility to manage spending in the second half of the year, to be focused either on Mannville heavy oil or at Edson depending on commodity prices. The following table reflects Perpetual's projected funds flow for 2013 at various commodity price levels. These sensitivities incorporate monthly settlement of existing derivatives, average daily production of 4,100 bbl/d of oil & NGL, 82 MMcf/d of natural gas, operating costs of $86 million, cash general and administrative expenses of $24 million and an interest rate on bank debt of 5.4 percent.

Projected funds flow for 2013 [2] ($millions) — **AECO Gas Price [1] ($/GJ)**

WTI oil price [1] ($US/bbl)		$3.00	$3.25	$3.50	$4.00
	$75.00	33	40	48	62
	$85.00	38	45	52	67
	$95.00	41	48	55	70
	$105.00	47	54	61	76

(1) The current forward average AECO and WTI prices for 2013 as of November 9, 2012 were $3.19 per GJ and $US88.98 per bbl, respectively.

(2) These are non-GAAP measures; see "Other non-GAAP measures" in this MD&A.

Further to the above forecasts, Perpetual will continue to pursue additional dispositions in 2013, including the potential divestiture of its Elmworth Montney assets, and anticipates consummating additional disposition transactions in the first quarter of 2013. Proceeds from the potential divestitures would be utilized to strengthen the balance sheet and to enhance the Corporation's ability to pursue further investment opportunities, depending upon the outlook for commodity prices at that time.

OTHER NON-GAAP MEASURES

Operating and funds flow netbacks

Operating and funds flow netbacks are used by management to analyze margin and funds flow on each Mcfe of oil and natural gas production. Operating and funds flow netbacks do not have any standardized meaning as prescribed by GAAP and therefore may not be comparable to the calculation of similar measures for other entities. Operating and funds flow netbacks should not be viewed as an alternative to cash flow from operations, net earnings (loss) per common share or other measures of financial performance calculated in accordance with GAAP.

Total capitalization

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

Revenue, including realized gains (losses) on derivatives and total revenue

Revenue, including realized gains (losses) on derivatives, includes call option premiums received and is used by management to calculate the Corporation's net realized natural gas price taking into account monthly settlements on financial forward natural gas sales and foreign exchange contracts. These contracts are put in place to protect Perpetual's funds flows from potential volatility in natural gas prices, and as such any related realized gains or losses are considered part of the Corporation's natural gas price. Total revenue refers to all cash components of production and gas storage revenues, including oil and natural gas sales, realized gains (losses) on derivatives and call option premiums. Total revenue in this MD&A does not include royalties, gas over bitumen revenues or unrealized gains (losses) on derivatives. Revenue, including realized gains (losses) on derivatives and total revenue do not have any standardized meaning as prescribed by GAAP and should not be reviewed as an alternative to Revenue or other measures calculated in accordance with GAAP.

Net debt and net bank debt

Net bank debt is measured as bank debt including net working capital (deficiency) excluding current derivatives related to the Corporation's risk management activities, the current portion of convertible debentures, assets and liabilities held for sale and share based payment liabilities. Net debt includes Senior Notes and convertible debentures, measured at principal amount. Net debt does not include gas over bitumen adjustments not yet received, as the benefit of those adjustments in terms of a reduction in natural gas crown royalty payments has not yet been realized by the Corporation. Net bank debt and net debt are used by management to analyze leverage. Net bank debt and net debt do not have any standardized meaning prescribed by GAAP and therefore these terms may not be comparable with the calculation of similar measures for other entities.

Adjusted working capital (deficiency)

Adjusted working capital (deficiency) are calculated by the Corporation as current assets less current liabilities, excluding assets and liabilities relating to derivatives, share based payments, assets and liabilities held for sale and the current portion of convertible debentures, in order to analyze short-term cash requirements without including mark-to-market balances that may settle for significantly different amounts than those presented on the statement of financial position. Adjusted working capital (deficiency) as presented does not have any standardized meaning prescribed by GAAP and therefore it may not be comparable with the calculation of working capital (deficiency) for other entities.

INTERNAL CONTROLS

Internal controls have been designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements together with the other financial information for external purposes in accordance with GAAP. The Corporation's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision internal controls over financial reporting related to the Corporation, including its consolidated subsidiaries.

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to the Corporation's management, as appropriate, to allow timely decisions regarding required disclosure. Perpetual's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of September 30, 2012 that the Corporation's disclosure controls and procedures are effective to provide reasonable assurance that material information related to Perpetual, including its consolidated subsidiaries, is made known to them by others within those entities.

During the three months ended September 30, 2012, there have been no changes in Perpetual's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

For a list of specific estimates employed in the preparation of Perpetual's consolidated financial statements please refer to the Corporation's MD&A for the year ended December 31, 2011.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Depletion of reserves

Perpetual's future oil and natural gas reserves and production and therefore its funds flows are highly dependent on Perpetual's success in exploiting its reserve base and discovering, developing and acquiring additional reserves.

Without reserves additions through acquisition or development activities, the Corporation's reserves and production will decline over time as reserves are exploited.

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

Perpetual reinvests capital to minimize the effects of natural production declines on its asset base. The Corporation currently estimates that capital expenditures on production addition activities of at least $90 million annually are required to maintain production at current levels. There can be no assurance that Perpetual will be successful in developing or acquiring additional reserves on terms that meet the Corporation's investment objectives.

Other risks and uncertainties affecting Perpetual's operations are substantially unchanged from those presented in the Corporation's MD&A for the year ended December 31, 2011.

FORWARD-LOOKING INFORMATION

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

In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: the quantity and recoverability of Perpetual's reserves; the timing and amount of future production; future prices as well as supply and demand for natural gas and oil; the existence, operations and strategy of the commodity price risk management program; the approximate amount of forward sales to be employed, and the value of financial forward natural gas contracts; funds flow sensitivities to commodity price, production, foreign exchange and interest rate changes; operating, 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; prospective development and drilling locations; anticipated working gas capacity at Perpetual's gas storage facility; the Corporation's acquisition strategy and the existence of acquisition and disposition opportunities, the criteria to be considered in connection therewith and the benefits to be derived therefrom; Perpetual's ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets; expected book value and related tax value of the Corporation's assets and prospect inventory and estimates of net asset value; funds flow; ability to fund exploration and development; our corporate strategy; expectations regarding Perpetual's access to capital to fund its acquisition, exploration and development activities; expected realization of gas over bitumen royalty adjustments; future income tax and its effect on funds flow; intentions with respect to preservation of tax pools of and taxes payable by the Corporation; funding of and anticipated results from capital expenditure programs; renewal of and borrowing costs associated with the credit facility; future debt levels, financial capacity, liquidity and capital resources; future contractual commitments; drilling, completion, facilities and construction plans, and the effect thereof; the impact of Canadian federal and provincial governmental regulation on the Corporation relative to other issuers; Crown royalty rates; Perpetual's treatment under governmental regulatory regimes; business strategies and plans of management, including future changes in the structure of business operations; and the reliance on third parties in the industry to develop and expand Perpetual's assets and operations.

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

The Corporation believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and

assumptions will prove to be correct. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: volatility in market prices for oil and natural gas products; supply and demand regarding the Perpetual's products; risks inherent in Perpetual's operations, such as production declines, unexpected results, geological, technical, or drilling and process problems; unanticipated operating events that can reduce production or cause production to be shut-in or delayed; changes in exploration or development plans by Perpetual or by third party operators of Perpetual's properties; reliance on industry partners; uncertainties or inaccuracies associated with estimating reserves volumes; competition for, among other things; capital, acquisitions of reserves, undeveloped lands, skilled personnel, equipment for drilling, completions, facilities and pipeline construction and maintenance; increased costs; incorrect assessments of the value of acquisitions; increased debt levels or debt service requirements; industry conditions including fluctuations in the price of natural gas and related commodities; royalties payable in respect of Perpetual's production; governmental regulation of the oil and gas industry, including environmental regulation; fluctuation in foreign exchange or interest rates; the need to obtain required approvals from regulatory authorities; changes in laws applicable to the Corporation, royalty rates, or other regulatory matters; general economic conditions in Canada, the United States and globally; stock market volatility and market valuations; limited, unfavourable, or a lack of access to capital markets, and certain other risks detailed from time to time in Perpetual's public disclosure documents including, without limitation, those risks and contingencies described above and under "**Risk Factors**" in the Corporation's MD&A for the year ended December 31, 2011. The foregoing list of risk factors should not be considered exhaustive.

The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A, and none of the Corporation or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, unless expressly required to do so by applicable securities laws.

Additional information on Perpetual, including the most recent filed annual report and annual information form, can be accessed from SEDAR at www.sedar.com or from Perpetual's website at perpetualenergyinc.com.