MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of Perpetual Energy Inc.'s ("Perpetual", the "Company" or the "Corporation") operating and financial results for the three months ended March 31, 2015 as well as information and estimates concerning the Corporation's future outlook based on currently available information. This discussion should be read in conjunction with the Corporation's condensed interim consolidated financial statements and accompanying notes for the three months ended March 31, 2015 as well as the audited consolidated financial statements and accompanying notes for the years ended December 31, 2014 and 2013. The MD&A should be read in conjunction with the Corporation's MD&A for the year ended December 31, 2014 as disclosure which is unchanged from the December 31, 2014 MD&A has not been duplicated herein. The Corporation's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which require publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS"). Readers are referred to the advisories for additional information regarding forecasts, assumptions and other forward-looking information contained in the "Forward Looking Information and Statements" section of this MD&A. The date of this MD&A is May 11, 2015.

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

ADVISORIES

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

Operating netback: Perpetual considers operating netback an important performance measure as it demonstrates its profitability relative to current commodity prices. Operating netbacks are calculated by deducting royalties, operating costs, and transportation from total revenue. Operating netbacks are also calculated on a per boe basis using average boe production for the period. Operating netbacks on a per boe basis can vary significantly for each of the Company's operating areas.

Funds flow: Management uses cash flow from operating activities before changes in non-cash working capital, changes in long term Crown receivable, settlement of decommissioning obligations and certain exploration and evaluation ("E&E") costs, but after payments on the gas over bitumen ("GOB") related financial obligation, as described below ("funds flow"), funds flow per share and annualized funds flow to analyze operating performance and leverage. Funds flow is reconciled to its closest GAAP measure, cash flow from operating activities, as follows:

Funds flow GAAP reconciliation

	Three months ended March 31,	
(*$ thousands, except per share amounts*)	**2015**	2014
Cash flow from operating activities	**1,960**	14,532
Exploration and evaluation costs(1)	**1,498**	13
Payments on financial obligation(2)	**(1,105)**	–
Expenditures on decommissioning obligations	**3,051**	2,401
Changes in long term Crown receivable	**–**	(2,772)
Changes in non-cash operating capital	**(3,883)**	3,210
Funds Flow	**1,521**	17,384
Funds flow per share(3)	**0.01**	0.12

(1) The Corporation expenses exploratory dry hole costs, geological and geophysical costs, lease rentals on undeveloped properties and the cost of expired leases in the period incurred. To make reported funds flow in this MD&A more comparable to industry practice the Corporation reclassifies dry hole costs, geological and geophysical costs and expired leases from operating to investing activities in the funds flow reconciliation.
(2) These payments are indexed to GOB revenue and recorded as a reduction to the Corporations financial obligation in accordance with IFRS. To present GOB revenue net of these payments, the Corporation has reclassified these payments from financing to operating activities in the calculation of funds flow.
(3) Based on weighted average shares outstanding for the period.

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

GOB revenue, net of payments: GOB revenue, net of payments includes GOB revenue less monthly payments on the GOB related financial obligation. This is used by management to calculate the Corporation's net realized GOB revenue to reflect the substantive monetization of the future GOB royalty credits.

Adjusted working capital deficiency (surplus): Adjusted working capital deficiency (surplus) includes total current assets and current liabilities and long term Crown receivables excluding short-term derivative assets and liabilities related to the Corporation's risk management activities, current portion of financial obligation, current portion of provisions, current portion of convertible debentures, assets held for sale, liabilities associated with assets held for sale and current bank indebtedness.

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

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

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

FORWARD-LOOKING INFORMATION AND STATEMENTS: Certain information and statements contained in this MD&A including management's assessment of future plans and operations and including the information contained under the heading "2015 Outlook" may constitute forward-looking information and statements within the meaning of applicable securities laws. This information and these statements relate to future events or to future performance. All statements other than statements of historical fact may be forward-looking information and statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "outlook", "guidance", "objective", "plans", "intends", "targeting", "could", "potential", "strategy" and any similar expressions are intended to identify forward-looking information and statements.

In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: the quantity and recoverability of Perpetual's reserves; the timing and amount of future production; future prices as well as supply and demand for natural gas, natural gas liquids ("NGL") and oil; the existence, operations and strategy of the commodity price risk management program; the approximate amount of forward sales and financial contracts to be employed, and the value of financial forward natural gas, oil and other risk management contracts; funds flow sensitivities to commodity price, production, foreign exchange and interest rate changes; operating, general and administrative ("G&A"), and other expenses; the costs and timing of future abandonment and reclamation, asset retirement and environmental obligations; the use of exploration and development activity, prudent asset management, and acquisitions to sustain, replace or add to reserves and production or expand the Corporation's asset base; the Corporation's acquisition and disposition strategy and the existence of acquisition and disposition opportunities, the criteria to be considered in connection therewith and the benefits to be derived therefrom; Perpetual's ability to benefit from the combination of growth opportunities and the ability to grow through the capital expenditure program; expected compliance with credit facility covenants in 2015 and 2016; the retention of, and benefits to be received from holding the TOU Shares (as defined below); expected book value and related tax value of the Corporation's assets and prospect inventory and estimates of net asset value; funds flow; ability to fund exploration and development; the corporate strategy; expectations regarding Perpetual's access to capital to fund its acquisition, exploration and development activities; the effect of future accounting pronouncements and their impact on the Corporation's financial results; future income tax and its effect on funds flow; intentions with respect to preservation of tax pools and taxes payable by the Corporation; funding of and anticipated results from capital expenditure programs; renewal of and borrowing costs associated with the credit facility; future debt levels, financial capacity, liquidity and capital resources; future contractual commitments; drilling, completion, facilities, construction and waterflood plans, and the effect thereof; the impact of Canadian federal and provincial governmental regulation on the Corporation relative to other issuers; Crown royalty rates; Perpetual's treatment under governmental regulatory regimes; business strategies and plans of management including future changes in the structure of business operations and debt reduction initiatives; and the reliance on third parties in the industry to develop and expand Perpetual's assets and operations.

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

The Corporation believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: volatility in market prices for oil and natural gas products; supply and demand regarding Perpetual's products; risks inherent in Perpetual's operations, such as production declines, unexpected results, geological, technical, or drilling and process problems; unanticipated operating events that can reduce production or cause production to be shut-in or delayed; changes in exploration or development plans by Perpetual or by third party operators of Perpetual's properties; reliance on industry partners; uncertainties or inaccuracies associated with estimating reserves volumes; competition for, among other things; capital, acquisitions of reserves, undeveloped lands, skilled personnel, equipment for drilling, completions, facilities and pipeline construction and maintenance; increased costs; incorrect assessments of the value of acquisitions; increased debt levels or debt service requirements; industry conditions including fluctuations in the price of natural gas and related commodities; royalties payable in respect of Perpetual's production; governmental regulation of the oil and gas industry, including environmental regulation; fluctuation in foreign exchange or interest rates; the need to obtain required approvals from regulatory authorities; changes in laws applicable to the Corporation, royalty rates, or other regulatory matters; general economic conditions in Canada, the United States and globally; stock market volatility and market valuations; limited, unfavorable, or a lack of access to capital markets, and certain other risks detailed from time to time in Perpetual's public disclosure documents. The foregoing list of risk factors should not be considered exhaustive.

The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A, and neither the Corporation nor any of its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, unless expressly required to do so by applicable securities laws.

RECENT DEVELOPMENTS

Sale of West Edson property

On April 1, 2015, Perpetual closed an arrangement with Tourmaline Oil Corp. ("Tourmaline") to swap its joint interest share in its West Edson assets in West Central Alberta in exchange for 6.75 million Tourmaline common shares ("TOU Shares"). The market value of the TOU Shares was $258.7 million based on the April 1, 2015 closing price on the Toronto Stock Exchange and is $267.4 million as at the date of this MD&A. The transaction included all joint interest lands Perpetual holds with Tourmaline in West Edson, together with the associated wells and infrastructure (the "West Edson Property"). Based on the Company's third party engineering report prepared as at December 31, 2014, the disposition included 7.2 MMboe of recognized proved and probable developed reserves. Also included in the transaction are 9,600 net acres of undeveloped lands not currently assigned reserves at year-end 2014. The production from the West Edson Properties at the time of the swap was approximately 5,750 boe/d.

Perpetual intends to retain the TOU Shares and systematically manage its obligations, including the redemption of its outstanding 7.0% convertible debentures ("7.0% Debentures") maturing on December 31, 2015. Further, the TOU Shares can be utilized as required to fund the Company's development plans at East Edson as appropriate in the current commodity price environment and provide additional financial flexibility for Perpetual to capture and evaluate other high impact growth opportunities.

Disposition of royalty lands

On April 10, 2015, Perpetual closed the sale of certain fee simple lands in east central Alberta, along with a working interest in related seismic data, for gross proceeds of $21.0 million. Included in the disposition was 206,712 net acres of fee simple lands, a 75 percent ownership in certain proprietary 2D and 3D seismic and approximately 165 Mboe of reserves (82 percent natural gas) associated with royalty interests. Proceeds from the disposition were applied to reduce outstanding bank indebtedness.

FIRST QUARTER 2014 RESULTS

Capital expenditures

	Three months ended March 31,	
(*$ thousands*)	**2015**	2014
Exploration and development	**46,886**	31,340
Geological and geophysical costs[1]	**1,498**	13
Acquisitions net of dispositions	**14**	151
Other	**21**	75
Total	**48,419**	31,579

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

Exploration and development spending by area

	Three months ended March 31,	
(*$ thousands*)	**2015**	2014
West central liquids-rich gas	**43,293**	19,056
Mannville heavy oil	**745**	10,907
Panny bitumen	**1,860**	302
Shallow gas	**988**	1,075
Total	**46,886**	31,340

During the first quarter of 2015, exploration and development expenditures in west central Alberta were $43.3 million, consisting of $13.5 million spent on drilling three (1.5 net) natural gas wells at West Edson, and three (3.0 net) natural gas wells at East Edson. Completions and tie-in activities during the first quarter of 2015 totaled $15.6 million which included the completion of two (1.0 net) wells at West Edson and three (3.0 net) wells at East Edson along with the tie-in of substantially all of the remaining wells drilled during the fourth quarter of 2014. Completions on a total of four (4.0 net) wells at East Edson were deferred, pending additional processing capacity that will become available after the start-up of the new gas plant at East Edson planned for early third quarter 2015. Wells drilled and completed at West Edson during the first quarter of 2015 have been included in the West Edson Property disposition with Tourmaline effective April 1, 2015.

In addition to drilling and completions activity, Perpetual continued construction on the new East Edson 30 MMcf/d gas plant with first quarter 2015 spending of $14.2 million, bringing total project costs at the end of the first quarter to $29.8 million. Subsequent to the end of the first quarter of 2015, management approved modest additional capital spending of $2.7 million to expand the new East Edson gas plant capacity from 30 MMcf/d to 45 MMcf/d through the addition of another compressor. The new gas plant is on track to be completed on budget and operational for start-up during the third quarter of 2015.

With most of the East Edson wells producing well above their respective proved plus probable independent reserve evaluation type curves, processing facilities during the first quarter of 2015 were operating at maximum capacity. Wells drilled in 2014 and during the first quarter of 2015 that are currently not on production due to processing facility constraints are planned to be completed and tied-in concurrent with the completion of the new expanded East Edson 45 MMcf/d gas plant which is expected to be operating at full capacity by the end of 2015.

The Corporation spent $0.7 million on waterflood activities in the Mannville heavy oil area which included converting and equipping a source water well, one additional injector conversion, surface equipment and preliminary pipeline work for future injection conversions. The Corporation currently has six injectors online in the Sparky Upper Mannville I2I pool injecting at a voidage replacement ratio greater than 1.2. The Upper Mannville B Lloyd pool currently has four wells on injection with additional conversions planned through 2015 and 2016.

During the first quarter of 2015, the Corporation continued its strategic development at Panny, with spending of $1.9 million on two (2.0 net) observation wells to advance the LEAD pilot project. $0.9 million was spent on Perpetual's shallow gas-related facility optimization program.

Geological and geophysical costs of $1.5 million incurred during the first quarter of 2015 related to newly shot 3D seismic acquired in East and West Edson to optimize future Wilrich drilling and target secondary zones for new exploration development.

Expenditures on decommissioning obligations

Perpetual spent $3.1 million during the first quarter of 2015 on abandonment and reclamation projects mainly in eastern Alberta as part of the Company's shallow gas operating cost reduction program.

Production

	Three months ended March 31,	
	2015	2014
Natural gas (*MMcf/d*)		
Eastern – North	**32.4**	34.9
Eastern – South	**24.5**	22.7
West Central[(1)]	**63.5**	34.5
Total natural gas	**120.4**	92.1
Crude oil (*bbl/d*)		
Eastern – North	**17**	5
Eastern – South[(2)]	**1,984**	2,861
West Central	**44**	45
Total crude oil	**2,045**	2,911
NGL (*bbl/d*)		
Eastern – North	**2**	-
Eastern – South	**11**	11
West Central[(1)]	**700**	529
Total NGL	**713**	540
Total production (*boe/d*)	**22,819**	18,794

(1) West Edson first quarter 2015 production was 32.2 MMcf/d (2014 - 21.8 MMcf/d) of natural gas and 127 bbl/d (2014 - 120 bbl/d) of NGL. The West Edson Property was disposed on April 1, 2015.

(2) Primarily Mannville heavy oil.

Total oil, NGL and natural gas production of 22,819 boe/d was up 21 percent from first quarter 2014, as production increases from Perpetual's west central capital investments in 2014 more than offset production declines.

Perpetual's natural gas production of 120.4 MMcf/d increased 31 percent from first quarter 2014 due to an 84 percent increase in west central deep basin gas production. Wells drilled in East and West Edson during 2014 have increased production to fully utilize existing compression and processing facilities which more than offset production declines from the Corporation's shallow gas assets.

With the increase in higher heat content deep basin gas production at both East and West Edson, the average conversion ratio of GJ to Mcf for Perpetual's natural gas sales during the first quarter of 2015 increased to 1.12 GJ:Mcf from 1.10 GJ:Mcf in the same period of 2014.

NGL production increased 32 percent to 713 bbl/d in the first quarter of 2015 compared to 540 bbl/d during the same period in 2014, consistent with increased liquids-rich natural gas production due to 2014 capital development in East and West Edson. NGL sales increased despite changes in processing whereby more liquids are now sold as part of the natural gas stream at East Edson as gas production was largely processed through the Company's jointly owned shallow cut plant at Rosevear rather than a third party deep cut plant.

Oil production of 2,045 bbl/d declined 30 percent from 2,911 bbl/d in 2014 mainly due to the disposition of non-core Mannville heavy oil assets during the fourth quarter of 2014 combined with natural declines and deferred crude oil drilling activities in light of depressed crude oil prices.

Commodity prices

	Three months ended March 31, 2015	2014
Reference prices		
AECO Monthly Index (*$/GJ*)	**2.80**	4.51
AECO Daily Index (*$/GJ*)	**2.60**	5.42
Alberta Gas Reference Price (*$/GJ*)(1)	**2.60**	4.57
West Texas Intermediate ("WTI") light oil (*$USD/bbl*)	**48.62**	98.68
Western Canadian Select ("WCS") differential (*$USD/bbl*)	**(14.73)**	(23.13)
Average Perpetual prices		
Natural gas		
Before derivatives (*$/Mcf*)(2)(3)	**3.01**	4.90
Percent of AECO Monthly Index	**102**	103
Including derivatives (*$/Mcf*)	**3.14**	4.35
Percent of AECO Monthly Index	**106**	92
Oil		
Before derivatives (*$/bbl*)	**37.37**	77.43
Including derivatives (*$/bbl*)	**40.60**	70.97
NGL (*$/bbl*)	**36.15**	79.33
Barrel of oil equivalent		
Average realized price (*$/boe*)	**21.33**	34.52

(1) Alberta Gas Reference Price is the price used to calculate Alberta Crown royalties.
(2) Natural gas price before derivatives includes physical forward sales contracts for which delivery was made during the reporting period but excludes realized gains and losses on financial derivatives.
(3) The average conversion ratio for Perpetual's first quarter 2015 natural gas production is 1.12 GJ:1 Mcf (2014 – 1.10 GJ:1Mcf).

AECO Monthly Index prices of $2.80/GJ for the quarter ended March 31, 2015 decreased 38 percent from $4.51/GJ for the same period in 2014. A warm start to winter 2014/2015 and continued increases in North American production drove natural gas into an oversupply situation resulting in low gas prices during the first quarter of 2015. In contrast, extreme cold weather during the first quarter of 2014 caused strong heating demand, contributing to natural gas price appreciation resulting in an average first quarter 2014 AECO Monthly Index price of $4.51/GJ. Decreased AECO Monthly Index prices were reflected in Perpetual's natural gas price before derivatives of $3.01/Mcf, down 39 percent from $4.90/Mcf in 2014. The percentage decline was slightly higher than the decline in the AECO Monthly Index price mainly due to a portion of Perpetual's production being sold at AECO Daily Index prices, which declined 52 percent in the first quarter of 2015 from the comparative period in 2014.

Perpetual's average realized gas price, including derivatives, decreased 28 percent in 2015 to $3.14/Mcf from $4.35/Mcf in 2014. The Corporation's realized first quarter 2015 natural gas price was increased by realized gains of $1.4 million on natural gas derivatives compared to realized losses of $5.0 million during the same period in 2014.

Perpetual's oil price, before derivatives, of $37.37/bbl in the first quarter of 2015 decreased 52 percent compared to 2014 due to global oil price declines which were partially offset by a narrowing of WTI to the WCS differential price and a weaker Canadian dollar. Perpetual's realized oil price of $40.60/bbl, including derivatives, was higher than the price before derivatives due to net gains of $0.6 million recorded on financial WTI fixed price contracts and foreign exchange contracts.

Perpetual's realized NGL price decreased 54 percent, reflecting the drop in all NGL component prices as NGL supply growth has been bottlenecked by infrastructure in many regions of North America and inventory levels have exceeded the five year maximum levels. Perpetual's average NGL sales composition for the quarter consisted of 65 percent C5+ as compared to 66 percent C5+ in the comparative quarter of 2014.

Commodity price risk management

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

Natural Gas

Perpetual has in place natural gas financial contracts on an estimated 65 percent of forecasted actual natural gas production for the remainder of 2015. The following tables provide a summary of derivative natural gas contracts in place as at March 31, 2015, as well as any additional contracts entered into prior to the date of this MD&A.

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

Term	**Volumes sold (bought) at AECO (GJ/d)**	**Average price ($CAD/GJ)(1)**	**Market prices ($CAD/GJ)(2)**	**Type of contract**
April 2015	(5,000)	2.50	2.54	Physical
April 2015	92,500	2.57	2.54	Financial
May 2015	16,500	2.57	2.42	Physical
May 2015	80,500	2.58	2.42	Financial
June 2015	85,500	2.58	2.70	Financial
July 2015 – October 2015	82,500	2.56	2.75	Financial
November 2015 – December 2015	7,500	2.78	2.97	Financial

(1) Average price calculated using weighted average price for net open contracts.
(2) Market prices for April and May are based on settled AECO Monthly Index prices. Market prices for subsequent months are based on forward AECO prices as of market close on May 8, 2015.

The following table provides a summary of basis differential contracts between AECO and NYMEX trading:

Term	**Volumes (MMBTU/d)**	**AECO-NYMEX differential ($USD/MMBTU)**	**Market prices ($USD/MMBTU)(1)**	**Type of contract**
January 2016 - December 2016	12,500	(0.67)	(0.67)	Financial

(1) Market prices are based on forward AECO-NYMEX differential prices as of market close on May 8, 2015.

Crude Oil

The following table provides a summary of oil sales arrangements in $CAD in place as at March 31, 2015:

Term	**Volumes (bbl/d)**	**Floor price ($CAD/bbl)**	**Ceiling price ($CAD/bbl)**	**Type of contract**
April 2015 – December 2015	500	87.50	95.25	Collar
April 2015 – December 2015	500	87.50	95.75	Collar

In April 2015, Perpetual realized the April portion of the above contracts and crystalized the remaining May 2015 – December 2015 portions receiving net cash proceeds of $3.7 million. Perpetual subsequently entered into the following oil sales arrangement in $CAD:

Term	**Volumes (bbl/d)**	**Floor price ($CAD/bbl)**	**Ceiling price ($CAD/bbl)**	**Market prices ($CAD/bbl)(1)**	**Type of contract**
May 2015 – December 2015	1,000	67.50	76.70	74.18	Collar

(1) Market prices are based on forward WTI oil prices at a forward foreign exchange rate of 1.21 as of market close on May 8, 2015.

Perpetual entered into the following oil sales arrangement in $USD:

Term	**Volumes (bbl/d)**	**Floor price ($USD/bbl)**	**Ceiling price ($USD/bbl)**	**Market prices ($USD/bbl)(1)**	**Type of contract**
January 2016 – December 2016	250	60.00	66.40	63.54	Collar

(1) Market prices are based on forward WTI oil prices as of market close on May 8, 2015.

The following table provides a summary of sold oil calls with monthly expiries over the contract term:

Term	Volumes at WTI (bbl/d)	Call price ($USD/bbl WTI)	Market prices ($USD/bbl WTI)(1)	Type of contract
January 2016 – December 2016(2)	500	106.00	63.54	Knock out call
January 2016 – December 2016(3)	1,000	104.25	63.54	Knock out call

(1) Market prices are based on forward WTI oil prices as of market close on May 8, 2015.
(2) If WTI index settles above $USD106.00/bbl in any month, the contract is settled at $USD97.00/bbl for that month.
(3) If WTI index settles above $USD104.25/bbl in any month, the contract is settled at $USD95.40/bbl for that month.

The following table provides a summary of basis differential contracts between WTI and WCS trading:

Term	Volumes (bbl/d)	WTI-WCS differential ($USD/bbl)(1)	Market prices ($USD/bbl)(2)	Type of contract
April 2015	1,000	(16.88)	(14.37)	Financial
May 2015	1,500	(15.91)	(11.87)	Financial
June 2015 - December 2015	1,500	(15.91)	(12.52)	Financial

(1) Average price calculated using weighted average price for net open contracts; contracts settle at WTI index less a fixed basis amount.
(2) Market prices for April and May are based on settled WTI-WCS differential prices. Market prices for subsequent months are based on forward WTI-WCS differential prices as of market close on May 8, 2015.

Foreign Exchange

U.S. dollar forward sales arrangements:

Term	Notional $USD/month	Exchange rate ceiling ($CAD/$USD)	Type of contract
April 2015 – June 2015	1,000,000	1.10	Financial

The Corporation receives $1,000 each day during the month that the daily exchange rate is between 1.00 and 1.10. If the average monthly exchange rate is greater than 1.10 the Corporation pays $USD1,000,000 multiplied by the difference between the average monthly exchange rate and 1.10. No settlement occurs between the Corporation and the counterparty if the average monthly exchange rate settles below 1.00.

Term	Notional floor $USD/month	Notional ceiling $USD/month	Exchange rate floor ($CAD/$USD)	Exchange rate ceiling ($CAD/$USD)	Type of contract
April 2015 – December 2016	2,000,000	3,500,000	1.04	1.18	Financial

If the average monthly exchange rate is greater than the exchange rate ceiling, the Corporation pays $USD3,500,000 multiplied by the difference between the average monthly exchange rate and 1.127. If the monthly average exchange rate settles below the exchange rate floor, the Corporation receives $USD2,000,000 multiplied by the difference between the average monthly exchange rate and the exchange rate floor.

Revenue

($ thousands, except as noted)	Three months ended March 31, 2015	2014
Petroleum and natural gas revenue		
Natural gas[(1)]	**32,607**	40,616
Oil[(1)]	**6,879**	20,283
NGL	**2,318**	3,855
Total petroleum and natural gas revenue	**41,804**	64,754
Realized gains (losses) on derivatives	**2,021**	(6,374)
Realized revenue	**43,825**	58,380
Unrealized losses on derivatives	**(9,898)**	(12,731)
Total revenue	**33,927**	45,649
Realized revenue *($/boe)*	**21.33**	34.52
Total revenue *($/boe)*	**16.52**	26.99

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

Perpetual's petroleum and natural gas ("P&NG") revenue, before derivatives, for the quarter ended March 31, 2015 of $41.8 million decreased 35 percent from 2014 due to declining commodity prices, the impact of which was mitigated by the period over period production increase of 21 percent.

Natural gas revenue, before derivatives, of $32.6 million in 2015 decreased 20 percent from $40.6 million in 2014 due to lower natural gas prices which more than offset the 31 percent increase in gas production associated with 2014 development spending in the greater Edson area.

Oil revenues of $6.9 million were 66 percent lower than the comparative quarter in 2014 ($20.3 million) due to oil price declines, the 30 percent reduction in production as a result of fourth quarter 2014 dispositions, natural declines, and the deferral of crude oil drilling programs. Oil price declines were partially mitigated by a narrowing of WTI-WCS differentials and a lower $CAD to $USD exchange rate.

NGL revenue of $2.3 million declined 40 percent from the comparative period in 2014 on lower prices despite a 32 percent increase in production associated with the growth in gas and associated NGL production in East and West Edson.

Realized gains on derivatives in the first quarter of 2015 totaled $2.0 million compared to losses of $6.4 million for the same period in 2014. Gains in 2015 were comprised of $1.4 million and $2.2 million related to natural gas and oil contracts respectively which were partially offset by losses of $1.6 million related to foreign exchange contracts.

The Corporation recorded unrealized losses on derivatives of $9.9 million during the first quarter of 2015 compared to unrealized losses of $12.7 million for the same period in 2014. Unrealized gains and losses represent the change in mark-to-market value of derivative contracts as forward commodity prices change. Unrealized gains and losses on derivatives are excluded from the Corporation's calculation of funds flow as they are non-cash. Derivative gains and losses vary depending on the nature and extent of derivative contracts in place, which in turn, vary with the Corporation's assessment of commodity price risk, committed capital spending and other factors.

Royalties

($ thousands, except as noted)	Three months ended March 31, 2015	2014
Crown	**2,366**	4,379
Freehold and overriding	**3,088**	1,795
Total	**5,454**	6,174
Crown (*% of P&NG revenue*)	**5.7**	6.8
Freehold and overriding (*% of P&NG revenue*)	**7.4**	2.8
Total (*% of P&NG revenue*)	**13.1**	9.6
$/boe	**2.66**	3.65

Perpetual recorded royalty expense of $5.5 million during the first quarter of 2015, representing an increase to the combined average royalty rate on P&NG revenue to 13.1 percent from 9.6 percent in 2014. Higher freehold and overriding royalties offset reduced crown royalties which decreased 46 percent relative to the comparative 2014 first quarter generally due to lower commodity prices. The 72 percent increase in freehold and overriding royalty expense was related primarily to Perpetual's 2014 East Edson royalty disposition and farm-in agreements which in combination entitle the partner to a maximum of 5.6 MMcf/d of natural gas from the East Edson property plus oil and associated NGL on a monthly basis which began on July 1, 2014.

Excluding royalty payments of $1.6 million under the East Edson royalty, the combined royalty rate for the first quarter of 2015 was 9.2 percent compared to 9.6 percent in 2014. Lower crown royalty rates are attributable to lower Alberta gas reference prices combined with declining oil and NGL prices. These reductions were partially offset by increased rates on certain of the Corporation's Mannville heavy oil wells as they transitioned to higher royalty rates after reaching maximum volume recoveries under initial low royalty rate incentive periods.

Production and operating expenses

	Three months ended March 31,	
(*$ thousands, except as noted*)	**2015**	2014
Production and operating expenses	**21,750**	21,767
$/boe	**10.59**	12.87

While first quarter 2015 production increased 21 percent from 2014, production expense of $21.8 million remained consistent period over period, representing an 18 percent reduction on a boe basis to $10.59/boe from $12.87/boe in 2014. Operating costs per boe savings relate to infrastructure and enhancements at West Edson with additional savings realized in East Edson due to the redirection of volumes from a third party deep cut plant to Perpetual's working interest plant at Rosevear. Further cost savings continue to be realized as a result of pipeline suspensions in Eastern Alberta combined with Perpetual's company-wide cost saving initiatives.

Transportation costs

	Three months ended March 31,	
(*$ thousands, except as noted*)	**2015**	2014
Transportation costs	**3,841**	2,998
$/boe	**1.87**	1.77

Transportation costs include clean oil trucking and NGL transportation as well as costs to transport natural gas from the plant gate to commercial sales points. Transportation costs in 2015 increased to $3.8 million from $3.0 million for the same period in 2014, primarily due to increased natural gas and NGL production that was partially offset by decreased Mannville oil transportation costs related to lower oil sales volumes.

Operating netbacks

	Three months ended March 31,	
	2015	2014
Operating netback (*$ thousands*)		
Realized revenue(1)	**43,825**	58,380
Royalties(2)	**(5,454)**	(6,174)
Operating costs	**(21,750)**	(21,767)
Transportation	**(3,841)**	(2,998)
Total operating netback	**12,780**	27,441
Boe operating netback (*$/boe*)		
Realized revenue(1)	**21.33**	34.52
Royalties(2)	**(2.66)**	(3.65)
Operating costs	**(10.59)**	(12.87)
Transportation	**(1.87)**	(1.77)
Total operating netback	**6.21**	16.23

(1) See "Non-GAAP measures" in this MD&A.
(2) Includes $1.6 million in East Edson Gross Overriding Royalty payments in relation to the East Edson Agreements (2014 - nil).

Perpetual's first quarter 2015 operating netback of $6.21/boe ($12.8 million) decreased 62 percent from $16.23/boe ($27.4 million) in 2014, primarily reflecting decreased revenue due to lower commodity prices, increased transportation expenses due to increased production and additional royalties related to the East Edson royalty agreements.

Gas over bitumen

	Three months ended March 31,	
(*$ thousands, except as noted*)	**2015**	2014
Gas over bitumen revenue	**935**	2,625
Payments on financial obligation	**(1,105)**	–
Gas over bitumen, net of payments	**(170)**	2,625
$/boe	**(0.08)**	1.55

Perpetual records revenue in relation to GOB royalty credits received under the Natural Gas Royalty Regulation as a result of its working interests in a number of natural gas wells which have been shut-in pursuant to shut-in orders issued by the Government of Alberta. During the first quarter of 2015, Perpetual recorded $0.9 million in GOB revenue; a decrease of $1.7 million from the same period in 2014 attributable to lower Alberta gas reference prices, combined with the annual 10 percent decline in deemed production.

GOB revenue earned during the first quarter of 2015 has been offset by payments of $1.1 million in relation to the 2014 monetization of Perpetual's future GOB royalty credits. As part of the arrangement, Perpetual makes monthly payments to the purchaser, which from time to time will vary from the actual GOB revenue received in the period due to timing differences. The monthly payment commitment expires concurrent with the GOB Royalty Adjustment entitlements, with final expiries expected to occur in June 2021.

Under IFRS, the monetization of future GOB royalty credits in 2014 were recorded as a financial obligation; however entitlement to future revenue from GOB royalty credits are not recorded as an asset but as revenue with the passage of time as it is earned. As such, GOB revenue will continue to be recognized separately as revenue in accordance with Perpetual's accounting policies with the monthly payments recognized separately as a reduction to the GOB financial obligation; however, for the purposes of this MD&A, the monthly payments have been included as a reduction to GOB revenue to reflect the substantive monetization of the future GOB royalty credits.

Exploration and evaluation

($ thousands)	Three months ended March 31, 2015	2014
Lease rentals	**613**	652
Geological and geophysical costs[1]	**1,498**	13
Lease expiries	**199**	351
Total exploration and evaluation	**2,310**	1,016

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

Exploration and evaluation ("E&E") costs include lease rentals on undeveloped acreage, geological and geophysical costs and lease expiries. E&E costs of $2.3 million in 2015 were $1.3 million higher than the prior year as a result of a 3D seismic survey acquisition in both East and West Edson during the first quarter. The seismic is expected to enhance the placement of Wilrich horizontal wells and future potential drilling targets in secondary zones.

General and administrative expenses

($ thousands, except as noted)	Three months ended March 31, 2015	2014
Cash general and administrative expense	**3,581**	4,762
Share based compensation expense (non-cash)	**995**	1,141
Total general and administrative expense	**4,576**	5,903
Cash general and administrative expense *($/boe)*	**1.74**	2.82
Share based compensation expense (non-cash) *($/boe)*	**0.48**	0.67

First quarter cash G&A expense decreased 25 percent to $3.6 million in 2015 from $4.8 million in 2014, reflecting decreased salaries and consultant costs, higher capital overhead recoveries related to the increased first quarter capital expenditure program relative to 2014 and a one-time prior period adjustment of $0.8 million.

Depletion and depreciation

($ thousands, except as noted)	Three months ended March 31, 2015	2014
Depletion and depreciation	**24,950**	22,737
$/boe	**12.15**	13.45

Perpetual recorded $24.9 million of depletion and depreciation expense in the first quarter of 2015. On a boe basis, 2015 depletion and depreciation expense of $12.15/boe decreased 10 percent from $13.45/boe in 2014. Decreased depletion rates are consistent with higher corporate reserves beginning in the third quarter of 2014 with the committed development of the Company's East Edson property and a lower cost base related to third and fourth quarter dispositions recorded in 2014.

Finance expenses

Interest

($ thousands)	Three months ended March 31, 2015	2014
Cash interest		
Senior notes	**6,015**	3,236
Convertible debentures	**610**	2,858
Bank debt	**270**	1,174
Total cash interest	**6,895**	7,268
Non-cash interest		
Amortization of debt issue costs	**500**	931
Total interest	**7,395**	8,199

Cash interest expense during the three months ended March 31, 2015 decreased five percent from the same period in 2014. Decreased cash interest was primarily due to lower overall bank debt levels during the first quarter of 2015 compared to 2014 as well as decreased interest on convertible debentures due to the full repayment of the 7.25% convertible debentures in August 2014 and partial repayment of $25 million of the 7.0% Debentures on December 31, 2014. The repayment of debentures also contributed to a reduction in period over period non-cash debt issue cost amortization. These reductions were partially offset by increased interest on senior notes from the issuance of an additional $125 million 8.75 percent senior notes during the third quarter of 2014.

Other finance expenses

(*$ thousands*)	Three months ended March 31, **2015**	2014
Accretion on decommissioning obligations	**1,088**	1,340
Accretion and change in estimate on GOB obligation	**123**	-
Change in fair value of financial obligation	**(757)**	-
Other finance expenses	**454**	1,340

Other finance expenses for 2015 included accretion on decommissioning obligations of $1.1 million (2014 - $1.3 million) and accretion and change in estimate on the GOB obligation of $0.1 million (2014 – nil), partially offset by a gain of $0.8 million on the change in fair value of the financial obligation created with the 2014 GOB monetization.

Gains on dispositions

During the first quarter of 2015, Perpetual recorded a gain of $4.3 million in relation to a farm-out agreement on 6,240 acres of undeveloped Duvernay lands in the Waskahigan area. Perpetual retained a 35 percent working interest in 3,840 gross acres and 100 percent working interest in the remaining acreage. The gain was calculated based on non-monetary deemed proceeds of $5.9 million based on the carried farm-in investment.

WGS LP loss and dividends

For the three months ended March 31, 2015, Perpetual recorded a loss of $1.2 million on its equity investment in WGS LP compared to a loss of $1.1 million for the same period in 2014. First quarter 2015 losses in WGS LP were primarily due to operating losses partially offset by gains related to fair value adjustments recognized on financial obligations due to decreased forward prices. There were no dividends declared or received during the first quarter of 2015 or 2014.

Funds flow

	Three months ended March 31,			
	2015		2014	
	(*$ thousands*)	**(*$/boe*)**	(*$ thousands*)	(*$/boe*)
Realized revenue[1]	**43,825**	**21.33**	58,380	34.52
Royalties[2]	**(5,454)**	**(2.66)**	(6,174)	(3.65)
Operating expenses	**(21,750)**	**(10.59)**	(21,767)	(12.87)
Transportation costs	**(3,841)**	**(1.87)**	(2,998)	(1.77)
Operating netback[1]	**12,780**	**6.21**	27,441	16.23
GOB revenue net of payments	**(170)**	**(0.08)**	2,625	1.55
Exploration and evaluation[3]	**(613)**	**(0.30)**	(652)	(0.39)
Cash G&A	**(3,581)**	**(1.74)**	(4,762)	(2.82)
Interest[3]	**(6,895)**	**(3.36)**	(7,268)	(4.30)
Funds flow[1]	**1,521**	**0.73**	17,384	10.27

(1) See "Non-GAAP measures" in this MD&A.
(2) Includes $1.6 million in East Edson Gross Overriding Royalty payments in relation to the East Edson Agreements (2014 – nil).
(3) Excludes non-cash items.

Net Loss

	Three months ended March 31,			
	2015		2014	
	(*$ thousands*)	**(*$/boe*)**	(*$ thousands*)	(*$/boe*)
Funds flow[1]	**1,521**	**0.73**	17,384	10.27
Unrealized losses on derivatives	**(9,898)**	**(4.82)**	(12,731)	(7.53)
Payments on financial obligation	**1,105**	**0.54**	-	-
Exploration and evaluation[2]	**(1,697)**	**(0.83)**	(364)	(0.22)
Compensation expense, non-cash	**(995)**	**(0.48)**	(1,141)	(0.67)
Gain on dispositions	**4,324**	**2.11**	5,622	3.32
Depletion and depreciation	**(24,950)**	**(12.15)**	(22,737)	(13.45)
Finance expense, non-cash	**(954)**	**(0.46)**	(2,271)	(1.34)
WGS LP net income (loss) and dividends	**(1,173)**	**(0.57)**	(1,086)	(0.64)
Net loss	**(32,717)**	**(15.93)**	(17,324)	(10.26)

(1) See "Non-GAAP measures" in this MD&A.
(2) Includes non-cash exploration and evaluation expense from expired leases and geological and geophysical costs.

SUMMARY OF QUARTERLY RESULTS

($ thousands, except where noted)	**Q1 2015**	Q4 2014	Q3 2014	Q2 2014
Financial				
Oil and natural gas revenues	**41,804**	62,562	63,126	72,348
Funds flow[1]	**1,521**	17,316	20,831	25,864
Per share – basic	**0.01**	0.12	0.14	0.17
Net income (loss)	**(32,717)**	(18,723)	36,414	2,549
Per share – basic	**(0.22)**	(0.12)	0.24	0.02
– diluted[2]	**(0.22)**	(0.12)	0.23	0.02
Capital expenditures				
Exploration and development	**46,886**	25,639	46,583	12,251
Geological and geophysical	**1,498**	379	34	218
Acquisitions	**3**	756	-	91
Dispositions	**11**	(21,351)	(46,998)	(3,000)
Other	**21**	84	347	108
Net capital expenditures	**48,419**	5,507	(34)	9,668
Common shares *(thousands)*				
Weighted average – basic	**148,531**	149,084	149,574	148,835
Operating				
Daily average production				
Natural gas *(MMcf/d)*	**120.4**	122.5	97.8	97.8
Oil *(bbl/d)*	**2,045**	2,638	2,894	3,185
NGL *(bbl/d)*	**713**	624	430	553
Total *(boe/d)*	**22,819**	23,685	19,640	20,053
Average prices				
Natural gas – before derivatives *($/Mcf)*	**3.01**	3.96	4.35	4.95
Natural gas – including derivatives *($/Mcf)*	**3.14**	4.16	4.35	4.66
Oil – before derivatives *($/bbl)*	**37.37**	59.80	78.37	83.20
Oil – including derivatives *($/bbl)*	**40.60**	65.51	74.74	73.72
NGL *($/bbl)*	**36.15**	59.63	77.56	82.36

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

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

($ thousands, except where noted)	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Financial				
Oil and natural gas revenues	64,754	49,075	52,555	57,187
Funds flow[1]	17,384	12,998	18,650	17,286
Per share – basic	0.12	0.09	0.13	0.12
Net income (loss)	(17,324)	(13,745)	(6,833)	(4,566)
Per share – basic	(0.12)	(0.09)	(0.05)	(0.03)
– diluted[2]	(0.12)	(0.09)	(0.05)	(0.03)
Capital expenditures				
Exploration and development	31,340	24,537	22,325	9,861
Geological and geophysical	13	(19)	25	499
Acquisitions	151	418	532	5,433
Dispositions	-	(901)	(60)	(84)
Other	75	2	34	19,162
Net capital expenditures	31,579	24,037	22,856	34,871
Common shares *(thousands)*				
Weighted average – basic	148,448	148,489	148,382	148,015
Operating				
Daily average production				
Natural gas *(MMcf/d)*	92.1	90.3	85.3	91.9
Oil *(bbl/d)*	2,911	2,967	3,340	3,660
NGL *(bbl/d)*	540	542	724	724
Total *(boe/d)*	18,794	18,559	18,274	19,708
Average prices				
Natural gas – before derivatives *($/Mcf)*	4.90	3.37	2.79	3.68
Natural gas – including derivatives *($/Mcf)*	4.35	3.62	3.31	3.90
Oil – before derivatives *($/bbl)*	77.43	65.45	85.78	68.22
Oil – including derivatives *($/bbl)*	70.97	66.40	80.13	67.55
NGL *($/bbl)*	79.33	64.81	62.83	55.84

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

(2) Periods in which Perpetual has reported a net loss have an anti-dilutive impact on per share calculations resulting in per share amounts for basic and diluted reported as the same.

LIQUIDITY, CAPITALIZATION AND FINANCIAL RESOURCES

Perpetual targets to maintain a strong capital base to retain investor, creditor and market confidence, and to sustain the future development of the business. The Corporation strives to manage its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. Perpetual's capital structure includes share capital, bank debt, senior notes, 7.0% Debentures and adjusted working capital. In order to manage its capital structure, the Corporation may from time to time issue equity or debt securities, enter into business transactions including the sale of assets and adjust its capital spending to manage current and projected debt levels.

To strengthen Perpetual's financial position, the following significant transactions were executed in April 2015:

- On April 1, 2015, Perpetual closed an arrangement with Tourmaline to swap its joint interest share in its West Edson Property in exchange for 6.75 million TOU Shares. The market value of the TOU Shares was $258.7 million based on the April 1, 2015 closing price on the Toronto Stock Exchange and is $267.4 million as at the date of this MD&A.

- On April 1, 2015 concurrent with the closing of the sale of the West Edson Property, Perpetual's lenders completed their semi-annual review of the borrowing base. Total availability was reduced from $105 million to $100 million consisting of a term loan of $75 million and a revolving credit facility of $25 million. Collateral for the term loan is provided by a securities pledge agreement relating to the TOU Shares. The term loan matures on November 30, 2015 which can be extended to April 29, 2016 should the settlement of the Corporation's 7.0% Debentures occur prior to October 31, 2015.

- On April 10, 2015, Perpetual closed the sale of fee simple lands and seismic in east central Alberta as well as a working interest in proprietary seismic for gross proceeds of $21 million.

The Company intends to retain the TOU Shares and manage its short term obligations by way of the term loan along with proceeds received from the disposition of royalty lands and its revolving credit facility. The TOU Shares also increase liquidity by positioning Perpetual to manage downside risks associated with the current uncertain and volatile commodity price environment. The combined impact of these transactions has improved Perpetual's financial flexibility and optionality to manage its future credit facility, 7.0% Debentures and senior note obligations.

Capital Management

($ thousands, except as noted)	**March 31, 2015**	December 31, 2014
Bank debt	**53,296**	-
Senior notes, measured at principal amount	**275,000**	275,000
Convertible debentures, measured at principal amount	**34,878**	34,878
Adjusted working capital deficiency (surplus)(1)	**19,289**	21,867
Net debt	**382,463**	331,745
Shares outstanding at end of period (*thousands*)	**150,170**	150,077
Market price at end of period (*$/share*)	**1.08**	1.14
Market value of shares	**162,184**	171,088
Total capitalization(1)	**544,647**	502,833
Net debt as percentage of total capitalization	**70.2**	66.0
Trailing twelve months funds flow(1)	**65,532**	81,395
Net debt to funds flow ratio(2)	**5.8**	4.1

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

The Corporation monitors capital based on the ratio of net debt to trailing twelve months ("TTM") funds flow. As at March 31, 2015, the Corporation's ratio of net debt to TTM funds flow had increased 41 percent from year end 2014, to 5.8 to 1 (December 31, 2014 – 4.1 to 1). The increase reflects the significant impact of declining commodity prices at the end of 2014 and continuing through the first quarter of 2015; which negatively impacts funds flow and results in higher levels of bank debt. This ratio is monitored continuously by the Corporation and the targeted range of net debt to TTM funds flow varies based on such factors as acquisitions or dispositions, commodity prices, forecasts of future commodity prices, price management contracts, projected cash flows, capital expenditure programs and timing of such programs. As part of the management of this ratio, the Corporation prepares annual capital expenditure budgets and monthly funds flow forecasts, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment, acquisition and development activities and general industry conditions. Capital spending budgets are approved by the Board of Directors.

At March 31, 2015, Perpetual had total net debt of $382.5 million, up $50.8 million from December 31, 2014, with first quarter 2015 capital spending and decommissioning expenditures funded primarily through increased bank indebtedness with limited funds flow during the quarter as a result of depressed oil, natural gas and NGL prices.

Perpetual's adjusted working capital deficiency at March 31, 2015 was $19.3 million compared to $21.9 million at December 31, 2014. Accounts payables and restricted cash balances decreased from year-end 2014 due to clearing of unapplied cash calls to fund the remaining portion of the partner's share of drilling activities in East Edson. Further reductions to accounts payable were attributable to semi-annual interest payments made on the senior notes. The decrease in accounts payable was mostly offset by a decrease in accounts receivables as a result of lower commodity prices.

Reconciliation of net debt

($ millions)	
Net debt, December 31, 2014[1]	331.7
Capital expenditures[2]	48.4
Funds flow[1]	(1.5)
Expenditures on decommissioning obligations	3.1
Other	0.8
Net debt, March 31, 2015[1]	**382.5**

(1) See "Non-GAAP measures" in this MD&A.
(2) Capital expenditures consist of exploration and development including geological and geophysical costs and corporate assets.

Bank indebtedness

At March 31, 2015, Perpetual had bank indebtedness of $53.3 million. Comparatively, at December 31, 2014, Perpetual was undrawn on its credit facility with cash and cash equivalents of $11.5 million and restricted cash of $6.6 million.

The Corporation's credit facility is with a syndicate of Canadian chartered banks. On April 1, 2015, as part of the lender's semi-annual review of the borrowing base and in conjunction with the West Edson disposition, total availability was reduced from $105 million to $100 million consisting of a term loan of $75 million, and a revolving credit facility of $25 million, which includes a $10 million demand loan and $15 million working capital facility. The revolving feature of the credit facility expires on April 29, 2016 with a 365 day term to maturity should it not be extended. The term loan matures on November 30, 2015 which can be extended to April 29, 2016 should the settlement of the Corporation's 7.0% Debentures occur prior to October 31, 2015. The next semi-annual redetermination of the Corporation's borrowing base will occur on or before October 31, 2015.

At March 31, 2015, the Corporation had covenants, as amended on March 5, 2015, that require consolidated debt to trailing twelve month income before interest, taxes, depletion and depreciation and non-cash items ("Consolidated Debt Ratio") to be less than 4.0 to 1.0. Consolidated debt is defined as the sum of the Corporation's period end balance of the credit facility, senior notes and outstanding letters of credit. The credit facility also contains covenants that require consolidated senior debt to trailing twelve month income before interest, taxes, depletion and depreciation and non-cash items ("Consolidated Senior Debt Ratio") to be less than 3.0 to 1.0. Consolidated senior debt is defined as the sum of consolidated debt less the period end balance of the senior notes. The Corporation was in compliance with the lender's covenants at March 31, 2015.

On April 1, 2015, in conjunction with the West Edson disposition the Corporation's lenders agreed to remove the financial covenants previously amended on March 5, 2015 and replace them as follows:

i) Reinstate the requirement to maintain a Consolidated Debt Ratio of less than 4.0 to 1.0 effective for the quarter ending June 30, 2015.

ii) Revise the Consolidated Debt Ratio for the quarters ending December 31, 2015 and March 31, 2016 such that the Corporation will be required to maintain a Consolidated Debt Ratio not exceeding 5.0 to 1.0.

iii) Include the period end balance of the term loan and mark to market value of the TOU Shares in the definition of Consolidated Debt.

Advances under the credit facility are made in the form of Banker's Acceptances ("BA"), prime rate loans or letters of credit at the Corporations option. The Corporation has outstanding letters of credit in the amount of $9.1 million (December 31, 2014 – $8.8 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.

The credit facility bears interest at its lenders' prime rate or BA rates, plus applicable margins and standby fees. The applicable margins range between 1.25% and 4.75% depending on the form of borrowing and changes in the Corporation's Consolidated Debt Ratio for the most recently completed reporting period.

Collateral for the term loan is provided by a securities pledge agreement relating to the TOU Shares obtained in conjunction with the disposition of the West Edson assets. The term loan bears interest at its lender's prime rate plus applicable margins ranging from 1.25% and 4.75% depending on changes in the Corporation's Consolidated Debt Ratio for the most recently completed reporting period.

Convertible Debentures

At March 31, 2015, $34.9 million of the Corporation's 7.0% Debentures, which mature on December 31, 2015, remain outstanding as a short term liability. Management is evaluating repayment options including utilizing excess funds flow and bank indebtedness, asset dispositions, refinancing, or a combination thereof. There is no assurance that the Corporation will be able to raise additional capital to settle all or a portion of the outstanding 7.0% Debentures in cash, in which case, the Corporation would have the option to settle all or a portion with common shares. Additional information on the remaining 7.0% Debentures are as follows:

Principal issued (*$ millions*)	60.0
Principal outstanding (*$ millions*)	34.9
Trading symbol on the Toronto Stock Exchange	PMT.DB.E
Maturity date	December 31, 2015
Conversion price (*$ per share*)	7.00
Fair market value (*$ millions*)(1)	35.1

(1) Fair market value of the 7.0% Debentures are calculated by multiplying the number of debentures outstanding at May 8, 2015 by the quoted market price per debenture at that date.

Senior Notes

At March 31, 2015, Perpetual had $275 million of senior notes outstanding. Additional information on the senior notes are as follows:

				Carrying value	
	Maturity date	**Principal**	**Interest rate**	**March 31, 2015**	December 31, 2014
2011 senior notes(1)	March 15, 2018	150,000	8.75%	**148,354**	148,223
2014 senior notes(2)	July 23, 2019	125,000	8.75%	**122,579**	122,467
		275,000		**270,933**	270,690

(1) Issued March 15, 2011, interest payable semi-annually on September 15 and March 15 of each year.
(2) Issued July 23, 2014, interest payable semi-annually on January 23 and July 23 of each year.

The fair market value of the senior notes at May 8, 2015 was $247.4 million.

Equity

Perpetual's total capitalization was $544.6 million at March 31, 2015. Net debt to total capitalization increased to 70.2 percent from 66 percent at December 31, 2014. The increase in total capitalization was driven by higher net debt levels resulting from capital spending on planned first quarter capital development programs, which exceeded first quarter funds flow.

Weighted average shares outstanding for the quarter ended March 31, 2015 totaled 148.5 million (2014 – 148.4 million). On May 8, 2015 there were 151.2 million shares outstanding.

2015 OUTLOOK

The Corporation's board of directors has approved a $70 to $80 million capital budget for full calendar year 2015. Capital spending for the remainder of the year will be approximately $20 to $25 million. The table below summarizes expected capital spending and planned drilling activities in accordance with Perpetual's 2015 strategic priorities for the remainder of 2015:

(*$ millions*)	**Q1**	**Q2 – Q4**	**Total**
West central liquids-rich gas	43	20	**63**
Mannville heavy oil	1	2	**3**
Shallow gas	1	1	**2**
Panny bitumen	2	2	**4**
Total exploration and development spending	**47**	**25**	**72**
Abandonment and reclamation	3	3	**6**
Total capital and decommissioning expenditures	**50**	**28**	**78**

Perpetual estimates that 2015 funds flow for the remainder of 2015 will be very minimal based on current forward commodity prices, with oil and liquids production averaging close to 2,450 bbl/d and natural gas sales averaging approximately 100 MMcf/d incorporating the sale of an estimated 5,750 boe/d at West Edson.

Perpetual expects to fund the planned capital program through additional borrowing and further asset dispositions as required.

Sensitivities

The table below highlights the sensitivities of Perpetual's 2015 annual forecast funds flow to commodity index prices:

Projected 2015 funds flow[(1)] *($millions)*

		AECO gas price (*$/GJ*)[(2)]			
		$2.50	**$3.00**	**$3.50**	**$4.00**
	$55.00	(1.0)	3.2	7.4	11.6
WTI price	**$60.00**	0.6	4.8	9.0	13.2
(USD/bbl)[(2)]	**$65.00**	2.1	6.4	10.6	14.7
	$70.00	4.3	8.5	12.7	16.9

(1) Funds flow is a non-GAAP measures. Please refer to "Non-GAAP Measures" below.
(2) Commodity prices represent average settled and forward price for Q2 through Q4 2015. The current settled and forward average AECO and WTI prices for April to December of 2015 as of May 8, 2015 were $2.73 per GJ and $USD60.63 per bbl, respectively.

OFF BALANCE SHEET ARRANGEMENTS

Perpetual has no off balance sheet arrangements.

CORPORATE GOVERNANCE

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

FUTURE ACCOUNTING PRONOUNCEMENTS

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee regularly issue new and revised accounting pronouncements which have future effective dates and therefore are not reflected in Perpetual's financial statements. Once adopted these new and amended pronouncements may have an impact on Perpetual's consolidated financial statements. Perpetual's analysis of recent accounting pronouncements is included in the notes to the consolidated financial statements at December 31, 2014.

INTERNAL CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

There were no changes in the Corporation's internal control over financial reporting during the period beginning on January 1, 2015 and ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.