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, 2016 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, 2016 as well as the audited consolidated financial statements and accompanying notes for the years ended December 31, 2015 and 2014. The MD&A should be read in conjunction with the Corporation's MD&A for the year ended December 31, 2015 as disclosure which is unchanged from the December 31, 2015 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 9, 2016.

NATURE OF BUSINESS: Perpetual is an oil and natural gas exploration, production and marketing company headquartered in Calgary, Alberta. Perpetual has a spectrum of opportunities in its resource-style portfolio of assets to support its value strategy, including liquids-rich natural gas 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, all of which complement the Corporation's 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 realized 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, 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*)	**2016**	2015
Cash flow from operating activities	**(6,770)**	(3,445)
Exploration and evaluation costs[(1)]	**15**	1,498
Payments on financial obligation[(2)]	**(650)**	(1,105)
Expenditures on decommissioning obligations	**1,094**	3,051
Changes in non-cash operating capital	**6,359**	1,522
Funds flow	**48**	1,521
Funds flow per share[(3)]	**0.00**	0.20

(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 and geological and geophysical costs from operating to investing activities in the funds flow reconciliation.

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

(3) Based on weighted average shares outstanding for the period.

Realized revenue: Realized revenue includes oil and natural gas revenue, realized gains (losses) on financial natural gas and crude oil contracts, realized gains (losses) on foreign exchange contracts, and call option premiums received. Realized revenue, excluding foreign exchange contracts is used by management to calculate the Corporation's net realized commodity prices taking into account monthly settlements on financial crude oil and natural gas forward sales, collars and basis differentials. 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 excluding short-term derivative assets and liabilities related to the Corporation's risk management activities, current portion of financial obligation, current portion of the TOU share financial arrangement, current portion of provisions, 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 TOU share financial arrangement and the principal amount of senior notes reduced for the mark to market value of common shares of Tourmaline Oil Corp. ("TOU") held. Net bank debt and net debt are used by management to analyze leverage.

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

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

FORWARD-LOOKING INFORMATION 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 "2016 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; net income and funds flow sensitivities to commodity price, production, foreign exchange and interest rate changes; operating, general and administrative ("G&A"), and other expenses; the expected impact of cost-saving initiatives on operating and G&A expenses, expected interest savings from securities swap, expected net debt balance after securities swap, 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 2016 and 2017; the retention of, and benefits to be received from holding the TOU shares (as defined above); 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, 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 FINANCING ACTIVITIES

Throughout the past six months, Perpetual has continuously updated internal funds flow forecasts to reflect declining commodity prices. As commodity prices continued to decline, management and Perpetual's Board of Directors became increasingly concerned with the Company's ability to settle long-term obligations and financial sustainability. Although the majority of the Company's debt has maturities in 2018 and 2019, expected funds flow for 2016 became negative based on forward strip prices in early January. Perpetual completed several transactions during the first quarter of 2016 to generate additional liquidity and improve the Company's balance sheet including, closing of the fully backstopped rights offering on January 18, 2016 for gross proceeds of $25 million, sale of 250,000 Tourmaline Oil Corp. ("TOU") shares at an average price of $29.45 for proceeds of $7.4 million, disposition of 37 sections of its 425 net sections of oil sands leases in northeast Alberta for proceeds of $6.1 million and a one percent gross overriding royalty, and crystallization of $7.7 million in hedging gains from future natural gas contracts.

In addition, restricted capital spending combined with an ongoing focus on cost reductions throughout the organization positively impacted short term liquidity; however, the decline in commodity prices more than offset the savings realized. Recognizing the serious financial difficulty that the prevailing commodity price environment was creating, Perpetual continued to focus on recapitalization activities to strengthen the Company's balance sheet and manage future debt obligations.

Security Swap

Subsequent to the end of the quarter, on April 13, 2016, Perpetual announced a proposal to give holders of senior notes an opportunity to swap their 8.75% senior notes due March 15, 2018 (the "2018 Senior Notes") and 8.75% senior notes due July 23, 2019 (the "2019 Senior Notes") in exchange for TOU shares owned by Perpetual on the basis of 21 TOU shares for each $1,000 principle amount of the 2018 Senior Notes and 20 TOU shares for each $1,000 principle amount of the 2019 Senior Notes (the "Security Swap").

The tender offer closed on April 27, 2016 at which point the Company repurchased and cancelled an aggregate principal amount of $150 million of senior notes consisting of $76.8 million of outstanding principal amount of 2018 Senior Notes and $73.2 million of outstanding principal amount of 2019 Senior Notes through the exchange of 3.1 million TOU shares plus a cash payment for accrued interest of $2.5 million. The fair market value of TOU shares exchanged was $89.0 million based on an April 27, 2016 closing price of $28.91 per share.

Further, the Company has extended its proposal to remaining senior note holders to swap outstanding senior notes for TOU shares on the same terms, with a commitment to swap a minimum of an additional $25 million of senior notes for approximately 0.5 million TOU shares. The extended senior note swap proposal is open for acceptance by holders of senior notes until May 10, 2016 or such date which may be further extended by the Corporation.

New Margin Loan

During April 2016, Perpetual entered into a new margin loan arrangement with a new lender (the "New Margin Loan") with more advantageous terms including a reduced number of TOU shares pledged under margin loan arrangements from 5.25 million TOU shares to 2.1 million TOU shares; thereby allowing 3.2 million TOU shares to be available to Perpetual for other purposes, including the Security Swap. Proceeds of $22.8 from the New Margin Loan, together with available cash on hand, was used to repay the previous $42 million margin loan held with Perpetual's syndicate of lenders. The New Margin Loan also extended the maturity date from October 31, 2016 to April 30, 2017.

Reduction to Credit Facility

The significant decline in commodity prices during the first quarter of 2016 led the Company's syndicate of lenders to reduce price forecasts used in evaluating the Company's borrowing base, resulting in a discretionary redetermination prior to maturity. On April 14, 2016, the available capacity under Perpetual's credit facility was reduced from a total of $20 million to a $6 million working capital facility. Perpetual is currently undrawn on the credit facility however outstanding letters of credit totaling $5.6 million reduce availability under the credit facility to a de minimus amount.

FIRST QUARTER 2016 RESULTS

Capital expenditures

	Three months ended March 31,	
(*$ thousands*)	**2016**	2015
Exploration and development	**4,794**	46,886
Geological and geophysical costs[1]	**15**	1,498
Acquisitions net of dispositions	**(6,466)**	14
Other	**20**	21
Total	**(1,637)**	48,419

[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

(*$ thousands*)	Three months ended March 31, **2016**	2015
West central liquids-rich gas	**4,636**	43,293
Mannville heavy oil	**130**	745
Panny bitumen	**52**	1,860
Shallow gas	**(24)**	988
Total	**4,794**	46,886

In light of the continued deterioration of commodity prices since December 2015, Perpetual continues to restrict its capital spending programs. Exploration and development spending of $4.8 million during the first quarter of 2016 was almost entirely allocated to west central Alberta for drilling one (1.0 net) natural gas well at East Edson. The well was the third well drilled on an existing four well pad with completion activities deferred pending an assessment of project economics based on realized commodity prices as the year progresses. Minimal additional capital during the first quarter was allocated to continue strategic production testing at Panny and complete operationally critical facility upgrades and overhauls.

Perpetual continues to target strategic asset dispositions as part of its focus on maintaining liquidity. During the first quarter of 2016, the Company completed the disposition of 37 sections of its 425 net sections of oil sands leases in northeast Alberta in exchange for gross proceeds of $6.2 million and a one percent gross overriding royalty. The company also sold three idle separators from inventory for net proceeds of $0.3 million.

Expenditures on decommissioning obligations

Perpetual spent $1.1 million during the first quarter of 2016 on abandonment and reclamation projects in eastern Alberta as part of the Company's shallow gas operating cost reduction program. The majority of first quarter decommissioning expenditures relate to internal labor costs as the Company continued its program to redeploy operational personnel and internal resources to accelerate progress and drive efficiencies on abandonment and reclamation projects.

Production

	Three months ended March 31, **2016**	2015
Natural gas (*MMcf/d*)		
Eastern – North	**27.1**	32.4
Eastern – South	**18.3**	24.5
West Central	**52.8**	63.5
Total natural gas	**98.2**	120.4
Crude oil (*bbl/d*)		
Eastern – North	**24**	17
Eastern – South(1)	**1,144**	1,984
West Central	**6**	44
Total crude oil	**1,174**	2,045
Total NGL (*bbl/d*)	**836**	713
Total production (*boe/d*)	**18,378**	22,819

(1) Primarily Mannville heavy oil.

Total oil, NGL and natural gas production of 18,378 boe/d was down seven percent from the preceding fourth quarter (19,661 boe/d), reflecting natural declines. With the decision to defer the completion of the East Edson well drilled in the first quarter, production at East Edson began to decline below full utilization of infrastructure capacity. Compared to the prior year, production was 19 percent lower than the first quarter of 2015, reflecting volumes associated with the second quarter 2015 West Edson property swap for TOU shares as well as natural declines. These reductions were partially offset by an increase in East Edson production related to the Company's successful 2015 drilling program and facilities expansion.

Natural gas production of 98.2 MMcf/d decreased seven percent from 105.1 MMcf/d in the fourth quarter of 2015, reflecting natural declines and the decision to defer drilling projects and preserve inventory and value with a view to eventual commodity price recovery. Compared to the prior year, natural gas production decreased 18 percent compared to the first quarter of 2015 (120.4 MMcf/d), reflecting natural declines and the decision to swap the West Edson property for TOU shares effective April 1, 2015. The West Edson property represented 32.2 MMcf/d of natural gas production and 127 bbl/d of natural gas liquids production in the first quarter of 2015.

Consistent with declining East Edson natural gas production, first quarter natural gas liquids ("NGL") production of 836 bbl/d decreased three percent from the previous fourth quarter of 2015 (866 bbl/d). Compared to the first quarter of 2015, NGL production increased 17 percent reflecting Perpetual's increased liquids-rich natural gas production due to 2015 capital development in East Edson.

Oil production of 1,174 bbl/d declined eight percent from the previous quarter (Q4 2015 – 1,278 bbl/d) and 43 percent compared to the prior year (Q1 2015 - 2,045 bbl/d). Waterflood response is demonstrable in select pools and is effectively arresting declines where voidage replacement goals are being met. However, the decision to defer drilling and limit waterflood activities in light of depressed crude oil prices has limited the overall impact on declines.

Commodity prices

	Three months ended March 31, 2016	2015
Reference prices		
AECO Monthly Index (*$/GJ*)	**2.00**	2.80
AECO Daily Index (*$/GJ*)	**1.74**	2.60
Alberta Gas Reference Price (*$/GJ*)(1)	**1.78**	2.60
West Texas Intermediate ("WTI") light oil (*$USD/bbl*)	**33.45**	48.62
Western Canadian Select ("WCS") differential (*$USD/bbl*)	**(14.24)**	(14.73)
Average Perpetual prices		
Natural gas		
Before derivatives (*$/Mcf*)(2)(3)	**2.25**	3.01
Percent of AECO Monthly Index	**100**	102
Including derivatives (*$/Mcf*)	**3.15**	3.14
Percent of AECO Monthly Index	**139**	106
Oil		
Before derivatives (*$/bbl*)	**22.08**	37.37
Including derivatives (*$/bbl*)	**33.90**	40.60
NGL (*$/bbl*)	**29.33**	36.15

(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 2016 natural gas production is 1.13 GJ:1 Mcf (2015 – 1.12 GJ:1 Mcf).

AECO Monthly Index prices of $2.00/GJ for the quarter ended March 31, 2016 decreased 29 percent from $2.80/GJ for the same period in 2015. Extreme warm temperatures throughout North America during winter 2015/2016, combined with continued increases in North American production, drove natural gas into an oversupply situation resulting in declining natural gas prices during the first quarter of 2016.

Decreased AECO Monthly Index prices were reflected in Perpetual's natural gas price before derivatives of $2.25/Mcf, down 25 percent from $3.01/Mcf in 2015. Perpetual's realized first quarter 2016 natural gas price was increased by realized gains of $8.0 million on natural gas derivatives compared to realized gains of $1.4 million during the same period in 2015, resulting in an average realized gas price, including derivatives of $3.15/Mcf in the first quarter of 2016, almost unchanged from $3.14/Mcf in 2015. Realized gains on natural gas derivatives in the first quarter of 2016 included gains of $7.7 million in respect of the settlement of contracts prior to maturity. Settled contracts were then replaced with new derivative contracts as the market provided opportunities to reset pricing at target levels.

Perpetual's oil price, before derivatives, of $22.08/bbl in the first quarter of 2016 decreased 41 percent compared to 2015 due to global oil price declines which were partially offset by a slight narrowing of the WTI to WCS price differentials and a weaker Canadian dollar. Perpetual's realized oil price of $33.90/bbl, including derivatives, was higher than the price before derivatives due to realized gains of $1.3 million recorded on financial WTI fixed price contracts.

Perpetual's first quarter realized NGL price of $29.33/bbl decreased 19 percent from the previous year, 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 realized NGL price benefits from a high proportion of C5+, which closely tracks oil price and changes in WTI. Perpetual's average NGL sales composition for the first quarter of 2016 consisted of 71 percent condensate as compared to 65 percent in the comparative quarter of 2015.

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 revenue.

Natural Gas

Perpetual has in place natural gas contracts on an estimated 72 percent of forecasted natural gas production for the remainder of 2016. The following tables provide a summary of derivative natural gas contracts in place as at March 31, 2016, as well as any additional contracts entered into prior to the date of this MD&A.

The following table provides a summary of physical and financial natural gas sales arrangements at the AECO trading hub. Settlements on these physical sales contracts are recognized in oil and natural gas revenue.

Term	Volumes sold (bought) at AECO (GJ/d)	Average price ($CAD/GJ)(1)	Market prices ($CAD/GJ)(2)	Type of contract
April 2016	(6,000)	0.99	1.22	Physical
April 2016	26,000	1.22	1.22	Physical
April 2016	(5,000)	1.69	1.22	Financial
April 2016	42,500	1.85	1.22	Financial
May 2016	17,500	1.06	1.04	Physical
May 2016	42,500	1.82	1.04	Financial
May 2016	(5,000)	1.69	1.04	Financial
June 2016	8,000	1.29	1.25	Physical
June 2016	47,500	1.77	1.25	Financial
June 2016 – December 2016	(5,000)	1.69	1.81	Financial
July 2016 – December 2016	37,500	1.93	1.90	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 9, 2016.

The following table provides a summary of financial natural gas sales arrangements at the AECO trading hub which settle in $USD:

Term	Volumes sold at AECO (MMBTU/d)	Average price ($USD/MMBTU)(1)	Market prices ($USD/MMBTU)(2)	Type of contract
April 2016	35,000	1.33	0.99	Financial
May 2016	35,000	1.33	0.88	Financial
June 2016 – December 2016	35,000	1.33	1.47	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 9, 2016.

The following table provides a summary of financial natural gas sales arrangements at the NYMEX trading hub:

Term	Volumes sold at NYMEX (MMBTU/d)	Average price ($USD/MMBTU)	Market prices ($USD/MMBTU)(1)	Type of contract
January 2017 - March 2017	17,500	2.72	3.06	Financial

(1) Market prices are based on forward NYMEX prices as of market close on May 9, 2016.

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 2017 - December 2017	57,500	(0.72)	(0.88)	Financial
January 2018 - December 2018	40,000	(0.69)	(0.75)	Financial

(1) Market prices are based on forward AECO-NYMEX differential prices as of market close on May 9, 2016.

Crude Oil

The Corporation had entered into financial oil sales arrangements in $USD as follows:

Term	Volumes (bbl/d)	Floor price ($USD/bbl)	Ceiling price ($USD/bbl)	Market prices ($USD/bbl)(1)	Type of contract
April 2016 – December 2016	500	45.00	52.10	44.55	Collar
April 2016 – December 2016	500	42.00	50.70	44.55	Collar
January 2017 – December 2017	250	44.50	49.55	47.00	Collar
January 2017 – December 2017	250	42.00	49.25	47.00	Collar

(1) Market prices are based on forward WTI oil prices as of market close on May 9, 2016.

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 2016	500	(13.68)	(13.24)	Financial
May 2016	500	(13.68)	(14.28	Financial
June 2016 – December 2016	500	(13.68)	(13.82)	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 9, 2016.

Foreign Exchange

The Corporation has the following forward foreign exchange arrangements:

Term	Notional ($USD/month)	Boosted notional[1] ($USD/month)	Strike rate ($CAD/$USD)	Market prices ($CAD/$USD)[2]	Type of contract
April 2016 – March 2018[3]	(3,500,000)	-	1.25	1.30	Financial
April 2016 – February 2018[4]	1,000,000	3,000,000	1.25	1.30	Financial

(1) If the spot rate at expiry of each contract month is below the strike rate, Perpetual pays $USD 3,000,000 multiplied by the difference between the spot rate at expiry and the strike rate.
(2) Market prices are based on forward $CAD/$USD exchange rates as of market close on May 9, 2016.
(3) If the average monthly exchange rate is above the strike rate, the Corporation pays $USD 3,500,000 multiplied by the difference between the average monthly exchange rate and the strike rate. If the average monthly exchange rate is below the strike rate, the Corporation receives $USD 3,500,000 multiplied by the difference between the average monthly exchange rate and the strike rate.
(4) If the spot rate at expiry of each contract month is above the strike rate, the Corporation receives $USD 1,000,000 multiplied by the difference between the spot rate at expiry and the strike rate. Cumulative receipts on this contract are limited to a total of $0.8 million.

Revenue

	Three months ended March 31,	
(*$ thousands, except as noted*)	**2016**	2015
Petroleum and natural gas revenue		
Natural gas[1]	20,105	32,607
Oil[1]	2,358	6,879
NGL	2,231	2,318
Total petroleum and natural gas revenue	24,694	41,804
Realized gains on derivatives	8,003	2,021
Realized revenue	32,697	43,825
Unrealized gains (losses) on derivatives	11,013	(9,898)
Total revenue	43,710	33,927
Realized revenue *($/boe)*	19.55	21.33
Total revenue *($/boe)*	26.14	16.52

(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, 2016 of $24.7 million decreased 41 percent from the first quarter of 2015 due to declining commodity prices combined with a 19 percent decrease in production relative to the comparative 2015 quarter.

Natural gas revenue, before derivatives, of $20.1 million in the first quarter of 2016 decreased 38 percent from 2015 (Q1 2015 - $32.6 million) due to lower natural gas prices and an 18 percent decrease in gas production.

Oil revenues of $2.4 million in the first quarter of 2016 were 66 percent lower than the comparative quarter in 2015 ($6.9 million) due to oil price declines and reduced production as a result of natural declines and the deferral of crude oil drilling programs.

NGL revenue of $2.2 million declined four percent from the comparative period in 2015 due to lower prices despite a 17 percent increase in production associated with the increase in liquids-rich gas and associated NGL production from East Edson.

Realized gains on derivatives in the first quarter of 2016 totaled $8.0 million compared to gains of $2.0 million for the same period in 2015. Total gains in the first quarter of 2016 were comprised of $8.0 million from natural gas derivative contracts, including crystallization of natural gas hedges, as well as $1.3 million of realized gains on oil derivative contracts which were offset by losses of $1.3 million related to foreign exchange contracts.

The Corporation recorded unrealized gains on derivatives of $11.0 million during the first quarter of 2016 compared to unrealized losses of $9.9 million for the same period in 2015. 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, **2016**	2015
Crown	**302**	2,366
Freehold and overriding	**1,975**	3,088
Total	**2,277**	5,454
Crown (*% of P&NG revenue*)	**1.2**	5.7
Freehold and overriding (*% of P&NG revenue*)	**8.0**	7.4
Total (*% of P&NG revenue*)	**9.2**	13.1
$/boe	**1.36**	2.66

Perpetual recorded royalty expense of $2.3 million during the first quarter of 2016, representing a decrease to the combined average royalty rate on P&NG revenue to 9.2 percent from 13.1 percent in 2015. Average crown royalty rates decreased to 1.2 percent in the first quarter of 2016 compared to 5.7 percent in 2015 as a result of lower Alberta natural gas reference prices and declining oil and NGL prices. Crown royalty deductions exceeded the reference price for certain natural gas properties resulting in no calculated crown royalty expense for certain months due to low commodity prices. Freehold and overriding royalty rates for the first quarter of 2016 of 8.0 percent were relatively consistent with the prior year at 7.4 percent as both years include the additional gross overriding royalties beginning July 1, 2014 under 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.

Production and operating expenses

(*$ thousands, except as noted*)	Three months ended March 31, **2016**	2015
Production and operating expenses	**14,369**	21,750
$/boe	**8.59**	10.59

Total production and operating expenses decreased 34 percent to $14.4 million ($8.59/boe) for the first quarter of 2016 compared to $21.8 million ($10.59/boe) for the same period in 2015, reflecting the West Esdon property swap for TOU shares as well as cost reductions including the re-deployment of operations personnel to abandonment and reclamation projects, and operating efficiencies at the low cost Company owned and operated gas plant at East Edson which started up in the third quarter of 2015.

Perpetual's focus on reducing costs and maximizing efficiencies in operations has resulted in a sustainable cost structure for the Company's East Edson and Mannville assets. Start-up of the Company operated gas plant in the third quarter of 2015, combined with a diligent focus on cost management is reflected in a first quarter area operating cost of $2.52/boe for East Edson production.

The Company continues to prioritize cost reductions on its shallow gas assets. Municipal property taxes represent a significant portion of fixed operating costs as the calculation of property taxes for machinery and equipment, pipelines and wells is based on a prescribed formula methodology which results in a tax assessment base that is dramatically misrepresentative of the property value for the Company's mature shallow gas assets. As a result, at current commodity prices and operating netbacks, property taxes in Eastern Alberta completely eliminate positive operating cash flow on most shallow gas properties.

Transportation costs

(*$ thousands, except as noted*)	Three months ended March 31, **2016**	2015
Transportation costs	**2,499**	3,841
$/boe	**1.49**	1.87

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 the first quarter of 2016 decreased to $2.5 million from $3.8 million for the same period in 2015, reflecting lower oil and natural gas sales volumes and lower rates on clean oil trucking.

Operating netbacks

	Three months ended March 31,	
	2016	2015
Operating netback (*$ thousands*)		
Realized revenue[1]	**32,697**	43,825
Royalties[2]	**(2,277)**	(5,454)
Production and operating expenses	**(14,369)**	(21,750)
Transportation	**(2,499)**	(3,841)
Total operating netback	**13,552**	12,780
Boe operating netback (*$/boe*)		
Realized revenue[1]	**19.55**	21.33
Royalties[2]	**(1.36)**	(2.66)
Production and operating expenses	**(8.59)**	(10.59)
Transportation	**(1.49)**	(1.87)
Total operating netback	**8.11**	6.21

(1) See "Non-GAAP measures" in this MD&A.
(2) Includes $1.3 million in East Edson Gross Overriding Royalty payments in relation to the East Edson Agreements (2015 - $1.6 million).

Perpetual's first quarter 2016 operating netback of $8.11/boe ($13.5 million) increased 31 percent from $6.21/boe ($12.8 million) for the same period in 2015 as a result of reduced royalties, operating costs and transportation, reflecting the Company's focus on cost reductions in all areas of spending. Increased operating netbacks were achieved despite continued reductions in commodity prices compared to the prior year.

Gas over bitumen

	Three months ended March 31,	
(*$ thousands, except as noted*)	**2016**	2015
Gas over bitumen revenue	**530**	935
Payments on financial obligation	**(650)**	(1,105)
Gas over bitumen, net of payments	**(120)**	(170)
$/boe	**(0.07)**	(0.08)

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 2016, Perpetual recorded $0.5 million in GOB revenue; a decrease of $0.4 million from the same period in 2015 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 2016 has been offset by payments of $0.7 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 was 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

	Three months ended March 31,	
(*$ thousands*)	**2016**	2015
Lease rentals	**508**	613
Geological and geophysical costs[1]	**15**	1,498
Lease expiries	**842**	199
Total exploration and evaluation	**1,365**	2,310

(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 for purposes of this MD&A.

Exploration and evaluation ("E&E") costs include lease rentals on undeveloped acreage, geological and geophysical costs and lease expiries. E&E costs of $1.4 million in the first quarter of 2016 were $0.9 million lower than the prior year which included completion of a 3D seismic survey during the first quarter of 2015. As part of the Company's cost-cutting initiative, all land holdings are being reviewed with non-strategic lands being surrendered back to the crown, resulting in increased lease expiries but reduced lease rental expenses in the current and future periods.

General and administrative expenses

	Three months ended March 31,	
(*$ thousands, except as noted*)	**2016**	2015
Cash general and administrative expense	**5,943**	3,581
Share based compensation expense (non-cash)	**400**	995
Total general and administrative expense	**6,343**	4,576
Cash general and administrative expense *($/boe)*	**3.55**	1.74
Share based compensation expense (non-cash) *($/boe)*	**0.24**	0.48

Perpetual's focus on cost-savings initiatives, which began in 2015 continued into the first quarter of 2016 resulting in reduced consulting fees and savings related to modified work schedules, elimination of annual bonuses, staff reductions and cost cutting in all areas of administration. Despite achieved cost reductions, first quarter 2016 cash G&A expense of $5.9 million was 66 percent higher than the first quarter of 2015 as a result of restructuring and severance costs ($1.0 million) and reduced capital overhead recoveries ($1.1 million) in 2016 related to a significantly reduced first quarter capital expenditure program compared to 2015.

Non-cash compensation expenses for the first quarter of 2016 decreased $0.6 million compared to the same period in 2015 as a result of performance multiplier adjustments related to performance share rights issued and outstanding.

Gains on dispositions

During the first quarter of 2016, Perpetual recorded a gain of $7.1 million in relation to the disposition of certain oil sands leases, non-core undeveloped land and idle production equipment for proceeds of $6.5 million. Included in the gain on disposition was the de-recognition of abandonment and reclamation liabilities which were transferred with properties disposed.

Depletion and depreciation

	Three months ended March 31,	
(*$ thousands, except as noted*)	**2016**	2015
Depletion and depreciation	**17,547**	24,950
$/boe	**10.49**	12.15

Perpetual recorded $17.5 million of depletion and depreciation expense in the first quarter of 2016. On a per boe basis, first quarter 2016 depletion and depreciation expense of $10.49/boe decreased 14 percent from $12.15/boe in 2015. Decreased depletion rates are consistent with a lower cost base resulting from 2015 property dispositions and asset swaps, changes in decommissioning obligation estimates and an impairment loss recorded at year end 2015.

Finance expenses

Interest

	Three months ended March 31,	
(*$ thousands*)	**2016**	2015
Cash interest		
Senior notes	**6,015**	6,015
Bank debt	**918**	270
Convertible debentures	**–**	610
Total cash interest	**6,933**	6,895
Non-cash interest		
Amortization of debt issue costs	**263**	500
Total interest	**7,196**	7,395

Cash interest expense of $6.9 million for the three months ended March 31, 2016 was consistent with the same period in 2015. Decreased interest on convertible debentures due to the full redemption of the 7.00% convertible debentures on December 31, 2015 was offset by increased interest on bank debt during the first quarter of 2016. Settlement of the convertible debentures at the end of 2015 also contributed to a reduction in period over period non-cash debt issue cost amortization.

Other finance expenses

	Three months ended March 31,	
(*$ thousands*)	**2016**	2015
Accretion on decommissioning obligations	**917**	1,088
Accretion and change in estimate on GOB obligation	**–**	123
Change in fair value of TOU share financial arrangement	**2,041**	–
Change in fair value of financial obligation	**(1,578)**	(757)
Other finance expenses	**1,380**	454

Other finance expenses for the first quarter of 2016 included accretion on decommissioning obligations of $0.9 million (2015 - $1.1 million) and a loss of $2.0 million (2015 – nil) on the change in fair value of the TOU share financial arrangement, partially offset by a gain of $1.6 million (2015 – $0.8 million) on the change in fair value of the financial obligation, which is estimated based on forecast Alberta gas reference prices.

Change in fair value of marketable securities

During the first quarter of 2016, Perpetual recorded an unrealized gain of $34.0 million related to the change in fair value of marketable securities, which represents the change in value between the December 31, 2015 closing price of TOU shares of $22.35 per share and March 31, 2016 closing price of $27.50 per share. The Company also sold 250,000 TOU shares during the first quarter for total proceeds of $7.4 million.

WGS LP income (loss) and dividends

For the three months ended March 31, 2016, Perpetual recorded income of $0.5 million on its equity investment in WGS LP gas storage business compared to a loss of $1.2 million for the same period in 2015. First quarter 2016 income in WGS LP was primarily due to increased revenue attributed to a widening of summer to winter spreads as well as decreased power costs resulting from the decision to reduce winter withdrawals. There were no dividends declared or received during the first quarter of 2016 or 2015.

Funds flow

	Three months ended March 31,			
		2016		2015
	($ thousands)	***($/boe)***	*($ thousands)*	*($/boe)*
Realized revenue[1]	**32,697**	**19.55**	43,825	21.33
Royalties[2]	**(2,277)**	**(1.36)**	(5,454)	(2.66)
Production and operating expenses	**(14,369)**	**(8.59)**	(21,750)	(10.59)
Transportation costs	**(2,499)**	**(1.49)**	(3,841)	(1.87)
Operating netback[1]	**13,552**	**8.11**	12,780	6.21
GOB revenue net of payments	**(120)**	**(0.07)**	(170)	(0.08)
Exploration and evaluation[3]	**(508)**	**(0.30)**	(613)	(0.30)
Cash G&A	**(5,943)**	**(3.55)**	(3,581)	(1.74)
Interest[3]	**(6,933)**	**(4.15)**	(6,895)	(3.36)
Funds flow[1]	**48**	**0.03**	1,521	0.73

(1) See "Non-GAAP measures" in this MD&A.
(2) Includes $1.3 million in East Edson Gross Overriding Royalty payments in relation to the East Edson Agreements (2015 – $1.6 million).
(3) Excludes non-cash items.

Low commodity prices continued to have a dramatic impact on Perpetual's financial results in the first quarter of 2016, with funds flow eroded to $48,000 (2015 - $1.5 million) despite the crystallization of natural gas hedges and significant corporate cost-savings initiatives which began in 2015 and continued in the first quarter of 2016.

Net Income (Loss)

	Three months ended March 31,			
		2016		2015
	($ thousands)	***($/boe)***	*($ thousands)*	*($/boe)*
Funds flow[1]	**48**	**0.03**	1,521	0.73
Unrealized gains (losses) on derivatives	**11,013**	**6.59**	(9,898)	(4.82)
Payments on financial obligation	**650**	**0.39**	1,105	0.54
Exploration and evaluation[2]	**(857)**	**(0.51)**	(1,697)	(0.83)
Compensation expense, non-cash	**(400)**	**(0.24)**	(995)	(0.48)
Gain on dispositions	**7,073**	**4.23**	4,324	2.11
Depletion and depreciation	**(17,547)**	**(10.49)**	(24,950)	(12.15)
Finance expense, non-cash	**(1,643)**	**(0.98)**	(954)	(0.46)
Change in fair value of marketable securities	**33,954**	**20.30**	-	-
Share of net income (loss) of equity method investment	**473**	**0.28**	(1,173)	(0.57)
Net income (loss)	**32,764**	**19.60**	(32,717)	(15.93)

(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.

Perpetual recorded net income of $32.8 million in the first quarter of 2016 primarily attributed to unrealized gains recorded on commodity price derivative contracts, gains on non-core asset dispositions and a gain on the change in fair value of TOU shares held by the Company.

SUMMARY OF QUARTERLY RESULTS

(*$ thousands, except where noted*)	**Q1 2016**	Q4 2015	Q3 2015	Q2 2015
Financial				
Oil and natural gas revenues	**24,694**	33,044	35,460	32,129
Funds flow(1)	**48**	362	(2,514)	2,635
Per share – basic(2)	**0.00**	0.05	(0.33)	0.35
Net income (loss)	**32,764**	(93,539)	(67,139)	104,121
Per share – basic(2)	**0.72**	(12.34)	(8.89)	13.94
– diluted(2)	**0.70**	(12.34)	(8.89)	13.21
Capital expenditures				
Exploration and development	**4,794**	808	14,670	13,069
Geological and geophysical	**15**	(93)	16	105
Acquisitions	**–**	–	–	240
Dispositions	**(6,466)**	–	(2,630)	(21,337)
Other	**20**	25	584	280
Net capital expenditures	**(1,637)**	740	12,640	(7,643)
Common shares (*thousands*)(2)				
Weighted average – basic	**45,573**	7,582	7,549	7,468
Weighted average – diluted	**47,022**	7,582	7,549	7,880
Operating				
Daily average production				
Natural gas (*MMcf/d*)	**98.2**	105.1	105.5	86.0
Oil (*bbl/d*)	**1,174**	1,278	1,426	1,766
NGL (*bbl/d*)	**836**	866	741	522
Total (*boe/d*)	**18,378**	19,661	19,758	16,621
Average prices				
Natural gas – before derivatives (*$/Mcf*)	**2.25**	2.74	2.91	2.80
Natural gas – including derivatives (*$/Mcf*)	**3.15**	2.92	2.86	3.10
Oil – before derivatives (*$/bbl*)	**22.08**	33.04	40.58	52.35
Oil – including derivatives (*$/bbl*)	**33.90**	39.81	41.40	74.33
NGL (*$/bbl*)	**29.33**	33.68	28.07	38.64

(1) See "Non-GAAP measures" in this MD&A.
(2) Common shares and per share amounts have been retroactively adjusted to reflect the consolidation of outstanding common shares on the basis of 20 common shares to one common share on March 24, 2016.

(*$ 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(2)	0.20	2.32	2.79	3.48
Net income (loss)	(32,717)	(18,723)	36,414	2,549
Per share – basic(2)	(4.41)	(2.51)	4.87	0.34
– diluted(2)	(4.41)	(2.51)	4.54	0.32
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*)(2)				
Weighted average – basic	7,427	7,454	7,479	7,442
Weighted average – diluted	7,427	7,454	8,014	7,878
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*)	49.41	67.05	74.55	73.31
NGL (*$/bbl*)	36.15	59.63	77.56	82.36

(1) See "Non-GAAP measures" in this MD&A.
(2) Common shares and per share amounts have been retroactively adjusted to reflect the consolidation of outstanding common shares on the basis of 20 common shares to one common share on March 24, 2016.

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, 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.

With the deterioration of commodity prices continuing in 2016, Perpetual remains focused on liquidity management and preservation of its balance sheet through restricted capital spending and a focus on reducing costs and maximizing efficiencies in administration and operations. Restricted capital spending, combined with an ongoing focus on cost reductions throughout the organization has positively impacted short term liquidity; however, the decline in forecast commodity prices more than offset the savings realized to date. A diligent focus on reductions in all areas of spending, including operating, financing and administrative costs, will continue in order to establish a sustainable cost structure in this low commodity price environment.

Perpetual completed several transactions during the first four months of 2016 to generate additional liquidity in the short term and improve the Company's balance sheet for long term financial sustainability, including:

- Closing of the fully backstopped rights offering on January 18, 2016 for gross proceeds of $25 million;
- Sale of 250,000 TOU shares at an average price of $29.45 for proceeds of $7.4 million;
- Disposition of 37 sections of its 425 net sections of oil sands leases in northeast Alberta for proceeds of $6.2 million and a one percent gross overriding royalty;
- Crystallization of $7.7 million in hedging gains from future natural gas contracts;
- Repurchase and cancellation of $150.0 million principle amount of senior notes through the exchange of 3.1 million TOU shares owned by Perpetual with a fair market value of $89.0 million ($28.91 per share).

In April 2016, the liquidity provided by these transactions enabled Perpetual to reduce its margin loan from $42 million to $22.8 million through a new lender with more favorable terms including a lower interest rate, higher loan to value ratio and extended maturity to April 30, 2017. The new margin loan is secured by a pledge of 2.1 million TOU shares, thereby allowing the remaining 3.2 million unpledged TOU shares to facilitate the Security Swap, under which 3.1 million TOU shares were swapped in exchange for $76.8 million 2018 Senior Notes and $73.2 million 2019 Senior Notes, which were subsequently cancelled.

The Company has extended its proposal to remaining senior note holders to swap outstanding senior notes on the same basis with a commitment to swap a minimum of an additional $25 million of senior notes for approximately 0.5 million TOU shares. The extended TOU Securities Swap is open for acceptance by holders of senior notes until May 10, 2016 or such date which may be further extended by the Corporation. Additional TOU shares are accessible from the 2.1 million pledged to the margin loan to the extent that the loan amount does not exceed 40 percent of the current market value of the TOU shares pledged as collateral.

Despite the next scheduled borrowing base redetermination being set for October 31, 2016, the agent for Perpetual's syndicate of lenders exercised their discretion to re-determine the borrowing base in light of a significant decline in commodity prices and corresponding price forecasts used in evaluating the Company's borrowing base, resulting in a reduction in the credit facility from $20 million to $6 million effective April 14, 2016. Outstanding letters of credit totaling $5.6 million further reduces availability to $0.4 million. Perpetual is currently undrawn on the credit facility.

The combination of these transactions, together with an increase in the market value of TOU shares held, resulted in a reduction in net debt of $54.5 million during the first quarter of 2016 to $149.2 million at March 31, 2016 (December 31, 2015 - $203.6 million). Incorporating the cancellation of $150 million principal amount of senior notes as well as the minimum additional $25 million of principal amount to be exchanged for an estimated total 3.6 million TOU shares through the Securities Swap; as well as repayment of the margin loan, reduced new margin loan and the current market value of an estimated remaining 2.7 million TOU shares held, Perpetual estimates its current net debt will be approximately $70 million. Perpetual estimates interest savings of $10.3 million for the remainder of 2016 based on the cancellation of the committed minimum $175 million of principle amount of senior notes.

The Company intends to retain the remaining TOU shares and manage its short term obligations by way of the margin loan and the TOU share financial arrangement. The TOU shares represent a source of liquidity which enables Perpetual to manage downside risks associated with the current uncertain and volatile commodity price environment. The combined impact of transactions undertaken in the first four months of 2016 has improved Perpetual's financial flexibility and optionality to manage its future debt obligations.

Capital Management

(*$ thousands, except as noted*)	**March 31, 2016**	December 31, 2015
Bank indebtedness	**42,000**	42,000
Senior notes, measured at principal amount	**275,000**	275,000
Carrying amount of TOU share forward financial obligation	**20,100**	18,059
Carrying amount of marketable securities(1)	**(171,875)**	(145,275)
Adjusted working capital deficiency (surplus)(2)	**(16,068)**	13,832
Net debt(2)	**149,157**	203,616
Shares outstanding at end of period (*thousands*)(3)	**52,383**	19,114
Market price at end of period (*$/share*)(3)	**1.19**	1.00
Market value of shares	**62,336**	19,114
Total capitalization(2)	**211,492**	222,730
Net debt as a percentage of total capitalization	**71**	91
Trailing twelve months funds flow(2)	**531**	2,004

(1) The carrying amount of marketable securities is based on the closing price of the TOU shares per the TSX and the amount of TOU shares held for their respective period end dates.
(2) See "Non-GAAP measures" in this MD&A.
(3) Common shares and per share amounts have been retroactively adjusted to reflect the consolidation of outstanding common shares on the basis of 20 common shares to one common share on March 24, 2016.

The ratio of net debt to trailing twelve months ("TTM") funds flow is monitored continuously by the Corporation and 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.

Declining commodity prices have resulted in minimal levels of funds flow in 2015 and the first quarter of 2016, moving this financial ratio significantly out of target range. Despite the deterioration of funds flow, net debt at March 31, 2016 was reduced by $54.5 million with the increase in the period end value of the TOU shares along with a working capital surplus due to cash on hand at the end of the first quarter from the rights offering, asset sales, hedge crystallizations and the sale of 250,000 TOU shares. At March 31, 2016, Perpetual had total debt, net of working capital and the market value of TOU shares, of $149.2 million, down $54.5 million (27 percent) from December 31, 2015. First quarter capital spending and decommissioning expenditures were financed from proceeds received from the rights offering as well as asset dispositions and the sale of TOU shares as funds flow was limited during the quarter as a result of depressed oil, natural gas and NGL prices.

Perpetual's adjusted working capital surplus at March 31, 2016 was $16.1 million compared to a deficit of $13.8 million at December 31, 2015. The working capital surplus results from the increase in cash and cash equivalents along with a decrease in accounts payable due to lower overall operational and capital spending during the quarter, partially offset by a decrease in accounts receivables as a result of lower commodity prices.

Reconciliation of net debt

(*$ millions*)	
Net debt, December 31, 2015(1)	203.6
Capital expenditures(2)	4.8
Expenditures on decommissioning obligations	1.1
Dispositions, net of acquisitions	(6.5)
Change in fair value of marketable securities(3)	(26.6)
Proceeds on sale of marketable securities	(7.4)
Funds flow(1)	–
Net proceeds from rights offering	(22.1)
Change in fair value of TOU share financial arrangement	2.0
Other	0.3
Net debt, March 31, 2016(1)	**149.2**

(1) See "Non-GAAP measures" in this MD&A.
(2) Capital expenditures consist of exploration and development spending including geological and geophysical costs and corporate assets.
(3) The unrealized change in value of marketable securities is based on the difference between the closing price of the TOU shares per the TSX and the amount of TOU shares held for their respective period end dates.

Bank indebtedness

At March 31, 2016, Perpetual had cash and cash equivalents of $26.0 million (December 31, 2015 - $2.1 million) with $42 million drawn on the credit facility (December 31, 2015 – $42.0 million). The Corporation's credit facility consisted of a reserve based loan and a margin loan with a syndicate of Canadian chartered banks (the "Lenders") for a total borrowing capacity of $62 million. The margin loan of $42 million was fully drawn, secured by the pledge of 5.25 million TOU shares at a mark to market loan to value ratio of 33 percent. The reserve based credit facility with borrowing capacity of $20 million included a $5 million demand loan and $15 million working capital facility, and was undrawn at March 31, 2016. The Corporation also had outstanding letters of credit in the amount of $5.4 million (December 31, 2015 – $5.4 million).

Reserve Based Credit Facility

Despite the next scheduled borrowing base redetermination being set for October 31, 2016, the lead lender for Perpetual's syndicate of Lenders exercised their discretion to re-determine the borrowing base in light of a significant decline in commodity prices and corresponding price forecasts used in evaluating the Company's borrowing base. On April 14, 2016, the Lenders completed a discretionary review of Perpetual's borrowing base which resulted in a reduction to the available capacity under Perpetual's credit facility from $20 million to a $6 million working capital facility. The credit facility expires on October 31, 2016.

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 ratio of consolidated debt to income before interest, taxes, and non-cash items ("Consolidated Debt Ratio") for the most recently completed reporting period. Consolidated debt is defined as the sum of the period end balance of the credit facility, margin loan, TOU share financial arrangement, senior notes and outstanding letters of credit, reduced by the lesser of the mark to market value or the quarterly average value of TOU shares held by Perpetual.

Margin Loan

On April 14, 2016, Perpetual repaid its $42 million margin loan using a combination of cash and proceeds from a new margin loan arrangement with BMO Nesbitt Burns (the "New Margin Loan"). The amount currently drawn under the New Margin Loan is $22.8 million. Collateral for the New Margin Loan is provided by a securities pledge agreement relating to 2.1 million TOU shares. The New Margin Loan extends the maturity date to April 30, 2017 and includes a 40 percent loan to value ratio at funding, allowing Perpetual to reduce the number of TOU shares pledged as security.

The New Margin Loan bears interest at its lenders' three month CDOR rate plus 4.5%. Perpetual is required to maintain a lending ratio of less than 55 percent based on the daily closing market value of the TOU shares pledged under the securities pledge agreement.

Covenants

The Corporation has a working capital covenant restricting the sum of borrowings under the reserve based credit facility plus net working capital liabilities to a total of $40 million (excluding amounts drawn under the margin loan). On April 14, 2016, the amendments to the credit facility included a change to the working capital covenant from $40 million to $22 million effective for the period ending June 30, 2016 and thereafter. Net working capital liabilities includes cash and cash equivalents, accounts receivable, prepaid expenses and deposits and accounts payable and accrued liabilities, plus an adjustment for accrued interest on senior notes payable from the date of the calculation up to and including expiry of the credit facility (October 31, 2016).

The Corporation also has maintenance covenants that require consolidated senior debt to TTM income before interest, taxes, depletion and depreciation and non-cash items ("EBITDA") to be maintained within certain thresholds. Consolidated senior debt is defined as the sum of the Corporation's period end balance of the margin loan, credit facility and outstanding letters of credit reduced by the lesser of the mark to market value or the quarterly average value of TOU shares pledged to the margin loan. The existing covenant limiting the ratio of consolidated senior debt to TTM EBITDA remains at 3.0 to 1.0 except in the quarters ended June 30 and September 30, 2016 where the limit has been increased to 3.5 to 1.0.

Perpetual was in compliance with the lender's covenants at March 31, 2016.

Senior Notes

At March 31, 2016, Perpetual had $275 million of senior notes outstanding. On April 27, 2016, $150 million face value of senior notes were swapped, including $76.8 million of outstanding 2018 Senior Notes and $73.2 million of outstanding 2019 Senior Notes through the exchange of 3.1 million TOU shares and a cash payment of $2.5 million for accrued interest. The fair market value of TOU shares exchanged was $89.0 million based on an April 27, 2016 closing price of $28.91 per share. Included in the exchange were $46.4 million 2018 Senior Notes and $32.3 million 2019 Senior Notes held by insiders of the Company.

Further, the Company has extended its proposal to remaining senior note holders to swap outstanding senior notes on the basis of 21 TOU shares for each $1,000 of principle of 2018 Senior Notes tendered and 20 TOU shares for each $1,000 of principle of 2019 Senior Notes, with a commitment to swap a minimum of an additional $25 million of senior notes for approximately 0.5 million TOU shares. The extended senior note swap proposal is open for acceptance by holders of senior notes until May 10, 2016 or such date which may be further extended by the Corporation. Incorporating the cancellation of senior notes under the Securities Swap on April 28, 2016, Perpetual has $73.2 million 2018 Senior Notes and $51.8 million 2019 Senior Notes outstanding, of which $35.2 million and $24.6 million respectively are held by insiders of the Company.

The principle amount of outstanding senior notes at May 9, 2016 was $125.0 million and the fair market value based on trading activity was $75 million.

Equity

On March 24, 2016 shareholders of the Corporation approved the consolidation of outstanding common shares of Perpetual on the basis of 20 common shares to one common share, which has been retroactively applied in the interim consolidated financial statements and throughout this MD&A. On January 18, 2016, Perpetual issued 33.3 million common shares of the Company upon closing of a fully backstopped rights offering to issue common shares of Perpetual for gross proceeds of $25 million. Included were 21.4 million issued to entities controlled by the Chairman of Perpetual's Board of Directors for proceeds of $16.1 million.

At March 31, 2016 there were 52.4 million common shares outstanding and weighted average shares outstanding for the quarter ended March 31, 2016 of 45.6 million (2015 – 7.4 million). On May 9, 2016, there were 52.4 million common shares outstanding.

2016 OUTLOOK

Perpetual remains focused on strengthening its balance sheet, managing liquidity and restoring positive funds flow as top priorities in the current depressed commodity price environment. In addition to the $150.0 million senior notes which were swapped for TOU shares and cancelled on April 27, 2016, the Company intends to swap and cancel a minimum of $25 million and a maximum of $85 million additional outstanding senior notes for 0.5 to 1.8 million of its remaining 3.2 million TOU shares in May. Proforma the $150 million settled swap and cancellation of the minimum additional swap amount of $25 million, the Company estimates its total debt, net of the market value of remaining TOU shares held, would be approximately $70 million. The estimate of total net debt is comprised of $100.0 million in face value senior notes, $21.3 million due November 16, 2016 as per the financing arrangement secured by 1.0 million TOU shares, a margin loan of close to $19 million secured by the remaining 1.7 million TOU shares due April 2017 and an estimated working capital deficit of $10.0 million, offset by the market value of the remaining 2.7 million TOU shares of approximately $80 million (based on a market price of $29.91 per TOU share on May 9, 2016).

The Company's Board of Directors, together with Management, continue to defer material capital spending in light of depressed commodity prices. Approximately $6 million of capital expenditures for the remainder of 2016 will be allocated to continue to advance heavy oil waterflood activities, strategic testing on high impact opportunities and high return abandonment and reclamation activities which will be executed primarily utilizing internal manpower and equipment. In addition, completion and tie in of the East Edson well drilled during the first quarter is forecast to add production volumes in the third quarter but will be assessed on a project economics basis as the year progresses prior to execution.

Perpetual estimates that expenses will exceed revenues for the remainder of 2016 resulting in negative funds flow of $10 to $15 million based on current forward commodity prices, with total oil and liquids production averaging close to 1,700 bbl/d and natural gas sales averaging approximately 84 MMcf/d. The Company will continue to pursue reductions in all areas of its cost structure in order to restore positive funds flow and will focus on sources of liquidity, including strategic asset sales, throughout the remainder of 2016.

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, 2015.

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, 2016 and ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.