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 and six months ended June 30, 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 and six months ended June 30, 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 August 4, 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 and oil sands leases in northern Alberta, 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 June 30,		Six months ended June 30,	
(*$ thousands, except per share amounts*)	**2016**	2015	**2016**	2015
Cash flow from (used in) operating activities	**(3,396)**	6,674	**(10,166)**	3,229
Exploration and evaluation costs[1]	**11**	105	**26**	1,603
Payments on financial obligation[2]	**(306)**	(891)	**(956)**	(1,996)
Expenditures on decommissioning obligations	**912**	1,097	**2,006**	4,148
Changes in long term Crown receivable	**–**	2,095	**–**	2,095
Changes in non-cash working capital	**927**	(6,445)	**7,286**	(4,923)
Funds Flow from (used in) operations	**(1,852)**	2,635	**(1,804)**	4,156
Funds flow from (used in) operations per share[3]	**(0.04)**	0.35	**(0.04)**	0.56

(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 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 basic 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.

SECOND QUARTER 2016 RESULTS

Significant Transactions

During the second quarter of 2016, Perpetual made further improvements to its balance sheet through the completion of the following transactions:

- Closing of a securities swap whereby Perpetual repurchased and cancelled $214.4 million principal amount of senior notes tendered by holders of senior notes through the exchange of 4.4 million TOU shares owned by Perpetual with a fair market value of $130.5 million ($29.64 per share) (the "Securities Swap").
- Disposition of the Company's 30% interest in the gas storage facility held by Warwick Gas Storage LP ("WGS LP") in May 2016 for proceeds of $20.0 million in addition to a $0.5 million dividend prior to closing.

These transactions were the primary drivers behind Perpetual's $120.3 million (81 percent) reduction in net debt from March 31, 2016 ($149.2 million) and $174.8 million (86 percent) reduction in net debt from December 31, 2015 ($203.6 million).

Capital expenditures

	Three months ended June 30,		Six months ended June 30,	
(*$ thousands*)	**2016**	2015	**2016**	2015
Exploration and development	**822**	13,069	**5,616**	59,955
Geological and geophysical costs[1]	**11**	105	**26**	1,603
Dispositions, net of acquisitions	**(20,052)**	(21,097)	**(26,518)**	(21,083)
Other	**464**	280	**484**	301
Total	**(18,755)**	(7,643)	**(20,392)**	40,776

[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 June 30,		Six months ended June 30,	
(*$ thousands*)	**2016**	2015	**2016**	2015
West Central liquids-rich gas	**675**	11,936	**5,311**	55,229
Mannville heavy oil	**121**	353	**251**	1,098
Panny bitumen	**26**	571	**78**	2,431
Shallow gas	**–**	209	**(24)**	1,197
Total	**822**	13,069	**5,616**	59,955

Perpetual continues to defer material spending in light of depressed commodity prices. Perpetual's exploration and development spending for the second quarter of 2016 was limited to $0.8 million, with $0.7 million allocated to west central Alberta primarily for incremental costs associated with the natural gas well drilled during the first quarter of 2016. Minimal additional capital during the second quarter was allocated to continue the strategic cyclic heat stimulation test at Panny and complete operationally critical facility upgrades and overhauls.

Other capital expenditures included $0.4 million for the purchase of equipment to be used in abandonment and reclamation projects, primarily on shallow gas properties in Eastern Alberta.

Dispositions

Perpetual continues to pursue minor asset dispositions as part of its focus on maintaining liquidity. During the second quarter of 2016, the Company completed the disposition of its 30 percent partnership interest in WGS LP for proceeds of $20.0 million. The transaction included disposition of the Company's equity investment in WGS LP as well as 9,207 net acres of surrounding lands and associated wells and infrastructure with current net production of 470 Mcf/d (the "Buffer Lands"). Immediately prior to closing, Perpetual also received a $0.5 million dividend from WGS LP, representing its 30 percent share of dividends declared. The Company recorded a loss, net of the gain on disposition of the Buffer Lands, of $5.2 million on the transaction.

Expenditures on decommissioning obligations

Perpetual spent $0.9 million during the second 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 decommissioning expenditures relate to internal labor and equipment 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 June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Natural gas (*MMcf/d*)				
Eastern – North	**28.2**	32.7	**27.7**	32.5
Eastern – South	**16.4**	22.7	**17.3**	23.6
West Central	**40.6**	30.6	**46.7**	47.0
Total natural gas	**85.2**	86.0	**91.7**	103.1
Crude oil (*bbl/d*)				
Eastern – North	**21**	5	**22**	11
Eastern – South[1]	**1,029**	1,731	**1,087**	1,857
West Central	**23**	30	**15**	36
Total crude oil	**1,073**	1,766	**1,124**	1,904
Total NGL (*bbl/d*)	**682**	522	**759**	617
Total production (*boe/d*)	**15,959**	16,621	**17,169**	19,703

(1) Primarily Mannville heavy oil.

Total natural gas, oil and NGL production for the three months ended June 30, 2016 of 15,959 boe/d was down 13 percent from the first quarter of 2016 (18,378 boe/d) and 4 percent from the second quarter of 2015 (16,621 boe/d), reflecting the Company's decision to restrict capital spending in response to low commodity prices.

Perpetual's natural gas production of 85.2 MMcf/d was marginally lower than the second quarter in 2015 and 13 percent below the preceding first quarter of 2016 (98.2 MMcf/d) reflecting natural declines and the decision to defer drilling projects and preserve inventory and value with a view to eventual commodity price recovery. Perpetual continues to defer the completion of the East Edson well drilled in the first quarter pending price recovery, resulting in production at East Edson that remains below full utilization of infrastructure capacity.

Consistent with restricted capital spending and declining East Edson natural gas production, second quarter NGL production of 682 bbl/d decreased 18 percent from the first quarter of 2016 (836 bbl/d). Compared to the second quarter of 2015, NGL production increased 31 percent reflecting Perpetual's increased liquids-rich natural gas production associated with 2015 capital development programs at East Edson.

Oil production of 1,073 bbl/d declined nine percent from the previous quarter (Q1 2016 – 1,174 bbl/d) and 39 percent compared to the prior year (Q2 2015 - 1,766 bbl/d). Reduced production related to the decision to defer crude oil drilling and limit spending on waterflood activities in light of depressed crude oil prices has been mitigated somewhat by the positive response of select pools to waterflood programs.

Commodity prices

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Reference prices				
AECO Monthly Index (*$/GJ*)	**1.18**	2.53	**1.59**	2.66
AECO Daily Index (*$/GJ*)	**1.32**	2.52	**1.53**	2.56
Alberta Gas Reference Price (*$/GJ*)[1]	**1.04**	2.36	**1.40**	2.49
West Texas Intermediate ("WTI") light oil (*$USD/bbl*)	**45.59**	57.94	**39.52**	53.28
Western Canadian Select ("WCS") differential (*$USD/bbl*)	**(13.30)**	(11.59)	**(13.77)**	(13.16)
Average Perpetual prices				
Natural gas				
Before derivatives (*$/Mcf*)[2][3]	**1.37**	2.80	**1.84**	2.92
Percent of AECO Monthly Index	**104**	101	**103**	100
Including derivatives (*$/Mcf*) [4]	**1.85**	3.10	**2.55**	3.13
Percent of AECO Monthly Index	**140**	111	**143**	107
Oil				
Before derivatives (*$/bbl*)	**38.47**	52.35	**29.91**	44.35
Including derivatives (*$/bbl*) [4]	**39.17**	74.33	**36.42**	61.02
NGL (*$/bbl*)	**34.71**	38.64	**31.75**	37.21

(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 second quarter 2016 natural gas production is 1.12 GJ:1 Mcf (2015 – 1.10 GJ:1Mcf).
(4) Excludes realized gains and losses from foreign exchange contracts.

AECO Monthly Index prices of $1.18/GJ for the second quarter of 2016 decreased 53 percent from $2.53/GJ for the same period in 2015, reflecting the overhang of natural gas in storage in Alberta. The buildup of gas in storage was the result of the warm 2015/2016 winter seen throughout North America, contributing to declining natural gas demand. Global oil prices improved during the second quarter with an average WTI of USD$45.59/bbl, up 36 percent from the first quarter of 2016 (USD$33.45/bbl).

Decreased AECO Monthly Index prices were reflected in Perpetual's second quarter natural gas price before derivatives of $1.37/Mcf, down 51 percent from $2.80/Mcf in 2015. The Company's realized second quarter natural gas price was increased by realized gains of $3.8 million on natural gas derivatives compared to realized gains of $2.4 million during the same period in 2015, resulting in a second quarter 2016 average realized gas price, including derivatives, of $1.85/Mcf, 40 percent lower than the prior year ($3.10/Mcf).

Perpetual's second quarter oil price, before derivatives, of $38.47/bbl increased 74 percent from the first quarter of 2016 ($22.08/bbl), reflecting higher WTI prices and a narrowing of the WCS differential. Compared to the prior year, the second quarter oil price was 27 percent lower due to global oil price declines which were partially offset by a weaker Canadian dollar. Perpetual's realized oil price of $39.17/bbl, including derivatives, was higher than the price before derivatives due to realized gains of $0.1 million recorded on financial WTI fixed price contracts.

Perpetual's realized NGL price decreased 10 percent from the previous year reflecting the drop in all NGL component prices as a function of the decrease in WTI prices, as well as NGL supply growth which has been bottlenecked by infrastructure in many regions of North America. Perpetual's average NGL sales composition for the second quarter consisted of 65 percent condensate as compared to 55 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 commodity prices.

Natural Gas

Perpetual has in place natural gas financial contracts on an estimated 69 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 June 30, 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 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
July 2016	8,700	1.58	1.85	Physical
August 2016	2,500	1.89	2.19	Physical

(1) Average price calculated using weighted average price for net open contracts.
(2) Market prices for July and August are based on settled AECO Monthly Index prices.

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

Term	Volumes sold (bought) at AECO (GJ/d)	Average price ($CAD/GJ)[1]	Market prices ($CAD/GJ)[2]	Type of contract
July 2016	(5,000)	1.69	1.85	Financial
July 2016	40,300	1.90	1.85	Financial
August 2016	40,300	1.91	2.19	Financial
August 2016	(5,000)	1.69	2.19	Financial
September 2016 – December 2016	37,500	1.93	2.66	Financial
September 2016 – December 2016	(20,000)	2.34	2.66	Financial

(1) Average price calculated using weighted average price for net open contracts.
(2) Market prices for July and August are based on settled AECO Monthly Index prices. Market prices for subsequent months are based on forward AECO prices as of market close on August 4, 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
July 2016 – December 2016	35,000	1.33	1.96	Financial

(1) Average price calculated using weighted average price for net open contracts.
(2) Market prices for July and August are based on settled AECO Monthly Index prices. Market prices for subsequent months are based on forward AECO prices as of market close on August 4, 2016.

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

Term	Volumes sold (bought) at NYMEX (MMBTU/d)	Average price ($USD/MMBTU)	Market prices ($USD/MMBTU)[1]	Type of contract
January 2017 - March 2017	17,500	2.72	3.35	Financial
January 2017 - March 2017	(17,500)	3.31	3.35	Financial

(1) Market prices are based on forward NYMEX prices as of market close on August 4, 2016.

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

Term	Volumes sold (bought) (MMBTU/d)	AECO-NYMEX differential ($USD/MMBTU)	Market prices ($USD/MMBTU)[1]	Type of contract
January 2017 - December 2017	57,500	(0.72)	(0.89)	Financial
January 2017 - December 2017	(25,000)	(0.87)	(0.89)	Financial
January 2018 - December 2018	40,000	(0.69)	(0.76)	Financial

(1) Market prices are based on forward AECO-NYMEX differential prices as of market close on August 4, 2016.

Crude Oil

The following table provides a summary of financial oil sales arrangements in $USD:

Term	Volumes (bbl/d)	Floor price ($USD/bbl)	Ceiling price ($USD/bbl)	Market prices ($USD/bbl)[1]	Type of contract
July 2016 – December 2016	500	45.00	52.10	44.35	Collar
July 2016 – December 2016	500	42.00	50.70	44.35	Collar
January 2017 – December 2017	250	44.50	49.55	46.69	Collar
January 2017 – December 2017	250	42.00	49.25	46.69	Collar

(1) Market prices are based on forward WTI oil prices as of market close on August 4, 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
July 2016 – December 2016	500	(13.68)	(14.21)	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 July and August 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 August 4, 2016.

Foreign Exchange

At June 30, 2016, the Corporation had entered into the following U.S. dollar forward sales arrangement:

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

(1) If the average monthly exchange rate is greater than the strike rate, the Corporation pays $USD 3,500,000 multiplied by the difference between the average monthly exchange rate and the strike rate.

(2) Market prices are based on forward $CAD/$USD exchange rates as of market close on August 4, 2016.

At June 30, 2016, the Corporation had entered into the following U.S. dollar boosted forward sales arrangement:

Term	Notional $USD/month	Boosted notional[1] $USD/month	Strike rate ($CAD/$USD)	Market prices ($CAD/$USD)[3]	Type of contract
July 2016 – February 2018[2]	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, the Corporation pays $USD 3,000,000 multiplied by the difference between the spot rate at expiry and the strike rate.

(2) 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, of which $0.2 million have been recognized as of August 4, 2016.

(3) Market prices are based on forward $CAD/$USD exchange rates as of market close on August 4, 2016.

Revenue

($ thousands, except as noted)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Petroleum and natural gas revenue				
Natural gas[(1)]	**10,590**	21,884	**30,695**	54,491
Oil[(1)]	**3,758**	8,407	**6,116**	15,286
NGL	**2,153**	1,838	**4,384**	4,156
Total petroleum and natural gas revenue	**16,501**	32,129	**41,195**	73,933
Realized gains on derivatives	**3,574**	4,471	**11,577**	6,492
Realized revenue	**20,075**	36,600	**52,772**	80,425
Unrealized gains (losses) on derivatives	**(9,491)**	(2,569)	**1,522**	(12,467)
Total revenue	**10,584**	34,031	**54,294**	67,958
Realized revenue *($/boe)*	**13.82**	24.20	**16.89**	22.55
Total revenue *($/boe)*	**7.29**	22.50	**17.38**	19.06

(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 June 30, 2016 of $16.5 million decreased 49 percent from 2015 due to declining commodity prices along with lower production volumes resulting from natural declines and deferred drilling activities.

Natural gas revenue, before derivatives, of $10.6 million in the second quarter of 2016 decreased 52 percent from $21.9 million in 2015 reflecting the 53 percent drop in AECO Monthly index gas prices.

Oil revenues of $3.8 million in the second quarter of 2016 were 55 percent lower than the comparative quarter in 2015 ($8.4 million) reflecting lower oil prices and a 39 percent decrease in oil production as a result of natural declines and the deferral of crude oil drilling programs.

Second quarter NGL revenue of $2.2 million increased 17 percent from the comparative period in 2015 with lower NGL prices offset by a 31 percent increase in production associated with the increase in liquids-rich gas and associated NGL production from East Edson.

Realized gains on derivatives for the three months ended June 30, 2016 totaled $3.6 million compared to gains of $4.5 million for the same period in 2015. Gains in the second quarter of 2016 were comprised of $3.8 million and $0.1 million related to natural gas and oil contracts respectively which were partially offset by losses of $0.3 million related to foreign exchange contracts.

The Corporation recorded unrealized losses on derivatives of $9.5 million during the second quarter of 2016 compared to unrealized losses of $2.6 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 June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Crown	**520**	(88)	**822**	2,278
Freehold and overriding[(1)]	**1,331**	3,046	**3,306**	6,134
Total	**1,851**	2,958	**4,128**	8,412
Crown (*% of P&NG revenue*)	**3.2**	(0.3)	**2.0**	3.1
Freehold and overriding (*% of P&NG revenue*)	**8.1**	9.5	**8.0**	8.3
Total (*% of P&NG revenue*)	**11.3**	9.2	**10.0**	11.4
$/boe	**1.27**	1.96	**1.32**	2.36

(1) Includes $1.0 million in gross overriding royalty payments at East Edson ("East Edson GORR") for the three months ended June 30, 2016 (2015 – $1.8 million) and $2.3 million for the six months ended June 30, 2016 (2015 - $3.4 million).

Perpetual recorded royalty expense of $1.9 million during the second quarter of 2016, representing an effective combined average royalty rate on P&NG revenue of 11.3 percent (5.2% net of the East Edson GORR). Crown royalties represented 3.2 percent of P&NG revenue during the second quarter of 2016, comparable with Perpetual's effective annual crown royalty rate of 3.1 percent in 2015. Compared to the prior year, crown royalty expense for the second quarter of 2015 was more than offset by a recovery of $0.7 million related to annual adjustments for 2014 capital cost allowance, custom processing and operating costs as well as revised Crown deductions for the first half of 2015.

Production and operating expenses

($ thousands, except as noted)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Production and operating expenses	**9,480**	15,796	**23,849**	37,546
$/boe	**6.53**	10.44	**7.63**	10.53

Total production and operating expenses decreased 40 percent to $9.5 million in the second quarter of 2016 compared to $15.8 million for the same period of 2015, reflecting the Company's diligent focus on reducing costs and maximizing efficiencies in operations, 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 commenced operations in the third quarter of 2015. Operating costs at East Edson averaged $2.78/boe during the second quarter of 2016.

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

	Three months ended June 30,		Six months ended June 30,	
($ thousands, except as noted)	**2016**	2015	**2016**	2015
Transportation costs	**2,114**	2,484	**4,613**	6,325
$/boe	**1.46**	1.64	**1.48**	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 the second quarter of 2016 decreased to $2.1 million from $2.5 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 June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Operating netback (*$ thousands*)				
Realized revenue[1]	**20,075**	36,600	**52,772**	80,425
Royalties[2]	**(1,851)**	(2,958)	**(4,128)**	(8,412)
Production and operating expenses	**(9,480)**	(15,796)	**(23,849)**	(37,546)
Transportation costs	**(2,114)**	(2,484)	**(4,613)**	(6,325)
Total operating netback	**6,630**	15,362	**20,182**	28,142
Boe operating netback (*$/boe*)				
Realized revenue[1]	**13.82**	24.20	**16.89**	22.55
Royalties[2]	**(1.27)**	(1.96)	**(1.32)**	(2.36)
Production and operating expenses	**(6.53)**	(10.44)	**(7.63)**	(10.53)
Transportation costs	**(1.46)**	(1.64)	**(1.48)**	(1.77)
Total boe operating netback	**4.56**	10.16	**6.46**	7.89

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

(2) Includes $1.0 million in gross overriding royalty payments at East Edson for the three months ended June 30, 2016 (2015 – $1.8 million) and $2.3 million for the six months ended June 30, 2016 (2015 - $3.4 million).

Perpetual's second quarter 2016 operating netback of $4.56/boe ($6.6 million) decreased 55 percent from $10.16/boe ($15.4 million) in 2015, primarily reflecting decreased revenue due to lower commodity prices, offset by cost savings of $4.78/boe realized on production and operating expenses, transportation costs and royalties.

Gas over bitumen

	Three months ended June 30,		Six months ended June 30,	
($ thousands, except as noted)	**2016**	2015	**2016**	2015
Gas over bitumen revenue	**210**	685	**740**	1,620
Payments on financial obligation	**(306)**	(891)	**(956)**	(1,996)
Gas over bitumen, net of payments	**(96)**	(206)	**(216)**	(376)
$/boe	**(0.07)**	(0.14)	**(0.07)**	(0.11)

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 second quarter of 2016, Perpetual recorded $0.2 million in GOB revenue; a decrease of 69 percent from the same period in 2015 attributable to the 56 percent decrease in Alberta gas reference prices, combined with the annual 10 percent decline in deemed production.

GOB revenue earned during the second quarter of 2016 has been offset by payments of $0.3 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.

Exploration and evaluation

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2016**	2015	**2016**	2015
Lease rentals	**572**	620	**1,080**	1,233
Geological and geophysical costs[1]	**11**	105	**26**	1,603
Lease expiries	**498**	5,707	**1,340**	5,906
Total exploration and evaluation	**1,081**	6,432	**2,446**	8,742

[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 the 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 $1.1 million in the second quarter of 2016 were $5.3 million lower than the prior year with fewer lease expiries occurring in the current period.

General and administrative expenses

	Three months ended June 30,		Six months ended June 30,	
($ thousands, except as noted)	**2016**	2015	**2016**	2015
Cash general and administrative expense	**3,727**	4,091	**9,670**	7,672
Share based compensation expense (non-cash)	**1,958**	1,299	**2,358**	2,294
Total general and administrative expense	**5,685**	5,390	**12,028**	9,966
Cash general and administrative expense *($/boe)*	**2.57**	2.70	**3.09**	2.15
Share based compensation expense (non-cash) *($/boe)*	**1.35**	0.86	**0.75**	0.64

Second quarter cash G&A expense decreased 9 percent to $3.7 million in 2016 from $4.1 million in 2015, reflecting lower consulting and professional fees as well as on-going cost saving initiatives implemented by the Corporation in response to the depressed commodity price environment. Non-cash compensation expenses for the second quarter of 2016 increased $0.7 million compared to the same period in 2015 as a result of incremental costs associated with modifications to existing share based compensation agreements which were approved during the first quarter of 2016 following the shareholder approved consolidation of common shares.

Depletion and depreciation

	Three months ended June 30,		Six months ended June 30,	
($ thousands, except as noted)	**2016**	2015	**2016**	2015
Depletion and depreciation	**16,146**	19,496	**33,693**	44,446
$/boe	**11.12**	12.89	**10.78**	12.46

Perpetual recorded $16.1 million of depletion and depreciation expense in the second quarter of 2016 (2015 - $19.5 million). On a per boe basis, second quarter 2016 depletion and depreciation expense of $11.12/boe decreased 14 percent from $12.89/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 June 30,		Six months ended June 30,	
($ thousands)	**2016**	2015	**2016**	2015
Cash interest				
Senior notes	**3,277**	6,016	**9,292**	12,031
Bank debt	**1,204**	1,183	**2,122**	1,453
Convertible debentures	**–**	611	**–**	1,221
Total cash interest	**4,481**	7,810	**11,414**	14,705
Non-cash interest				
Amortization of debt issue costs	**136**	499	**399**	999
Total interest	**4,617**	8,309	**11,813**	15,704

Cash interest expense of $4.5 million during the second quarter of 2016 decreased 43 percent from the same period in 2015. Decreased cash interest was primarily due to the repurchase and cancellation of $214.4 million of outstanding principal amount of senior notes during the quarter in exchange for 4.4 million TOU shares. Settlement of the convertible debentures at the end of 2015 also contributed to a reduction in period over period cash interest costs, as well as the reduction in non-cash amortization of debt issue costs.

Other finance expenses

	Three months ended June 30,		Six months ended June 30,	
(*$ thousands*)	**2016**	2015	**2016**	2015
Accretion on decommissioning obligations	**818**	898	**1,735**	1,986
Accretion and change in estimate on GOB obligation	**–**	124	**–**	247
Change in fair value of TOU share financial arrangement	**1,062**	–	**3,103**	–
Change in fair value of financial obligation	**1,234**	(17)	**(344)**	(774)
Other finance expenses	**3,114**	1,005	**4,494**	1,459

Other finance expense for the second quarter of 2016 included accretion on decommissioning obligations of $0.8 million (2015 - $0.9 million), a loss of $1.1 million on the change in fair value of the TOU share financial arrangement (2015 – nil) and a loss of $1.2 million on the change in fair value of the financial obligation (2015 – nil).

WGS LP income (loss) and dividends

For the six months ended June 30, 2016, Perpetual recorded income of $1.0 million on its equity investment in WGS LP compared to a loss of $0.2 million for the same period in 2015. During the second quarter, the Company received dividends of $0.5 million (2015 – nil) from WGS LP representing Perpetual's share of total dividends declared.

Funds flow

	Three months ended June 30, 2016		Three months ended June 30, 2015	
	(*$ thousands*)	**(*$/boe*)**	(*$ thousands*)	(*$/boe*)
Realized revenue[1]	**20,075**	**13.82**	36,600	24.20
Royalties[2]	**(1,851)**	**(1.27)**	(2,958)	(1.96)
Production and operating expenses	**(9,480)**	**(6.53)**	(15,796)	(10.44)
Transportation costs	**(2,114)**	**(1.46)**	(2,484)	(1.64)
Operating netback[1]	**6,630**	**4.56**	15,362	10.16
GOB revenue net of payments	**(96)**	**(0.07)**	(206)	(0.14)
Exploration and evaluation[3]	**(572)**	**(0.39)**	(620)	(0.41)
Cash G&A	**(3,727)**	**(2.57)**	(4,091)	(2.70)
Interest[3] [4]	**(4,588)**	**(3.16)**	(7,810)	(5.16)
Dividends from WGS LP	**501**	**0.34**	–	–
Funds flow[1]	**(1,852)**	**(1.29)**	2,635	1.75

(1) See "Non-GAAP measures" in this MD&A.
(2) Includes $1.0 million in gross overriding royalty payments at East Edson for the three months ended June 30, 2016 (2015 – $1.8 million).
(3) Excludes non-cash items.
(4) Includes $0.1 million in cash transaction costs in relation to the Securities Swap.

	Six months ended June 30, 2016		Six months ended June 30, 2015	
	(*$ thousands*)	**(*$/boe*)**	(*$ thousands*)	(*$/boe*)
Realized revenue[1]	**52,772**	**16.89**	80,425	22.55
Royalties[2]	**(4,128)**	**(1.32)**	(8,412)	(2.36)
Production and operating expenses	**(23,849)**	**(7.63)**	(37,546)	(10.53)
Transportation costs	**(4,613)**	**(1.48)**	(6,325)	(1.77)
Operating netback[1]	**20,182**	**6.46**	28,142	7.89
GOB revenue net of payments	**(216)**	**(0.07)**	(376)	(0.11)
Exploration and evaluation[3]	**(1,080)**	**(0.35)**	(1,233)	(0.35)
Cash G&A	**(9,670)**	**(3.09)**	(7,672)	(2.15)
Interest[3] [4]	**(11,521)**	**(3.69)**	(14,705)	(4.12)
Dividends from WGS LP	**501**	**0.16**	–	–
Funds flow[1]	**(1,804)**	**(0.58)**	4,156	1.16

(1) See "Non-GAAP measures" in this MD&A.
(2) Includes $2.3 million in gross overriding royalty payments at East Edson for the six months ended June 30, 2016 (2015 – $3.4 million).
(3) Excludes non-cash items.
(4) Includes $0.1 million in cash transaction costs in relation to the Securities Swap.

Net Income

	Three months ended June 30,	2016	Three months ended June 30,	2015
	(*$ thousands*)	**(*$/boe*)**	(*$ thousands*)	(*$/boe*)
Funds flow[1]	**(1,852)**	**(1.29)**	2,635	1.75
Unrealized gains (losses) on derivatives	**(9,491)**	**(6.54)**	(2,569)	(1.70)
Payments on financial obligation	**306**	**0.21**	891	0.59
Exploration and evaluation[2]	**(509)**	**(0.35)**	(5,812)	(3.84)
Compensation expense, non-cash	**(1,958)**	**(1.35)**	(1,299)	(0.86)
Gain on dispositions	**(5,227)**	**(3.60)**	135,687	89.71
Gain on Securities Swap	**81,572**	**56.17**	–	–
Depletion and depreciation	**(16,146)**	**(11.12)**	(19,496)	(12.89)
Finance expense, non-cash	**(3,250)**	**(2.24)**	(1,504)	(0.99)
Change in fair value of marketable securities	**21,430**	**14.76**	(5,400)	(3.57)
WGS LP net income and dividends	**50**	**0.03**	988	0.65
Net income	**64,925**	**44.68**	104,121	68.85

(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.

	Six months ended June 30,	2016	Six months ended June 30,	2015
	(*$ thousands*)	**(*$/boe*)**	(*$ thousands*)	(*$/boe*)
Funds flow[1]	**(1,804)**	**(0.58)**	4,156	1.16
Unrealized gains (losses) on derivatives	**1,522**	**0.49**	(12,467)	(3.50)
Payments on financial obligation	**956**	**0.31**	1,996	0.56
Exploration and evaluation[2]	**(1,366)**	**(0.44)**	(7,509)	(2.11)
Compensation expense, non-cash	**(2,358)**	**(0.75)**	(2,294)	(0.64)
Gain on dispositions	**1,846**	**0.59**	140,011	39.26
Gain on Securities Swap	**81,572**	**26.11**	–	–
Depletion and depreciation	**(33,693)**	**(10.78)**	(44,446)	(12.46)
Finance expense, non-cash	**(4,893)**	**(1.57)**	(2,458)	(0.69)
Change in fair value of marketable securities	**55,384**	**17.72**	(5,400)	(1.51)
WGS LP net income (loss) and dividends	**523**	**0.17**	(185)	(0.05)
Net income	**97,689**	**31.27**	71,404	20.02

(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)	**Q2 2016**	Q1 2016	Q4 2015	Q3 2015
Financial				
Oil and natural gas revenues	**16,501**	24,694	33,044	35,460
Funds flow[1]	**(1,852)**	48	362	(2,514)
Per share – basic[2]	**(0.04)**	0.00	0.05	(0.33)
Net income (loss)	**64,925**	32,764	(93,539)	(67,139)
Per share – basic[2]	**1.25**	0.72	(12.34)	(8.89)
– diluted[2]	**1.23**	0.70	(12.34)	(8.89)
Capital expenditures				
Exploration and development	**822**	4,794	808	14,670
Geological and geophysical	**11**	15	(93)	16
Acquisitions	–	–	–	–
Dispositions	**(20,052)**	(6,466)	–	(2,630)
Other	**464**	20	25	584
Net capital expenditures	**(18,755)**	(1,637)	740	12,640
Common shares (*thousands*) [2]				
Weighted average – basic	**52,140**	45,573	7,582	7,549
Weighted average – diluted	**52,904**	47,022	7,582	7,549
Operating				
Daily average production				
Natural gas (*MMcf/d*)	**85.2**	98.2	105.1	105.5
Oil (*bbl/d*)	**1,073**	1,174	1,278	1,426
NGL (*bbl/d*)	**682**	836	866	741
Total (*boe/d*)	**15,959**	18,378	19,661	19,758
Average prices				
Natural gas – before derivatives (*$/Mcf*)	**1.37**	2.25	2.74	2.91
Natural gas – including derivatives (*$/Mcf*)	**1.85**	3.15	2.92	2.86
Oil – before derivatives (*$/bbl*)	**38.47**	22.08	33.04	40.58
Oil – including derivatives (*$/bbl*)	**39.17**	33.90	39.81	41.40
NGL (*$/bbl*)	**34.71**	29.33	33.68	28.07

(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)	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Financial				
Oil and natural gas revenues	32,129	41,804	62,562	63,126
Funds flow[1]	2,635	1,521	17,316	20,831
Per share – basic[2]	0.35	0.20	2.32	2.79
Net income (loss)	104,121	(32,717)	(18,723)	36,414
Per share – basic[2]	13.94	(4.41)	(2.51)	4.87
– diluted[2]	13.29	(4.41)	(2.51)	4.54
Capital expenditures				
Exploration and development	13,069	46,886	25,639	46,583
Geological and geophysical	105	1,498	379	34
Acquisitions	240	3	756	–
Dispositions	(21,337)	11	(21,351)	(46,998)
Other	280	21	84	347
Net capital expenditures	(7,643)	48,419	5,507	(34)
Common shares (*thousands*) [2]				
Weighted average – basic	7,468	7,427	7,454	7,479
Weighted average – diluted	7,879	7,427	7,454	8,014
Operating				
Daily average production				
Natural gas (*MMcf/d*)	86.0	120.4	122.5	97.8
Oil (*bbl/d*)	1,766	2,045	2,638	2,894
NGL (*bbl/d*)	522	713	624	430
Total (*boe/d*)	16,621	22,819	23,685	19,640
Average prices				
Natural gas – before derivatives (*$/Mcf*)	2.80	3.01	3.96	4.35
Natural gas – including derivatives (*$/Mcf*)	3.10	3.14	4.16	4.35
Oil – before derivatives (*$/bbl*)	52.35	37.37	59.80	78.37
Oil – including derivatives (*$/bbl*)	74.33	49.41	67.05	74.55
NGL (*$/bbl*)	38.64	36.15	59.63	77.56

(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, TOU share financial arrangements, senior notes, and adjusted working capital, with value and liquidity enhanced through the current ownership of TOU shares. 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 debt reduction, restricted capital spending and a focus on reducing costs and maximizing efficiencies in administration and operations. Executing this focus during the second quarter of 2016, Perpetual has achieved an 81 percent reduction in net debt to $28.8 million at June 30, 2016 (March 31, 2016 – $149.2 million). Transactions executed in the second quarter of 2016 include:

- Completion of the Securities Swap whereby Perpetual repurchased and cancelled $214.4 million principal amount of senior notes tendered by holders of senior notes through the exchange of 4.4 million TOU shares owned by Perpetual with a fair market value of $130.5 million ($29.64 per share).
- Disposition of the Company's 30% interest in the gas storage facility held by WGS LP in May 2016 for proceeds of $20.0 million in addition to a $0.5 million dividend prior to closing.

Combined with the following transactions that were executed during the first quarter of 2016, Perpetual has achieved a $174.8 million (86 percent) reduction in net debt from December 31, 2015 ($203.6 million) to generate additional liquidity in the short term and improve the Company's balance sheet for long term financial sustainability.

- 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; and
- Reduction in bank debt under the margin loan from $42 million secured by 5.25 million TOU shares to a $10.6 million margin loan secured by 0.8 million TOU shares.

Perpetual estimates cash interest savings of approximately $11.0 million for the remainder of 2016 based on the cancellation of the principal amount of senior notes and overall reductions to bank indebtedness. 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.

The Company continues to hold 1.8 million TOU shares and intends to 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 half of 2016 has improved Perpetual's financial flexibility and optionality to manage its future debt obligations.

Capital Management

($ thousands, except as noted)	**June 30, 2016**	December 31, 2015
Bank indebtedness	**10,632**	42,000
Senior notes, measured at principal amount	**60,573**	275,000
Carrying amount of TOU share forward financial obligation	**21,162**	18,059
Carrying amount of marketable securities[(1)]	**(62,830)**	(145,275)
Adjusted working capital deficiency (surplus)[(2)]	**(717)**	13,832
Net debt[(2)]	**28,820**	203,616
Shares outstanding at end of period (*thousands*)[(3)]	**52,469**	19,114
Market price at end of period (*$/share*)[(3)]	**2.39**	1.00
Market value of shares	**125,401**	19,114
Total capitalization[(2)]	**154,221**	222,730
Net debt as a percentage of total capitalization	**19**	91
Trailing twelve months funds flow[(2)]	**(3,956)**	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 during the latter half of 2015 and the first half of 2016, moving this financial ratio significantly out of target range. Despite the deterioration of funds flow, net debt at June 30, 2016 was reduced by $174.8 million driven primarily by the Securities Swap along with a relative increase to the period end value of the remaining TOU shares due to market price appreciation. Capital spending and decommissioning expenditures during the first half of 2016 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 period as a result of depressed oil, natural gas and NGL prices.

Perpetual's adjusted working capital surplus at June 30, 2016 was $0.7 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 and restricted cash 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
Funds flow[1]	1.8
Capital expenditures[2]	6.1
Expenditures on decommissioning obligations	2.0
Dispositions, net of acquisitions	(26.5)
Proceeds on sale of marketable securities	(7.4)
Change in fair value of marketable securities[3]	82.5
Change in principal amount of senior notes	(214.4)
Net proceeds from rights offering	(22.1)
Change in fair value of TOU share financial arrangement	3.1
Other	0.1
Net debt, June 30, 2016[1]	**28.8**

(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 June 30, 2016, Perpetual had cash and cash equivalents of $6.1 million (December 31, 2015 - $2.1 million), restricted cash of $2.0 million (December 31, 2015 – nil) and bank debt of $10.6 million drawn under the margin loan (December 31, 2015 – $42.0 million). During the second quarter, in conjunction with the Securities Swap and using liquidity raised through other transactions, the reserve based credit facility and margin loan were reviewed and have been bifurcated into two separate agreements with the reserve based credit facility remaining with the lenders and the margin loan entered into with a new lender.

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. Pursuant to the closing of the Securities Swap and the disposition of Perpetual's 30 percent interest in WGS LP on May 25, 2016, the lenders required Perpetual to pledge a $2.0 million cash deposit to be held as security in favor of the $6 million working capital facility. As at June 30, 2016, the Corporation was undrawn on its credit facility with outstanding letters of credit in the amount of $5.6 million (December 31, 2015 – $5.4 million). 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.

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, restricted cash, 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 June 30, 2016.

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 a Canadian chartered bank. The amount currently drawn under the margin loan is $10.6 million, with collateral for the margin loan provided by a securities pledge agreement relating to 0.8 million TOU shares. The margin loan has a maturity date of 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 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.

Senior Notes

During the second quarter of 2016, Perpetual made a proposal to holders of senior notes to provide 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 principal amount of the 2018 Senior Notes and 20 TOU shares for each $1,000 principal amount of the 2019 Senior Notes. Between the periods of April 27, 2016 and May 25, 2016, $214.4 million face value of senior notes were swapped, including $114.0 million of outstanding 2018 Senior Notes and $100.4 million of outstanding 2019 Senior Notes through the exchange of 4.4 million TOU shares and cash payments of $3.9 million for accrued interest. Included in the exchange were all senior notes held by insiders of the Company which included $81.6 million 2018 Senior Notes and $57.0 million 2019 Senior Notes. The fair market value of TOU shares exchanged was $130.5 million based on closing TOU share market prices corresponding with each settlement date where TOU shares were exchanged for senior notes.

At June 30, 2016, Perpetual had $60.6 million face value of senior notes remaining, consisting of $36.0 million 2018 Senior Notes and $24.6 million 2019 Senior Notes. The principal amount of outstanding senior notes at August 4, 2016 was $60.6 million and the fair market value based on trading activity was $42.3 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 common shares issued to entities controlled by the Chairman of Perpetual's Board of Directors for proceeds of $16.1 million.

At June 30, 2016 there were 52.2 million common shares outstanding which is net of 0.3 million shares held in trust. Weighted average shares outstanding for the quarter ended June 30, 2016 was 52.1 million (2015 – 7.5 million) and 48.9 million (2015 – 7.5 million) for the six months ended June 30, 2016. On August 4, 2016, there were 52.5 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. The impact of the Securities Swap during the second quarter of 2016 along with the liquidity generated through asset dispositions resulted in an estimated current net debt balance of $28.3 million, net of the market value of remaining TOU shares held. Current net debt is comprised of $60.6 million in face value of senior notes (2018 Senior Notes - $36.0 million; 2019 Senior Notes - $24.6 million), $21.3 million due November 16, 2016 as per the financing arrangement secured by 1.0 million TOU shares, a margin loan of $10.6 million secured by the remaining 0.8 million TOU shares due April 2017 and an estimated working capital surplus of $0.7 million, offset by the market value of the remaining 1.85 million TOU shares of approximately $63.5 million (based on a market price of $34.35 per TOU share on August 4, 2016).

The Company's Board of Directors, together with management, continues to defer material capital spending in light of depressed commodity prices. Approximately $4.5 million of capital expenditures for the remainder of 2016 will be allocated 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 $8 to $9 million for the second half of 2016 based on current forward commodity prices, with total oil and liquids production averaging close to 1,575 bbl/d and natural gas sales averaging approximately 78 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 June 30, 2016 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.