PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Financial Position

As at	March 31, 2016	December 31, 2015
(*Cdn$ thousands, unaudited*)		
Assets		
Current Assets		
Cash and cash equivalents	**$ 26,031**	$ 2,116
Accounts receivable	**17,137**	19,532
Marketable securities (note 3)	**171,875**	145,275
Prepaid expenses and deposits	**1,864**	3,141
Derivatives (note 11)	**4,675**	2,319
	221,582	172,383
Derivatives (note 11)	**785**	1,411
Property, plant and equipment (note 4)	**341,420**	347,903
Exploration and evaluation (note 5)	**55,736**	56,407
Equity-method investment	**25,819**	25,346
Total assets	**$ 645,342**	$ 603,450
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 28,964**	$ 38,621
Derivatives (note 11)	**3,253**	9,353
Bank indebtedness (note 6)	**42,000**	42,000
Financial obligation	**1,650**	2,604
TOU share financial arrangement	**20,100**	18,059
Provisions (note 9)	**2,851**	1,981
	98,818	112,618
Derivatives (note 11)	**4,212**	7,395
Senior notes (note 8)	**271,921**	271,658
Financial obligation	**6,133**	7,407
Provisions (note 9)	**161,955**	157,188
Total liabilities	**543,039**	556,266
Equity		
Share capital (note 10)	**1,325,318**	1,297,911
Shares held in trust	**(1,339)**	(1,177)
Rights (note 10)	**–**	5,290
Contributed surplus	**38,700**	38,300
Deficit	**(1,260,376)**	(1,293,140)
Total equity	**102,303**	47,184
Total liabilities and equity	**$ 645,342**	$ 603,450

Subsequent events (notes 3, 6 and 8).

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

/s/ Robert A. Maitland

Robert A. Maitland
Director

/s/ Geoffrey C. Merritt

Geoffrey C. Merritt
Director

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

	Three months ended March 31,	
	2016	2015
(*Cdn$ thousands, except per share amounts, unaudited*)		
Revenue		
Oil and natural gas	**$ 24,694**	$ 41,804
Royalties	**(2,277)**	(5,454)
	22,417	36,350
Change in fair value of commodity price derivatives (note 11)	**19,016**	(7,877)
Gas over bitumen	**530**	935
	41,963	29,408
Expenses		
Production and operating	**14,369**	21,750
Transportation	**2,499**	3,841
Exploration and evaluation (note 5)	**1,365**	2,310
General and administrative	**6,343**	4,576
Gain on dispositions	**(7,073)**	(4,324)
Depletion and depreciation (note 4)	**17,547**	24,950
Income (loss) from operating activities	**6,913**	(23,695)
Finance expense (note 12)	**(8,576)**	(7,849)
Change in fair value of marketable securities (note 3)	**33,954**	–
Share of net income (loss) of equity-method investment	**473**	(1,173)
Net income (loss) and comprehensive income (loss)	**$ 32,764**	$ (32,717)
Income (loss) per share (note 10)		
Basic	**$ 0.72**	$ (4.41)
Diluted	**$ 0.70**	$ (4.41)

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

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

(*Cdn$ thousands, unaudited*)	Share capital (*thousands*)	Share capital (*$ thousands*)	Shares held in trust	Rights	Contributed surplus	Deficit	Total Equity
Balance at December 31, 2015	19,115	$ 1,297,911	$ (1,177)	$ 5,290	$ 38,300	$ (1,293,140)	$ 47,184
Net income	–	–	–	–	–	32,764	32,764
Common shares issued for Rights (note 10)	33,268	27,407	(162)	(5,290)	–	–	21,955
Share based compensation	–	–	–	–	400	–	400
Balance at March 31, 2016	**52,383**	**$1,325,318**	**$ (1,339)**	**$ –**	**$ 38,700**	**$ (1,260,376)**	**$102,303**

(*Cdn$ thousands, unaudited*)	Share capital (*thousands*)	Share capital (*$ thousands*)	Shares held in trust	Equity component of convertible debentures	Contributed surplus	Deficit	Total Equity
Balance at December 31, 2014	7,504	$ 1,258,840	$ (1,387)	$ 3,174	$ 36,754	$ (1,191,098)	$ 106,283
Net loss	–	–	–	–	–	(32,717)	(32,717)
Common shares issued	4	415	–	–	(75)	–	340
Share based compensation	–	–	–	–	1,006	–	1,006
Change in shares held in trust	–	–	(1,109)	–	–	–	(1,109)
Balance at March 31, 2015	7,508	$ 1,259,255	$ (2,496)	$ 3,174	$ 37,685	$ (1,223,815)	$ 73,803

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

PERPETUAL ENERGY INC.
Condensed Interim Consolidated Statements of Cash Flows

	Three months ended March 31, 2016	2015
(Cdn$ thousands, unaudited)		
Cash flows from (used in) operating activities		
Net income (loss)	**$ 32,764**	$ (32,717)
Adjustments to add (deduct) non-cash items:		
Depletion and depreciation (note 4)	**17,547**	24,950
Exploration and evaluation (note 5)	**842**	199
Share based compensation expense	**400**	995
Change in fair value of commodity price derivatives (note 11)	**(11,013)**	9,898
Change in fair value of marketable securities (note 3)	**(33,954)**	–
Finance expenses (note 12)	**1,643**	954
Share of net (income) loss of equity-method investment	**(473)**	1,173
Gain on dispositions	**(7,073)**	(4,324)
Expenditures on decommissioning obligations (note 9)	**(1,094)**	(3,051)
Change in non-cash working capital	**(6,359)**	(1,522)
Net cash from (used in) operating activities	**(6,770)**	(3,445)
Cash flows from (used in) financing activities		
Change in bank indebtedness	**–**	53,296
Change in financial obligation	**(650)**	(1,105)
Transactions with trustee	**(162)**	(1,109)
Common shares issued, net of issue costs	**22,117**	340
Change in non-cash working capital	**–**	–
Net cash from financing activities	**21,305**	51,422
Cash flows from (used in) investing activities		
Acquisitions	**–**	(3)
Capital expenditures	**(4,814)**	(46,907)
Proceeds on dispositions	**6,466**	(11)
Proceeds on sale of marketable securities (note 3)	**7,354**	–
Change in non-cash working capital	**374**	(12,553)
Net cash from (used in) investing activities	**9,380**	(59,474)
Change in cash and cash equivalents	**$ 23,915**	$ (11,497)
Cash and cash equivalents, beginning of period	**2,116**	11,497
Cash and cash equivalents, end of period	**$ 26,031**	$ -
Interest paid	**$ 12,949**	$ 12,301

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

1. REPORTING ENTITY

Perpetual Energy Inc. ("Perpetual", the "Company" or the "Corporation") is a Canadian corporation engaged in the exploration, development and marketing of oil and gas based energy in Alberta, Canada. The Corporation operates a diversified asset portfolio that includes shallow gas in eastern Alberta, conventional heavy oil, liquids-rich gas in the Alberta deep basin and several long-term bitumen resource properties.

The address of the Corporation's registered office is 3200, 605 – 5 Avenue SW, Calgary, Alberta, T2P 3H5.

The condensed interim consolidated financial statements of the Corporation as at and for the three months ended March 31, 2016 are comprised of the accounts of Perpetual and its wholly owned subsidiaries, Perpetual Energy Operating Corp. and Perpetual Operating Trust, which are incorporated in Canada.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Corporation's consolidated financial statements as at and for the year ended December 31, 2015 which were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The accounting policies, basis of measurement, critical accounting judgments and significant estimates used to prepare the annual consolidated financial statements as at and for the year ended December 31, 2015 have been applied in the preparation of these condensed interim consolidated financial statements.

The statement of cash flows for the comparative three months ended March 31, 2015 includes a $5.4 million reclassification of non-cash working capital from financing activities to operating activities to be consistent with the current year presentation.

These condensed interim consolidated financial statements of the Corporation were approved and authorized for issue by the Board of Directors on May 9, 2016.

3. MARKETABLE SECURITIES

At March 31, 2016, the Corporation held 6.25 million common shares of Tourmaline Oil Corp. ("TOU") with a fair market value of $171.9 million based on a March 31, 2016 closing price of $27.50 per share.

Net income for the three months ended March 31, 2016 includes an unrealized gain of $34.0 million representing the change in value between the December 31, 2015 closing price of $22.35 and the period end closing price of $27.50 per share. During the three months ended March 31, 2016, the Corporation sold 250,000 TOU shares for total proceeds of $7.4 million.

On April 27, 2016 the Company repurchased and cancelled $76.8 million of outstanding principal amount of senior notes with a maturity date of March 15, 2018 ("2018 Senior Notes") and $73.2 million of outstanding principal amount of senior notes with a maturity date of July 23, 2019 ("2019 Senior Notes") through the exchange of 3.1 million TOU shares and a cash payment of $2.5 million for accrued interest (the "Securities Swap") (note 8). 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 directors and officers of the Company or entities controlled by them.

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 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.

4. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Corporate assets	Total
Cost			
December 31, 2014	$ 2,633,900	$ 7,021	$ 2,640,921
Additions	69,086	69	69,155
Non-monetary additions	3,700	–	3,700
Change in decommissioning obligations estimates	(58,313)	–	(58,313)
Transferred from exploration and evaluation	692	–	692
Acquisitions	3	–	3
Dispositions	(218,500)	–	(218,500)
December 31, 2015	2,430,568	7,090	2,437,658
Additions	4,623	20	4,643
Change in decommissioning obligations estimates	6,822	–	6,822
Dispositions	(401)	–	(401)
March 31, 2016	**$ 2,441,612**	**$ 7,110**	**$ 2,448,722**
Accumulated depletion, depreciation and impairment losses			
December 31, 2014	$ (2,072,642)	$ (6,323)	$ (2,078,965)
Depletion and depreciation	(88,067)	(297)	(88,364)
Dispositions	105,096	–	105,096
Impairment	(27,522)	–	(27,522)
December 31, 2015	(2,083,135)	(6,620)	(2,089,755)
Depletion and depreciation	(17,479)	(68)	(17,547)
March 31, 2016	**$ (2,100,614)**	**$ (6,688)**	**$ (2,107,302)**
Carrying amount			
December 31, 2015	$ 347,433	$ 470	$ 347,903
March 31, 2016	**$ 340,998**	**$ 422**	**$ 341,420**

At March 31, 2016, property, plant and equipment included $6.4 million (December 31, 2015 - $6.1 million) of costs currently not subject to depletion.

During the three months ended March 31, 2016, the Corporation disposed of certain oil sands leases, non-core undeveloped lands and idle production equipment for proceeds of $6.5 million. Net gains on dispositions totaling $7.1 million (2015 – $4.3 million) were recorded in net income. Included in the gain on disposition was the de-recognition of abandonment and reclamation liabilities which were transferred with properties disposed.

5. EXPLORATION AND EVALUATION

	March 31, 2016	December 31, 2015
Balance, beginning of period	**$ 56,407**	$ 84,227
Additions	**171**	7,186
Non-monetary additions	**–**	5,880
Acquisitions	**–**	240
Dispositions	**–**	(34,096)
Transfers to property, plant and equipment (note 4)	**–**	(692)
Non-cash exploration and evaluation expense	**(842)**	(6,338)
Balance, end of period	**$ 55,736**	$ 56,407

During the three months ended March 31, 2016, $0.5 million (2015 - $2.1 million) in costs were charged directly to exploration and evaluation expense in net income.

6. BANK INDEBTEDNESS

At March 31, 2016, the Corporation had cash and cash equivalents of $26.0 million (December 31, 2015 - $2.1 million) with no amount drawn on the reserve based credit facility (December 31, 2015 - $5.0 million). The Corporation's credit facility and margin loan were with a syndicate of Canadian chartered banks (the "Lenders") which included total borrowing capacity of $62 million consisting of a margin loan of $42 million secured by the pledge of 5.25 million TOU shares, and a reserve based credit facility of $20 million which included a $5 million demand loan and $15 million working capital facility. The Corporation also had outstanding letters of credit in the amount of $5.4 million (December 31, 2015 – $5.4 million).

In April 2016, the Lenders completed a discretionary review of Perpetual's borrowing base which resulted in a reduction to the available capacity under Perpetual's reserve based credit facility from $20 million to a $6 million working capital facility. To facilitate the Securities Swap announced in April 2016, Perpetual also repaid the $42 million margin loan and entered into a new margin loan secured by fewer TOU shares.

Reserve Based Credit Facility

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 reserve based 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 (note 3).

Margin Loan

On April 14, 2016, the Corporation repaid its $42 million margin loan using a combination of cash on hand 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 expires on April 30, 2017 and includes a 40 percent loan to value ratio at funding.

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% 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.

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

7. CAPITAL MANAGEMENT

Perpetual's goal is to maintain a strong capital base so as to retain investor, creditor and market confidence and to sustain the future development of the business. The Company manages 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. The Company considers its capital structure to include share capital, bank indebtedness, senior notes and adjusted working capital, with value and liquidity enhanced through the current ownership of TOU shares.

With the deterioration of commodity prices continuing in 2016, Perpetual was focused on liquidity management and preservation of its balance sheet through restricted capital spending, reducing costs and maximizing efficiencies in administration and operations. 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 majority of the Company's debt is in the form of senior notes with maturities in 2018 and 2019. Obligations which will require settlement or extension in 2016 and 2017 include the reserve based credit facility, the new margin loan and the TOU share financial arrangement. The reserve based credit facility of $6 million expires on October 31, 2016 and is repayable in cash should the maturity not be extended. The Company's margin loan has a maturity date of April 30, 2017 and is currently secured by a securities pledge agreement relating to 2.1 million TOU shares, subject to a 40 percent loan to value ratio at funding.

The Corporation's TOU share financial arrangement matures on November 16, 2016 and can be repaid in cash or with the transfer of the 1.0 million TOU shares pledged as security. The repayment amount changes in response to changes in the market price of TOU shares pledged as security, subject to a maximum payment of $21.3 million at maturity. As the TOU shares pledged as security represent the maximum exposure for repayment, no additional source of liquidity is required for the TOU share financial arrangement.

The Company regularly assesses alternative repayment options for upcoming obligations including asset dispositions, the sale of TOU shares, refinancing or a combination thereof. Changes to capital structure and repayment alternatives are assessed by management with considerations for both short term liquidity and longer term financial sustainability.

8. SENIOR NOTES

				Carrying amount	
	Maturity date	**Principal**	**Interest rate**	**March 31, 2016**	December 31, 2015
2018 Senior Notes[1]	March 15, 2018	150,000	8.75%	**148,853**	148,724
2019 Senior Notes[2]	July 23, 2019	125,000	8.75%	**123,068**	122,934
		275,000		**271,921**	271,658

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

At March 31, 2016, Perpetual had $275 million of senior notes outstanding. On April 27, 2016 the Company repurchased and cancelled $150 million aggregate principal amount of senior notes, 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 directors and officers of the Company or entities controlled by them.

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 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.

9. PROVISIONS

	March 31, 2016	December 31, 2015
Decommissioning obligations, beginning of period	**$ 159,169**	$ 222,976
Obligations acquired	**–**	–
Obligations incurred	**89**	1,442
Obligations disposed	**(1,008)**	(1,939)
Change in risk free rate	**6,733**	617
Change in estimates	**–**	(60,372)
Obligations settled	**(1,094)**	(7,589)
Accretion	**917**	4,034
Decommissioning obligations, end of period	**$ 164,806**	$ 159,169
Provisions – current	**2,851**	1,981
Provisions – non-current	**161,955**	157,188
	$ 164,806	$ 159,169

At March 31, 2016, the Corporation used a weighted average risk free rate of 2.00 percent (December 31, 2015 – 1.89 percent) to calculate the present value of the decommissioning obligation.

10. SHARE CAPITAL

a) Authorized

Authorized capital consists of an unlimited number of common shares. On March 24, 2016, shareholders of the Corporation approved the consolidation of common shares on the basis of 20 common shares to one common share, which has been retroactively applied throughout these condensed interim consolidated financial statements.

b) Per share information

	Three months ended March 31, 2016	2015
(*thousands, except per share amounts*)		
Net income (loss) – basic and diluted	**$ 32,764**	$ (32,717)
Weighted average shares		
Issued common shares	**45,802**	7,505
Effect of shares held in trust	**(229)**	(79)
Weighted average common shares outstanding – basic	**45,573**	7,426
Effect of dilutive securities	**1,449**	–
Weighted average common shares outstanding – diluted	**47,022**	7,426
Income (loss) per share – basic	**$ 0.72**	$ (4.41)
Income (loss) per share – diluted	**$ 0.70**	$ (4.41)

In computing diluted weighted average shares outstanding for the period ended March 31, 2016, 0.7 million stock options and 0.2 million compensation awards have been excluded as they are anti-dilutive. For the period ended March 31, 2015, all outstanding share based compensation awards have been excluded as the Corporation recorded a net loss.

c) Rights

On January 18, 2016 Perpetual issued an aggregate of 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.

d) Share based payments

Concurrent with the share consolidation on March 24, 2016, the Company's Board of Directors approved modifications to existing share based compensation agreements with directors, officers and employees of the Corporation. For the three months ended March 31, 2016, incremental stock based compensation costs associated with the modifications totalled $0.1 million.

11. FINANCIAL RISK MANAGEMENT

Realized gains on commodity price derivatives recognized in net income for the three months ended March 31, 2016 were $8.0 million (2015 – $2.0 million). The realized gains on commodity price derivatives for the three months ended March 31, 2016 included gains of $7.7 million in respect of the settlement of contracts prior to maturity (2015 – nil).

Natural gas contracts

At March 31, 2016, the Corporation had entered into financial and forward natural gas sales arrangements at AECO as follows:

Term	Perpetual sold/bought	Volumes at AECO (GJ/d)	Average price ($/GJ)	Type of contract
April 2016	Sold	5,000	1.30	Financial
April 2016	Bought	(6,000)	0.99	Physical
April 2016	Sold	26,000	1.22	Physical
April 2016 – December 2016	Sold	37,500	1.93	Financial
April 2016 – December 2016	Bought	(5,000)	1.69	Financial

At March 31, 2016, the Corporation had entered into financial natural gas sales arrangements at AECO which settle in $USD as follows:

Term	Perpetual sold/bought	Volumes at AECO (MMBtu/d)	Average price ($USD/MMBtu)	Type of contract
April 2016 – December 2016	Sold	35,000	1.33	Financial

At March 31, 2016, the Corporation had entered into financial natural gas sales arrangements to fix the basis differential between the New York Mercantile Exchange ("NYMEX") and AECO trading hubs. The price at which these contracts settle is equal to the NYMEX index less a fixed basis amount.

Term	Perpetual sold/bought	Volumes at NYMEX-AECO (MMBtu/d)	Average price ($USD/MMBtu)	Type of contract
January 2017 – December 2017	Sold	50,000	(0.70)	Financial
January 2018 – December 2018	Sold	15,000	(0.67)	Financial

At March 31, 2016, the Corporation had entered into fixed price financial natural gas sales arrangements at the NYMEX trading hub as follows:

Term	Perpetual sold/bought	Volumes at NYMEX (MMBtu/d)	Average price ($USD/MMBtu)	Type of contract
January 2017 – March 2017	Sold	17,500	2.72	Financial

Oil contracts

At March 31, 2016, the Corporation had entered into the following costless collar oil sales arrangements which settle in $USD:

Term	Volumes at WTI (bbls/d)	Floor price ($USD/bbl)	Ceiling price ($USD/bbl)	Type of contract
April 2016 – December 2016	500	45.00	52.10	Collar
April 2016 – December 2016	500	42.00	50.70	Collar
January 2017 – December 2017	250	44.50	49.55	Collar
January 2017 – December 2017	250	42.00	49.25	Collar

At March 31, 2016, the Corporation had entered into financial oil sales arrangements to fix the basis differential between the West Texas Intermediate ("WTI") and Western Canadian Select ("WCS") trading hubs. The price at which these contracts settle is equal to the WTI index less a fixed basis amount.

Term	Perpetual sold/bought	Volumes at WTI-WCS (bbl/d)	Average differential ($USD/bbl)	Type of contract
April 2016 – December 2016	Sold	500	(13.68)	Financial

Foreign exchange contracts

At March 31, 2016, the Corporation had entered into the following U.S. dollar forward sales arrangement:

Term	Notional $USD/month	Strike rate ($CAD/$USD)	Type of contract
April 2016 – March 2018[1]	3,500,000	1.25	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.

At March 31, 2016, the Corporation had entered into the following U.S. dollar forward sales arrangement:

Term	Notional $USD/month	Boosted notional[1] $USD/month	Strike rate ($CAD/$USD)	Type of contract
April 2016 – February 2018[2]	1,000,000	3,000,000	1.25	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.

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

	Three months ended March 31, 2016	2015
Realized gain on financial oil contracts	**$ 1,263**	$ 2,217
Realized gain on financial natural gas contracts	**8,004**	1,426
Realized loss on forward foreign exchange contracts	**(1,264)**	(1,622)
Unrealized loss on financial oil contracts	**(381)**	(2,385)
Unrealized gain (loss) on financial natural gas contracts	**5,589**	(1,041)
Unrealized gain on physical natural gas contracts	**170**	58
Unrealized gain (loss) on forward foreign exchange contracts	**5,635**	(6,530)
Change in fair value of commodity price derivatives	**$ 19,016**	$ (7,877)

Natural gas contracts - sensitivity analysis

As at March 31, 2016, if future natural gas prices changed by $0.25 per GJ with all other variables held constant, the fair value of commodity price derivatives and net income for the period would change by $1.6 million. Fair value sensitivity was based on published forward AECO and NYMEX prices.

Oil contracts - sensitivity analysis

As at March 31, 2016, if future oil prices increased by $5.00 per bbl with all other variables held constant, the fair value of commodity price derivatives and net income for the period would increase by $0.8 million. If future oil prices decreased by $5.00 per bbl with all other variables held constant, the fair value of commodity price derivatives and net income for the period would increase by $1.8 million. Fair value sensitivity was based on published forward WTI and WCS prices.

Foreign exchange contracts - sensitivity analysis

As at March 31, 2016, if future exchange rates increased by $0.10 $CAD/$USD with all other variables held constant, the fair value of foreign exchange derivatives and net income for the period would decrease by $13.4 million. If future exchange rates decreased by $0.10 $CAD/$USD with all other variables held constant, the fair value of foreign exchange derivatives and net income for the period would increase by $6.0 million. Fair value sensitivity was based on published forward $CAD/$USD rates.

Financial obligation sensitivity analysis

As at March 31, 2016, if future natural gas prices changed by $0.25 per GJ with all other variables held constant, the fair value of the financial obligation and net income for the period would change by $1.1 million. Fair value sensitivity is based on published forward AECO prices.

Fair value of financial assets and liabilities

Perpetual's fair value measurements are classified as one of the following levels of the fair value hierarchy:

Level 1 – inputs represent unadjusted quoted prices in active markets for identical assets and liabilities. An active market is characterized by a high volume of transactions that provides pricing information on an ongoing basis.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These valuations are based on inputs that can be observed or corroborated in the marketplace, such as market interest rates or forward prices for commodities.

Level 3 – inputs for the asset or liability are not based on observable market data.

The Corporation aims to maximize the use of observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. Bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying amount.

The fair value of the TOU share financial arrangement is estimated using significant unobservable inputs including discount rates and measures of future volatility. This fair value is classified as level 3 as significant unobservable inputs, including discount rates and measures of future volatility are used in determination of the carrying amount. During the three months ended March 31, 2016, the Corporation recognized an unrealized loss of $2.0 million (2015 – nil) which is included in finance expense.

The fair value of the financial obligation is estimated by discounting future cash payments based on the forecasted Alberta gas reference price multiplied by the contracted deemed volume. This fair value measurement is classified as level 3 as significant unobservable inputs, including the discount rate and forecasted Alberta gas reference prices, are used in determination of the carrying amount. The discount rate of 12.2% (2015 – 12.2%) was determined on inception of the agreement based on the characteristics of the instrument. The forecasted Alberta gas reference prices for the remaining term are based on AECO forward market pricing with adjustments for historical differences between the Alberta reference price and market prices. During the three months ended March 31, 2016, the Corporation recognized payments on the financial obligation of $0.7 million (2015 – $1.1 million) and an unrealized gain of $1.6 million (2015 – $0.8 million) which is included in finance expense.

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels:

As at March 31, 2016	Gross	Netting[(1)]	Carrying Amount	Level 1	Fair Value Level 2	Level 3
Financial assets						
Fair value through profit and loss						
Marketable securities	**171,875**	**–**	**171,875**	**171,875**	**–**	**–**
Derivatives – current	**5,028**	**(353)**	**4,675**	**–**	**4,675**	**–**
Derivatives – non-current	**785**	**–**	**785**	**–**	**785**	**–**
Financial Liabilities						
Financial liabilities at amortized cost						
Senior notes	**271,921**	**–**	**271,921**	**–**	**150,000**	**–**
Fair value through profit and loss						
Derivatives – current	**3,606**	**(353)**	**3,253**	**–**	**3,253**	**–**
Derivatives – non-current	**4,212**	**–**	**4,212**	**–**	**4,212**	**–**
Financial obligation – current	**1,650**	**–**	**1,650**	**–**	**–**	**1,650**
Financial obligation – non-current	**6,133**	**–**	**6,133**		**–**	**6,133**
TOU share financial arrangement - current	**20,100**	**–**	**20,100**	**–**	**–**	**20,100**

(1) Derivative assets and liabilities presented in the statement of financial position are shown net of offsetting assets or liabilities where the arrangement provides or the legal right and intention for net settlement exists.

12. FINANCE EXPENSE

Finance expense for the three months ending March 31, 2016 is comprised of the following:

	Three months ended March 31, **2016**	2015
Cash interest		
Interest on senior notes	**$ 6,015**	$ 6,015
Interest on convertible debentures	**–**	610
Interest on bank indebtedness	**918**	270
Total cash interest	**6,933**	6,895
Non-cash finance expense		
Amortization of debt issue costs	**263**	500
Accretion on decommissioning obligations (note 9)	**917**	1,088
Accretion on gas over bitumen obligation	**–**	123
Change in fair value of financial obligation	**(1,578)**	(757)
Change in fair value of TOU share financial arrangement	**2,041**	–
Finance expenses recognized in net income (loss)	**$ 8,576**	$ 7,849