CALGARY, Nov. 7, 2016 /CNW/ - (TSX:PMT) - Perpetual Energy Inc. ("Perpetual", the "Corporation" or the "Company") herein reports its financial and operating results for the three and nine months ended September 30, 2016. A complete copy of Perpetual's unaudited interim consolidated financial statements and related Management's Discussion and Analysis ("MD&A") for the three and nine months ended September 30, 2016 can be obtained through the Corporation's website at www.perpetualenergyinc.com and SEDAR at www.sedar.com.

THIRD QUARTER HIGHLIGHTS

Production and Operations

- On September 27, 2016, Perpetual announced the strategic disposition of the majority of its mature shallow gas properties in east central and northeast Alberta (the "Shallow Gas Properties"), including net asset retirement obligations ("ARO") of $131.0 million, for nominal proceeds. The transaction also included an effective deferred purchase price component whereby Perpetual will continue to benefit from the Shallow Gas Properties for close to two years, given a recovery in natural gas pricing, through marketing arrangements which provide a call on 33,611 GJ/d, representing close to 90% of current production, at $2.81/GJ at AECO from October 1, 2016 through August 31, 2018. Further to this, arrangements have been made to provide for an AECO floor price of $2.58/GJ for the Purchaser's account for the same volume and term. The marketing arrangements will be settled monthly by a third party marketing company through an adjustment in the price paid to Perpetual for future physical gas sales. Despite the material loss of production from the Shallow Gas Properties, future funds flow is forecast to be positively impacted by the disposition.

- Third quarter average production of 14,123 boe/d was down 12 percent from the second quarter, reflecting natural declines and the decision to eliminate capital spending in light of low commodity prices.

- Natural gas production for the third quarter of 75.5 MMcf/ decreased 11 percent from the preceding second quarter (85.2 MMcf/d), reflecting natural declines and the decision to defer development drilling at East Edson to preserve inventory and value with a view to a commodity price recovery. With stabilizing natural gas prices during the quarter, the Company completed and tied in the East Edson well previously drilled in the first quarter of 2016, and resulting production commenced in late September.

- NGL production of 476 bbl/d in the third quarter of 2016 represented a 30 percent decrease from the previous quarter (682 bbl/d) and 36 percent compared to the prior year, consistent with restricted capital spending and natural declines in East Edson production.

- Oil production of 1,052 bbl/d for the third quarter of 2016 was two percent lower than the second quarter of 2016 (1,073 bbl/d) and down 26 percent from 1,426 bbl/d in the third quarter of 2015, reflecting the positive impact waterflood activities are beginning to have in Mannville despite limited capital spending and no new drilling in the area over the past two years.

- Exploration and development spending of $1.4 million for the third quarter of 2016 was focused on completion and tie-in of one well at East Edson. An additional $1.4 million was spent on abandonment and reclamation projects in eastern Alberta as part of the Company's shallow gas operating cost reduction program. The majority of the decommissioning expenditures related 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.

Financial Highlights

- Low commodity prices continued to have a negative impact on financial results with third quarter cash expenses exceeding revenue for negative funds flow of $0.6 million for the period. On a year to date basis, negative funds flow of $2.4 million has been recorded in 2016 compared to a positive funds flow of $1.6 million in 2015. Material cost-savings initiatives in all areas of the business have mitigated the impact of low commodity prices and declining production.

- The Company's diligent focus on reducing costs and maximizing efficiencies in operations resulted in operating costs of $7.36/boe for the third quarter of 2016, down 11 percent from 2015. Although positively impacted by the resulting lower operating costs, third quarter operating netbacks were 28 percent lower than the previous year at $4.24/boe, reflecting decreased realized revenue due to lower commodity prices. Perpetual expects operating costs per boe to be further reduced following the disposition of the Shallow Gas Properties on October 1, 2016 with the majority of the Company's natural gas production focused at East Edson going forward. Operating costs at East Edson averaged $2.68/boe during the third quarter of 2016.

- Cash interest of $1.8 million during the third quarter of 2016 was 77 percent lower compared to the same period in 2015 ($7.9 million) due to the $66.1 million reduction in bank debt, a $214.4 million reduction in senior notes outstanding and repayment of $34.9 million of convertible debentures.

- Third quarter cash general and administrative ("G&A") expense decreased 11 percent to $3.8 million in 2016 from $4.3 million in 2015, reflecting lower consulting and professional fees, salaries, and on-going cost saving initiatives implemented by the Corporation in response to the depressed commodity price environment.

- Perpetual's third quarter natural gas price, before derivatives, of $2.44/Mcf, was down 16 percent from $2.91/Mcf in 2015 due to decreased AECO Monthly Index prices. The Company's realized third quarter natural gas price was decreased by realized losses of $2.2 million on natural gas derivatives compared to realized losses of $0.4 million during the same period in 2015. The resulting third quarter 2016 average realized natural gas price, including derivatives, was $2.12/Mcf, 26 percent lower than the prior year ($2.86/Mcf).

- The Company's realized oil price, before derivatives, of $38.93/bbl was down four percent from a year ago but remained consistent with second quarter prices and 76 percent higher than the first quarter of 2016 ($22.08/bbl), reflecting stabilizing WTI prices.

- Perpetual's realized NGL price increased 28 percent from the previous year, reflecting an increase in all NGL component prices as excess North American inventory levels began to stabilize due to increasing exports from the United States to Asia and Europe brought on by low North American product prices.

- Realized revenue of $19.6 million, including realized losses on derivatives for the three months ended September 30, 2016 of $2.6 million, was down 41 percent compared to $33.2 million for the same period in 2015. Losses on derivatives in the third quarter of 2016 were comprised of $2.2 million and $0.4 million related to natural gas and foreign exchange contracts respectively.

- In September, the Company refinanced its TOU share financial arrangement originally set to mature in November 2016, including an extension of the maturity to March 15, 2017, a reduction in the number of the Company's common shares in Tourmaline Oil Corp. ("TOU") pledged as security from 1.0 million to 0.84 million and an increase to the maximum payment at maturity from $21.3 million to $23.3 million.

- Total net debt on September 30, 2016 was $30.2 million, net of the market value of $65.7 million for the 1.85 million TOU shares held.

- Subsequent to the end of the quarter, Perpetual's lenders completed their review of the reserve based credit facility and extended the maturity date to April 28, 2017. In addition, Perpetual has amended the margin loan arrangement to increase funds available from $10.6 million to approximately $15.5 million, while reducing the number of TOU shares pledged as security from 0.84 million to 0.65 million TOU shares. Interest on the margin loan was reduced to its lenders' three month CDOR rate plus 1.0%. The requirement to maintain a lending ratio of less than 55 percent has been removed. This amendment provides additional liquidity of approximately $5.0 million and extends the term to November 2017.

2016 STRATEGIC PRIORITIES

Perpetual's top strategic priorities for 2016 remain:

1. Reduce debt and restore cash flow;
2. Grow value and scope of Greater Edson Liquids-rich gas;
3. Maximize value potential of Eastern Alberta assets; and
4. Advance high impact opportunities.

The disposition of a large percentage of high liability, negative netback mature shallow gas properties in east central and northeast Alberta positively impacts funds flow and increases the company's net asset value. This transaction also reduces Perpetual's ARO by $131.0 million, materially improves operating netbacks and significantly reduces go forward G&A expenses. Perpetual remains focused on its strategic priorities, adapted to the current environment, as outlined below.

Reduce debt and restore cash flow

- On October 1, 2016, Perpetual closed the disposition of the Shallow Gas Properties. The Shallow Gas Properties included approximately 35.5 MMcfe/d of current production and an estimated 83.8 Bcfe of proved plus probable natural gas reserves (based on the Company's internally prepared engineering report reviewed by McDaniel and Associates Consultants Ltd. ("McDaniel"), as at October 1, 2016). This disposition involved nominal proceeds at closing however, through gas marketing arrangements related to the transaction, Perpetual retains essentially full natural gas price upside exposure on the forecast base production from the Shallow Gas Properties should AECO natural gas prices exceed $2.81/GJ through August 2018, with no operating exposure or future capital spending commitments. The positive impacts to future funds flow are far reaching as these mature legacy assets had been funds flow negative for many years, largely due to high fixed operating costs which included extremely high municipal taxes and high G&A costs related to the large number of low productivity wells and related leases.

- The disposition of the Company's 25 percent interest in certain non-core assets located adjacent to the Shallow Gas Properties resulted in proceeds of $1.0 million during the third quarter.

- As compared to one year ago, at September 30, 2016, Perpetual reduced its interest bearing debt by $315.4 million for annua interest savings of close to $25 million.

- With the exchange of 4.4 million TOU shares for $214.4 million face value of senior notes and the sale of 0.42 million shares to manage liquidity over the past year, the Company had 1.85 million TOU shares held at September 30, 2016, compared to 6.67 million at the end of the third quarter in 2015. The value of the reduced number of TOU shares held was $65.7 million versus $207.1 million at September 30, 2015.

- Including the $22.6 million TOU financing arrangement, Perpetual's net debt, net of TOU shares held decreased by $149.3 million (83 percent) over the one year period to $30.2 million at quarter end, from $179.5 million in 2015.

- Capital spending at East Edson and Mannville will be re-instated in the fourth quarter of 2016, with a single rig drilling program planned for both operating areas. The resultant growth in production is expected to positively impact funds flow in the first quarter of 2017.

Grow value and scope of Greater Edson Liquids-rich gas

- Perpetual's focus on reducing costs and maximizing efficiencies in operations has resulted in a sustainable cost structure for the Company's East Edson assets. Third quarter area operating costs of $2.68/boe were recorded for East Edson production.

- Perpetual spent $1.3 million late in the third quarter of 2016 to complete and tie-in one well drilled during the first quarter. Production commenced from the new well in mid-October. Results were as expected, closely aligned with the East Edson Wilrich type curve.

- The Company has initiated a single rig drilling program in the East Edson area. One two-well pad is expected to be drilled during the fourth quarter with completion and frac operations continuing into the first quarter of 2017.

Maximize value potential of Eastern Alberta assets

- Production and operating expenses associated with the Company's shallow gas assets decreased 35 percent to $6.7 million ($10.88/boe) in the third quarter of 2016 compared to $10.3 million ($13.55/boe) 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 accelerate progress and drive efficiencies on abandonment and reclamation projects. While the majority of these cost savings were associated with the Shallow Gas Properties that were subsequently disposed early in the fourth quarter, the remaining shallow gas assets in Mannville and Panny will continue to benefit from the improved operating practices implemented.

- Despite material decreases in many categories of discretionary operational spending, municipal property taxes and other annual fees continued to represent a significant portion of fixed operating costs. 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 actual property value for the Company's mature shallow gas assets. As a result, property taxes in eastern Alberta completely eliminated positive operating cash flow on most of the Company's shallow gas properties.

- Perpetual spent $1.4 million during the third quarter of 2016 on abandonment and reclamation projects in eastern Alberta. The majority of decommissioning expenditures relate to internal labor costs and equipment costs.

- The Company plans to continue its momentum reducing the ARO related to its mature shallow gas assets. To this end, activities are underway to spend close to $0.7 million to recomplete wells in uphole zones. An additional $0.5 million is expected to be spent on abandonment and reclamation work focused in the Mannville area.

- Waterflood activities are beginning to establish returns as production declines in Mannville heavy oil were only two percent quarter over quarter, materially lower than historical declines. An additional $0.8 million will be spent in the fourth quarter to convert two additional wells and construct related facilities for water injection.

- A one-rig drilling program will commence in late November, targeting the drilling of up to seven wells in the Mannville area during the fourth quarter of 2016. Up to five wells will target heavy oil and are designed to grow oil production and further refine future drilling locations for 2017.

- Technical work continued on the extensive shallow shale gas resource play in the Colorado and Viking formations in eastern Alberta. The Company retained material exposure to this play in the Mannville area, with an internally estimated 585 Bcf of potentially recoverable resource over 150 net sections. Two horizontal wells to evaluate the economic potential of Viking and Colorado formations are included in the capital spending plans for the Mannville area in the fourth quarter of 2016.

Advance high impact opportunities

- Perpetual continued to advance phase 1 of its strategic low pressure electro-thermally assisted drive ("LEAD") process pilot project targeting bitumen recovery from the Bluesky formation at Panny. First production was established on flow back in the first quarter of 2016 following a successful first heating phase of the pilot which commenced in September 2015 and cycle two commenced production in late June after an abbreviated second heating cycle. Results from both cycles exceeded expectations, with cumulative oil recovery surpassing forecasts.

- In late September, cycle three commenced with solvent injection combined with heating. Follow-on production test operations are expected to continue throughout the fourth quarter.
- The cyclic heat stimulation test ("CHS") thus far is yielding valuable insights regarding reservoir performance, the functionality of the electrical heating cable and other operational considerations. High quality data continues to be gathered for refinement of a commercial development plan and economic model. Minimal additional capital during the third quarter was allocated to continue the strategic CHS test.
- Exploration, evaluation and development planning is ongoing for Perpetual's approximately 35,000 net acres of land prospective for horizontal development in multiple zones in the deep basin in West Central Alberta.

OUTLOOK

Perpetual remains focused on continuing to further strengthen its balance sheet, manage liquidity and grow future funds flow as top priorities. The closing of multiple asset dispositions in the first nine months of 2016, combined with the recapitalization activities and the securities swap transaction to repurchase and cancel $214.4 million in senior notes in exchange for 4.4 million TOU shares, have contributed to an 85 percent reduction in net debt from year end 2015 to an estimated current net debt of $33 million.

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), $23.3 million due at maturity on March 15, 2017 as per the financing arrangement secured by 0.85 million TOU shares, a margin loan of approximately $15.5 million secured by 0.65 million TOU shares due in November 2017 and an estimated working capital surplus of $3.0 million, offset by the market value of the remaining 1.85 million TOU shares of approximately $63.4 million (based on a market price of $34.31 per TOU share on November 7, 2016).

The disposition of Shallow Gas Properties announced during the third quarter and closed on October 1, 2016 is expected to restore positive operating funds flow at future strip pricing. This is due to the improved operating netbacks and subsequent restructuring activities to reduce related G&A costs.

The Company's Board of Directors, together with management, has approved the spending of up to ten million for the fourth quarter of 2016. Beginning in late November, drilling activities will recommence at both Mannville and East Edson, with a single rig drilling program in each area. Prior to year-end, the Company expects to drill a two well pad at East Edson and up to five heavy oil wells at Mannville. Perpetual also has plans to evaluate its shallow shale gas play in the Viking and Colorado formations at Mannville with the drilling of two horizontal wells, taking advantage of synergies with the heavy oil drilling program. An estimated $1.5 million will also be allocated to advance heavy oil waterflood operations and high return shallow gas recompletion activities.

Incorporating restructuring costs related to the Shallow Gas Disposition, Perpetual estimates funds flow for the fourth quarter of 2016 will be minimal based on current forward commodity prices, with total production of 8,300 boe/d, comprised of average oil and liquids production of close to 1,465 bbl/d and natural gas sales averaging approximately 40 MMcf/d.

The Company will continue to pursue reductions in all areas of its cost structure and will focus on sources of liquidity, including strategic asset sales, throughout the remainder of 2016.

Finally, the Board of Directors and Management wish to express our sincere gratitude to the many employees, contractors, suppliers and land owners impacted by the Company's strategic disposition of its Shallow Gas Properties. We deeply appreciate the many long term relationships that we have mutually enjoyed for several decades while discovering, developing and operating these mature shallow gas assets in eastern Alberta.

Financial and Operating Highlights	Three Months Ended September 30			Nine Months Ended September 30		
(Cdn$ thousands except as noted)	2016	2015	% Change	2016	2015	% Change
Financial						
Oil and natural gas revenue	22,268	35,460	(37)	63,463	109,393	(42)
Funds flow (1)	(602)	(2,514)	(76)	(2,406)	1,642	(247)
Per share (1) (2)	(0.01)	(0.33)	(97)	(0.05)	0.22	(123)
Net earnings (loss)	(10,919)	(67,139)	(84)	86,770	4,265	1934
Per share – basic (2)	(0.21)	(8.89)	(98)	1.74	0.57	205
Per share – diluted (2)	(0.21)	(8.89)	(98)	1.65	0.56	195
Total assets						

471,185

Bank indebtedness [1]	10,632	68,590	(84)	10,632	68,590	(84)
Senior notes, at principal amount	60,573	275,000	(78)	60,573	275,000	(78)
TOU share financial arrangement, at carrying amount	22,623	-	100	22,623	-	100
Convertible debentures, at principal amount	-	34,878	(100)	-	34,878	(100)
Period end balance of marketable securities	(65,659)	(207,081)	(68)	(65,659)	(207,081)	(68)
Adjusted working capital deficiency (surplus)	2,031	8,116	(75)	2,031	8,116	(75)
Total net debt [1]	30,200	179,503	(83)	30,200	179,503	(83)
Capital expenditures						
Exploration and development [4]	1,379	14,670	(91)	6,995	74,625	(91)
Geological and geophysical	-	16	(100)	26	1,619	(98)
Dispositions, net of acquisitions	(942)	(2,630)	(64)	(27,460)	(23,713)	16
Other	32	584	(95)	516	885	(42)
Net capital expenditures	469	12,640	(96)	(19,923)	53,416	(137)
Common shares outstanding (thousands)[3]						
End of period	52,586	7,660	587	52,586	7,660	587
Weighted average - basic	52,253	7,549	592	49,997	7,482	568
Weighted average - diluted	52,253	7,549	592	52,529	7,649	587
Operating						
Average production						
Natural gas (MMcf/d) [5]	75.5	105.5	(28)	86.3	103.9	(17)
Oil (bbl/d) [5]	1,052	1,426	(26)	1,100	1,743	(37)
NGL (bbl/d) [5]	476	741	(36)	664	659	1
Total (boe/d)	14,123	19,758	(29)	16,146	19,722	(18)
Average prices						
Natural gas, before derivatives ($/Mcf)	2.44	2.91	(16)	2.01	2.92	(31)
Natural gas, including derivatives ($/Mcf)	2.12	2.86	(26)	2.42	3.03	(20)
Oil, before derivatives ($/bbl)	38.93	40.58	(4)	32.80	43.31	(24)
Oil, including derivatives ($/bbl)	38.90	41.40	(6)	37.21	55.61	(33)
NGL ($/bbl)	35.80	28.07	28	32.72	33.74	(3)
Drilling (wells drilled gross/net)						
Gas	-/-	-/-		1/1.0	6/4.5	
Oil	-/-	-/-		-/-	-/-	
Observation	-/-	-/-		-/-	2/2.0	
Total	-/-	-/-		1/1.0	8/6.5	
Success rate (%)	-/-	-/-		100/100	100/100	

[(1)] These are non-GAAP measures. Please refer to "Non-GAAP Measures" in this News Release.

[(2)] Based on weighted average basic or diluted common shares outstanding for the period.

[(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 at March 24, 2016.

[(4)] Exploration and development costs include geological and geophysical expenditures.

[(5)] Production amounts are based on the Corporation's interest before royalty expense.

Forward-Looking Information

Certain information regarding Perpetual in this news release including management's assessment of future plans and operations and including the information contained under the heading "Outlook" may constitute forward-looking statements under applicable securities laws. The forward-looking information includes, without limitation, statements regarding capital expenditure levels for 2016, prospective drilling activities; forecast production, forecast levels of debt, production type, operations, funds flows, and timing thereof; facility construction and pilot project plans and timing thereof; forecast and realized commodity prices; expected cost savings and the impact of cost savings initiatives, expected funding, allocation and timing of capital expenditures; projected use of funds flow and anticipated funds flow; planned drilling and development and the results thereof; expected dispositions, anticipated proceeds therefrom and the use of proceeds therefrom; expected interest savings from securities swap, and commodity prices. Various assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking information contained in this press release, which assumptions are based on management analysis of historical trends, experience, current conditions, and expected future developments pertaining to Perpetual and the industry in which it operates as well as certain assumptions regarding the matters outlined above. Forward-looking information is based on current expectations, estimates and projections that involve a number of risks, which could cause actual results to vary and in some instances to differ materially from those anticipated by Perpetual and described in the forward looking information contained in this press release. Undue reliance should not be placed on forward-looking information, which is not a guarantee of performance and is subject to a number of risks or uncertainties, including without limitation those described under "Risk Factors" in Perpetual's Annual Information Form and MD&A for the year ended December 31, 2015 and those included in other reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR website (www.sedar.com) and at Perpetual's website (www.perpetualenergyinc.com). Readers are cautioned that the foregoing list of risk factors is not exhaustive. Forward-looking information is based on the estimates and opinions of Perpetual's management at the time the information is released and Perpetual disclaims any intent or obligation to update publicly any such forward-looking information, whether as a result of new information, future events or otherwise, other than as expressly required by applicable securities laws.

Also included in this press release are estimates of Perpetual's 2016 net debt, which is based on the various assumptions as to production levels, including estimated average production of approximately 14,175 boe/d for 2016, capital expenditures, and other assumptions including current forward commodity price assumptions. To the extent any such estimate constitutes a financial outlook, it was approved by management and the Board of Directors of Perpetual on November 7, 2016 and is included to provide readers with an understanding of Perpetual's anticipated funds flows based on the capital expenditure and other assumptions described herein and readers are cautioned that the information may not be appropriate for other purposes.

Volume Conversions

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

Non-GAAP Measures

This news release contains financial measures that may not be calculated in accordance with generally accepted accounting principles in Canada ("GAAP"). Readers are referred to advisories and further discussion on non-GAAP measures contained in the "Significant Accounting Policies and non-GAAP Measures" section of management's discussion and analysis.

About Perpetual

Perpetual Energy Inc. is a Canadian energy company with a spectrum of resource-style opportunities spanning heavy oil, NGL and bitumen along with a large base of shallow gas assets. Perpetual's shares are listed on the Toronto Stock Exchange under the symbol "PMT". Further information with respect to Perpetual can be found at its website at www.perpetualenergyinc.com.

The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.

SOURCE Perpetual Energy Inc.

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