CALGARY, May 11, 2015 /CNW/ - (TSX:PMT) - Perpetual Energy Inc. ("Perpetual", the "Corporation" or the "Company") is pleased to report its financial and operating results for the three months ended March 31, 2015. A complete copy of Perpetual's unaudited interim consolidated financial statements and related Management's Discussion and Analysis ("MD&A") for the three months ended March 31, 2015 can be obtained through the Corporation's website at www.perpetualenergyinc.com and SEDAR at www.sedar.com.

FIRST QUARTER HIGHLIGHTS

Production and Operations

- First quarter average production of 22,819 boe/d was 21 percent higher than the first quarter of 2014 (18,794 boe/d), reflecting the Company's successful development focus on liquids-rich natural gas in the greater Edson area.

- Natural gas production of 120.4 MMcf/d was up 31 percent from the first quarter of 2014 (92.1 MMcf/d). Wells drilled in East and West Edson during 2014 have contributed to an 84 percent increase in west central deep basin gas production year-over-year, with current production fully utilizing existing compression and processing facilities' capacity of approximately 60 MMcf/d net. With the increased production at both East and West Edson, the overall average heat content of Perpetual's natural gas sales increased to 1.12 GJ/Mcf (Q1 2014 – 1.10 GJ/Mcf).

- Natural gas liquids ("NGL" or "liquids") production of 713 bbl/d in the first quarter of 2015 was 32 percent higher than the comparative period in the prior year, reflecting the growth of liquids-rich natural gas at East and West Edson. Recovered NGL was 11 bbl/MMcf in west central Alberta, relative to 15 bbl/MMcf in the comparative period in 2014, due to both changes in processing and more concentrated development in the leaner southwest region of the Wilrich reservoir in East Edson and West Edson.

- Crude oil production of 2,045 bbl/d was 30 percent lower than the first quarter of 2014 (2,911 bbl/d), reflecting the fourth quarter 2014 disposition of non-core Mannville heavy oil properties as well as the Company's decision to defer crude oil drilling activities in light of depressed crude oil prices.

- Exploration and development spending of $46.9 million during the first quarter of 2015 included drilling three (1.5 net) natural gas wells at West Edson and three (3.0 net) natural gas wells at East Edson. First quarter spending also included completion and tie-in spending with the tie-in of substantially all of the remaining wells drilled during the fourth quarter of 2014.

- Construction continued on the new East Edson 30 MMcf/d gas plant during the first quarter, bringing total project costs at the end of the first quarter to $29.8 million. The new gas plant is on track to be completed on budget and operational for start-up during the third quarter of 2015.

Financial Highlights

- Funds flow of $1.5 million ($0.01 per share) was 91 percent lower than the prior year (Q1 2014 - $17.4 million) despite higher average production levels, reflecting the dramatic impact of reduced commodity prices during the first quarter of 2015. The impact of depressed commodity prices was partially mitigated by cost-saving initiatives which included reduced interest costs, lower general and administrative expenses as well as reduced per unit operating costs. Additional measures will continue to be reviewed and implemented throughout 2015 to reduce costs through this period of low commodity prices.

- Operating netbacks of $6.21/boe in the first quarter decreased 62 percent from $16.23/boe in 2014, primarily reflecting decreased revenue due to lower commodity prices. An 18 percent reduction in operating costs from $12.87/boe in the first quarter of 2014 to $10.59/boe in 2015 partially offset the impact of low commodity prices.

- Perpetual's average natural gas price, before derivatives, was $3.01/Mcf, down 39 percent from $4.90/Mcf for the first quarter of 2014, consistent with the decrease in AECO monthly prices. Realized gains of $1.4 million on natural gas derivatives increased Perpetual's realized gas price to $3.14/Mcf for the first quarter of 2015 (Q1 2014 - $4.35/Mcf).

- Perpetual's oil price, before derivatives, of $37.37/bbl in the first quarter of 2015 decreased 52 percent compared to 2014 ($77.43/bbl) due to a global oil price decline which was partially offset by a narrowing of the West Texas Intermediate ("WTI") to Western Canadian Select ("WCS") differential price and a weaker Canadian dollar. Perpetual's realized oil price of $40.60/bbl, including derivatives, included gains of $2.2 million recorded on financial WTI fixed price contracts which were partially offset by losses of $1.6 million on foreign exchange contracts. The Company's realized NGL sales price also decreased 54 percent to $36.15/bbl (Q1 2014 $79.33).

- A net loss of $32.7 million was recorded for the first quarter of 2015, compared to $17.3 million in the first quarter of 2014, reflecting the impact of reduced commodity prices and resulting decrease in funds flow from operations.

2015 STRATEGIC PRIORITIES

Perpetual's top strategic priorities for 2015 include:

1. Reduce debt and improve debt to cash flow ratio;
2. Grow greater Edson liquids-rich gas production, cash flow, inventory, reserves and value;

3. Optimize value of Mannville heavy oil;
4. Maximize value of shallow gas; and
5. Refine elements of production growth strategy for 2017 to 2020.

Significant progress has been made to advance these strategic priorities as outlined below.

Reduce debt and improve debt to cash flow ratio

- On April 1, 2015, Perpetual closed an arrangement with Tourmaline Oil Corp. ("Tourmaline") to swap its joint interest share in its West Edson assets in west central Alberta in exchange for 6.75 million Tourmaline common shares ("TOU Shares"). The market value of the TOU Shares was $258.7 million based on the April 1, 2015 closing price on the Toronto Stock Exchange and was $267.4 million based on the May 11, 2015 closing price. The transaction included all joint interest lands held by Perpetual with Tourmaline in West Edson, together with the associated wells and infrastructure (the "West Edson Property"). Based on the Company's third party engineering report prepared as at December 31, 2014 (the "Reserve Report"), the disposition included 7.2 MMboe of recognized proved and probable developed reserves as well as 9,600 net acres of undeveloped lands and production of approximately 5,750 boe/d. The value of the TOU Shares at closing approximates the net asset value of the property estimated in the Reserve Report on a proved and probable basis.

- Perpetual intends to retain the TOU Shares and systematically manage its obligations, including the redemption of its outstanding convertible debentures maturing on December 31, 2015. Further, the TOU Shares can be utilized as required to fund the Company's development plans at East Edson as appropriate in the current commodity price environment and provide additional financial flexibility for Perpetual to capture and evaluate other high impact growth opportunities. The TOU shares also provide optionality to manage the structure of the Company's balance sheet in the future, including its credit facility and senior notes.

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

- Perpetual's 2015 capital program was heavily weighted to the first quarter to complete the East Edson development program which included drilling and the construction of the new processing facility. For the balance of 2015 capital spending is largely deferred in light of the uncertain commodity price environment. The Board of Directors has approved a capital budget of $20 to $25 million for the last three quarters of 2015.

- Perpetual has natural gas commodity price contracts in place to provide downside protection on revenue, with physical and financial contracts in place from May through October 2015 on approximately 82,000 GJ/d at an average price of $2.57/GJ, followed by contracts to fix the average price on 7,500 GJ/d at $2.78/GJ for November and December 2015.

- In April 2015, Perpetual monetized certain crude oil costless collar contracts receiving cash proceeds of $3.7 million. Perpetual has crude oil contracts remaining on 1,000 bbl/d in place from May through December 2015, protecting an average WTI index floor price of Cdn$67.50/bbl with an average ceiling price of Cdn$76.70/bbl. The Corporation also has financial contracts in place for the remainder of 2015 on 1,500 bbl/d to fix the basis differential between the WTI and WCS trading hubs at an average of US$(15.91)/bbl.

- On April 1, 2015, concurrent with the closing of the sale of the West Edson Property, Perpetual's lenders completed their semi-annual review of the borrowing base under Perpetual's credit facility. Total availability was reduced from $105 million to $100 million consisting of a term loan of $75 million and a revolving credit facility of $25 million. Collateral for the term loan is provided by a securities pledge agreement relating to the TOU Shares. The term loan matures on November 30, 2015 which will be extended to April 29, 2016 should the settlement of the Corporation's 7.00% Convertible Debentures occur prior to October 31, 2015.

Grow greater Edson liquids-rich gas production, cash flow, inventory, reserves and value

- Exploration and development spending in the greater Edson area totaled $43.3 million during the first quarter of 2015, which included drilling three (1.5 net) natural gas wells at West Edson and three (3.0 net) natural gas wells at East Edson. First quarter spending also included the completion of two (1.0 net) wells at West Edson and three (3.0 net) wells at East Edson along with the tie-in of substantially all of the remaining wells drilled during the fourth quarter of 2014. Completions on a total of four (4.0 net) wells at East Edson were deferred, pending additional processing capacity that will become available after the start-up of the new gas plant at East Edson planned for early third quarter 2015. Wells drilled and completed at West Edson during the first quarter of 2015 were included in the West Edson Property transaction with Tourmaline effective April 1, 2015.

- Construction continued on the new East Edson 30 MMcf/d gas plant with $14.2 million spent during the first quarter, bringing total project costs at the end of the first quarter to $29.8 million. Subsequent to the end of the first quarter of 2015, management approved additional capital spending of $2.7 million to expand the new East Edson gas plant capacity from 30 MMcf/d to 45 MMcf/d through the addition of another compressor. Expected spending for the remainder of 2015 on the new East Edson processing infrastructure is expected to be $2.7 million. The new gas plant remains on track to be completed on budget and operational for July 1, 2015 and is expected to be operating at full capacity by end of the third quarter of 2015.

- Capital spending in the first quarter also included acquisition of 143 square km of new shoot 3D seismic in the greater Edson area to enhance the primary development of the Wilrich formation, as well as evaluate other secondary objectives for horizontal development, including the Notikewin, Fahler, Viking, Cardium and other prospective zones.

- Perpetual plans to spend an additional $12.5 million in the west central district during the remainder of 2015 for completion and tie-in activities of four (4.0 net) standing wells.

Optimize value of Mannville heavy oil

- Perpetual allocated $0.7 million of first quarter capital spending to primarily waterflood activities in the Mannville heavy oil area which included converting and equipping a source water well, one additional injector conversion, surface equipment and preliminary pipeline work for future injection conversions.

- The Corporation currently has six injectors online in the Sparky Upper Mannville I2I pool injecting at a voidage replacement ratio greater than 1.2. The Upper Mannville B pool has four wells currently on injection with modest planned capital for the remainder of 2015 to convert 2 additional wells to injection. Further waterflood expansions are planned in 2016, including initiation of waterflood in the Upper Mannville T8T pool.

- Drilling activities for Mannville heavy oil have been deferred until crude oil prices recover to preserve value on the Company's drilling inventory.

Maximize value of shallow gas

- Capital spending on eastern Alberta shallow gas properties is concentrated on low-cost operations which mitigate production declines through facility optimization projects, workovers and uphole recompletions. In the first quarter of 2015, Perpetual allocated $1.0 million to optimization projects on shallow gas assets.

Refine elements of production growth strategy for 2017 to 2020

- Perpetual's non-operated Duvernay formation horizontal well (35 percent working interest) at Waskahigan commenced production testing in March 2015 for a 10 day period. During the evaluation period, the well flowed at an average restricted rate of 332 bbl/d of 45° API oil with 334 Mcf/d of liquids-rich gas of an estimated 114 bbl/MMcf C3+ at 13 to 20 MPa flowing pressure. The well is now shut-in by the operator pending relief from trucking and gas transportation restrictions. Perpetual has a 9.75 (5.85 net) section land position prospective for Duvernay volatile oil and high liquids gas condensate development in the Waskahigan area. Production performance will be closely monitored to establish longer term liquids content, gas ratios and production capability as well as other operational parameters to inform the future development and value potential of the Company's 6,240 contiguous gross acres in the play.

- During the first quarter of 2015, the Corporation advanced phase 1 of its strategic pilot project at Panny, with spending of $1.9 million on two (2.0 net) observation wells to evaluate the LEAD (Low-Pressure Electro-Thermal Assisted Drive) bitumen development technology. Equipment was also procured for installation in the third quarter of 2015, with the first heating phase of the pilot on track to commence in September 2015 and associated first production anticipated during the first quarter of 2016.

- The Company continued to closely monitor competitor activity and technical performance in the Colorado formation in the greater Mannville area of east central Alberta. Eighteen new horizontal wells were drilled, completed and tied-in by competitors on the Colorado shallow shale gas play in the second half of 2014 and are now on production. Perpetual will continue to monitor competitor well performance and development costs to inform expected returns and advance a pilot project for full scale development of this shallow tight gas resource. Perpetual has very material exposure to the potential economic development of the Colorado formation in east central Alberta, with over 1,200 net prospective sections of land captured and an extensive plant and pipeline infrastructure in this shallow resource play fairway.

2015 OUTLOOK

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

Capital expenditures for 2015 ($ millions)	Q1	Q2 - Q4	Total
West central liquids-rich gas	43	20	63
Mannville heavy oil	1	2	3
Shallow gas	1	1	2
Panny bitumen	2	2	4
Total exploration and development spending	47	25	72
Abandonment and reclamation	3	3	6
Total capital and decommissioning expenditures	50	28	78

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

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

Financial and Operating Highlights	Three Months Ended March 31		
(Cdn$ thousands except as noted)	2015	2014	% Change
Financial			
Oil and natural gas revenue	41,804	64,754	(35)
Funds flow (1)	1,521	17,384	(91)
Per share (1) (2)	0.01	0.12	(91)
Net loss	(32,717)	(17,324)	89
Per share - basic and diluted(2)	(0.22)	(0.12)	83
Total assets	751,753	770,064	(2)
Net bank debt outstanding (1)	72,585	84,048	(14)
Senior notes, at principal amount	275,000	150,000	83
Convertible debentures, at principal amount	34,878	159,779	(78)
Total net debt (1)	382,463	393,827	(3)
Capital expenditures			
Exploration and development (3)	48,384	31,353	54
Dispositions, net of Acquisitions	14	151	(91)
Other	21	75	(72)
Net capital expenditures	48,419	31,579	53
Common shares outstanding (thousands)			
End of period	150,170	148,944	1
Weighted average - basic	148,531	148,448	-
Weighted average - diluted	148,531	148,448	-
Operating			

Average production [4]			
Natural gas (MMcf/d)	120.4	92.1	31
Oil (bbl/d)	2,045	2,911	(30)
NGL (bbl/d)	713	540	32
Total (boe/d)	22,819	18,794	21
Average prices			
Natural gas, before derivatives ($/Mcf)	3.01	4.90	(39)
Natural gas, including derivatives ($/Mcf)	3.14	4.35	(28)
Oil, before derivatives ($/bbl)	37.37	77.43	(52)
Oil, including derivatives ($/bbl)	40.60	70.97	(43)
NGL ($/bbl)	36.15	79.33	(54)
Barrel of oil equivalent, including derivatives ($/boe)	21.34	34.51	(38)
Drilling (wells drilled gross/net)			
Gas	6/4.5	3/2.0	
Oil	-/-	11/9.7	
Observation	2/2.0	-/-	
Total	8/6.5	14/11.7	
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) Exploration and development costs include geological and geophysical expenditures.

(4) 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 "2015 Outlook" may constitute forward-looking statements under applicable securities laws. The forward-looking information includes, without limitation, statements regarding capital expenditure levels for 2015, prospective drilling activities; forecast production, production type, operations, funds flows, and timing thereof; facility construction and pilot project plans and timing thereof; the planned retention of the TOU shares and the benefits of retaining such shares; forecast and realized commodity prices; 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; 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, 2014 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 2015 funds flow, which are based on the various assumptions as to production levels, including estimated average production of approximately 19,000 boe/d for 2015, capital expenditures, and other assumptions disclosed in this press release including the commodity price assumptions and sensitivities. To the extent any such estimate constitutes a financial outlook, it was approved by management and the Board of Directors of Perpetual on May 11, 2015 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.

Production Tests

Any references in this release to initial production rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue to produce and decline thereafter and are not necessarily indicative of long-term performance or ultimate recovery. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. Such rates are based on field estimates and may be based on limited data available at this time.

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 and convertible debentures are listed on the Toronto Stock Exchange under the symbol "PMT" and "PMT.DB.E", respectively. 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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