CALGARY, Nov. 10, 2015 /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, 2015. 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, 2015 can be obtained through the Corporation's website at www.perpetualenergyinc.com and SEDAR at www.sedar.com.

THIRD QUARTER HIGHLIGHTS

Production and Operations

- Perpetual's exploration and development expenditures for the third quarter of 2015 totaled $14.7 million, with the majority ($11.9 million) of spending allocated to West Central Alberta, where spending was concentrated on operations to start-up and expand the new East Edson gas plant as well as to complete and tie-in four previously drilled Wilrich horizontal wells concurrent with start-up of the expanded East Edson gas plant.
- On July 15, 2015 the East Edson gas plant was successfully brought online and immediately demonstrated the operational ability to exceed design capacity of 30 MMcf/d with high flowing pressures related to the start-up of new wells. Production through the new facility was restricted to 30 MMcf/d based on firm transportation commitments until mid-September when the first expansion was completed with installation of an additional compression unit, which increased total plant capacity to 45 MMcf/d.
- With the start-up and expansion of the new East Edson gas plant during the third quarter, Perpetual effectively replaced lost production volumes of approximately 5,750 boe/d associated with the West Edson Property swap completed on April 1, 2015.
- Third quarter average production of 19,758 boe/d was impacted by ongoing transportation interruptions and restrictions on the TransCanada pipeline system. Despite restrictions, third quarter production was 19 percent higher than the second quarter of 2015 (16,621 boe/d), and was consistent with the prior year (Q3 2014 – 19,640 boe/d) as new production from East Edson offset the impact of the second quarter 2015 West Edson property swap.
- Natural gas production for the third quarter of 105.5 MMcf/d increased 23 percent from the preceding second quarter (86.0 MMcf/d) and was eight percent higher than the comparable quarter in 2014 (97.8 MMcf/d). Increased production was attributable to the 2014 and 2015 development program including production through the new and expanded East Edson gas plant, which more than offset dispositions, the impact of transportation restrictions in West Central Alberta and natural base declines in the Company's eastern Alberta shallow gas assets.
- NGL production of 741 bbl/d in the third quarter of 2015 increased 42 percent from the previous quarter (522 bbl/d) and 72 percent compared to the prior year, primarily as a result of higher liquids yields from production processed through the East Edson gas plant. Reduced NGL production resulting from the second quarter West Edson swap and processing changes were offset by a 123 percent increase in East Edson NGL production relative to the comparable period in 2014. Liquids production in the third quarter was comprised of 476 bbl/d condensate (Q3 2014 – 346 bbl/d).
- Oil production of 1,426 bbl/d for the third quarter of 2015 was 19 percent lower than the second quarter of 2015 (1,766 bbl/d) and down 51 percent from 2,894 bbl/d in 2014, reflecting the impact of non-core Mannville heavy oil assets disposed of during the fourth quarter of 2014 combined with natural declines, downtime on oil wells and the decision to defer drilling and waterflood activities in light of depressed crude oil prices.

Financial Highlights

- Low commodity prices continued to have a dramatic impact on financial results with third quarter cash expenses exceeding revenue for negative funds flow of $2.5 million for the period, compared to $20.8 million of positive funds flow recorded in the third quarter of 2014. On a year to date basis, funds flow of $1.6 million has been recorded in 2015 compared to $64.1 million in 2014. Commodity price declines have resulted in minimal 2015 funds flow despite consistent production levels year-over-year and corporate cost-savings initiatives throughout 2015 which have resulted in lower operating and transportation costs, as well as lower general and administrative expenses.
- Third quarter operating netbacks of $5.86/boe also reflected low commodity prices and were 68 percent lower than the prior year ($18.07/boe) despite 2015 cost-saving initiatives in operating and transportation costs. Cost-saving initiatives are reflected in reduced operating costs of $8.29/boe for the third quarter of 2015, down 15 percent from 2014.
- Municipal property taxes continue to represent a significant portion of 2015 operating costs at $1.56/boe or 16 percent of operating costs for the nine months ended September 30, 2015. The calculation of property taxes for pipelines and wells is based on a prescribed formula methodology which results in a tax assessment base that is dramatically misrepresentative of property value, especially for mature oil and gas properties.
- Despite an increase in the percentage of higher heat content natural gas sales, Perpetual's third quarter natural gas price, before derivatives, of $2.91/Mcf was 33 percent lower than the same period in 2014 ($4.35/Mcf), reflecting decreased AECO Monthly Index prices. Perpetual's average realized gas price, including derivatives, of $2.86/Mcf was reduced by realized losses of $0.4 million on natural gas derivatives during the quarter.
- Perpetual's oil price, before derivatives, of $40.58/bbl in the third quarter of 2015 decreased 48 percent compared to 2014 due to declines in global oil pricing. Perpetual's realized oil price of $41.40/bbl, including derivatives, reflected net gains of $0.1 million on crude oil derivatives during the quarter.
- Perpetual's third quarter realized average NGL price decreased 64 percent from the prior year to $28.07/bbl, reflecting the drop in all NGL component prices as supply growth has been bottlenecked by infrastructure in many regions of North America resulting in excess inventory levels.
- Realized revenue of $33.2 million included a loss on $CAD/$USD foreign exchange contracts of $1.9 million for the third quarter.

- Perpetual recorded a net gain of $6.3 million on two property transactions during the third quarter, including the disposition of its interest in certain non-core undeveloped land for proceeds of $0.8 million as well as an asset swap to acquire an increased interest in existing reserves and undeveloped acreage in its core East Edson property in exchange for its interest in certain undeveloped lands.
- Total net debt on September 30, 2015 was $179.5 million, net of the market value of 6.67 million TOU Shares held of $207.1 million. During the third quarter, Perpetual sold 85,000 TOU shares at an average price of $34.10/share for proceeds of $2.9 million. Subsequent to the end of the third quarter, an additional 165,000 TOU shares were sold at an average price of $34.29/share for proceeds of $5.7 million.
- The Company's margin loan, which is secured by the TOU Shares, was reduced to $58.4 million in response to a reduction in the market price of the TOU Shares subsequent to September 30, 2015, bring total availability under the credit facility to $83.4 million.

2015 STRATEGIC PRIORITIES

Perpetual's top strategic priorities for 2015 remain:

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.

Low commodity prices and an uncertain operating environment have made 2015 a challenging year with minimal funds flow available to execute strategic development. The decision to swap the West Edson property for 6.75 million TOU shares effective April 1, 2015 materially reduced funds flow but resulted in enhanced financial flexibility. Perpetual remains focused on its strategic priorities, adapted to the current environment, as outlined below.

Reduce debt and improve debt to cash flow ratio

- Perpetual is actively assessing alternatives for repayment of financial obligations which become due in the fourth quarter of 2015, including $58.8 million outstanding under the term loan, which is due on November 30, 2015 and $34.9 million repayable on the Company's 7.00% convertible debentures, which mature on December 31, 2015.
- Perpetual has the ability to manage its debt obligations over time through the sale of TOU shares as ownership of the TOU shares provides the liquidity and optionality to settle near term obligations as they become due if sale of shares is considered the most prudent option. The TOU Shares may also be utilized to fund the Company's development plans at East Edson as appropriate and will provide greater financial flexibility to capture and evaluate other new high impact opportunities and pursue strategic initiatives. Relative investment merits will be considered along with other leverage and risk management considerations.
- Ownership of the TOU Shares provides Perpetual with exposure to the value creation potential inherent in Tourmaline's land and drilling inventory, along with participation in the ongoing results generated by Tourmaline's investment in its diversified oil and gas asset portfolio, funded by a strong balance sheet. At the same time, the liquidity inherent in the TOU Shares significantly enhances Perpetual's financial position, augmenting Perpetual's options to manage downside risk and enhancing Perpetual's ability to fund attractive investment opportunities during this period of low commodity prices.
- The following is a summary of Tourmaline's key financial and operating results as disclosed in their Press release dated November 4, 2015. Perpetual has not attempted to verify, review or audit any of the below information.

Tourmaline Oil Corp.	Three Months Ended	Nine Months Ended September 30, 2015
Financial and Operating Highlights (1)	September 30, 2015	
($ thousands, except where noted)		
Cash flow	197,100	607,869
Per share – diluted	0.90	2.86
Earnings	28,489	45,451
Per share – diluted	0.13	0.21
Capital expenditures	422,629	1,210,640
Common shares outstanding (thousands)	220,813	220,813
Daily average production		
Natural gas (MMcf/d)	786,910	767,587
Oil and NGL (bbl/d)	19,146	17,978
Total (boe/d)	150,297	145,909

(1) This information contained in the table above and elsewhere in this press release concerning Tourmaline has been derived and/or reproduced from public documents filed by Tourmaline. Although Perpetual has no knowledge that would indicate tha any of such information is untrue or incomplete, Perpetual does not assume any responsibility for the accuracy or completen of such information or the failure by Tourmaline to disclose events which may have occurred or may affect the completeness accuracy of such information but which are unknown to Perpetual.

- Perpetual continues to focus on cost-reduction strategies to preserve funds flow in a continuing depressed and uncertain commodity price environment. In addition to restricting capital spending and undertaking initiatives to reduce operating and administrative costs, the Company has also re-deployed operations personnel and is utilizing Company-owned equipment to undertake outstanding pipeline and well abandonment projects, at a realized cost significantly below third party costs.
- Capital spending for the fourth quarter of 2015 will continue to be restricted in light of the uncertain commodity price environment and minimal cash flows expected to the end of the year.

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

- The majority of Perpetual's exploration and development spending for the third quarter of 2015 was allocated to West Central Alberta, with $11.9 million focused on the East Edson property.
- Third quarter spending on West Central liquids-rich gas projects included costs to bring the new East Edson facility online on July 15, 2015, ahead of the September 1 initial timeline, as well as costs to install an additional compression unit in order to expand the East Edson gas plant in September 2015, bringing total capacity to 45 MMcf/d. Total project costs for the plant at the end of the third quarter were $34.5 million which includes $0.9 million for the construction of a ten inch sales pipeline to a newly constructed metering station and $1.9 million of construction costs to supply power to the facility.
- The new East Edson 10-3 plant came on stream in July at a design capacity of 30 MMcf/d and at an initial cost of $1.0 million per MMcf/d of capacity. Additional compression increased the capacity of the facility to 45 MMcf/d by mid-September, bringing the blended total cost to $0.75 million per MMcf/d capacity. The plant design allows for an additional expansion phase, planned for late 2016, that would bring capacity to 60 MMcf/d for an estimated blended total plant cost of $0.62 million per MMcf/d capacity.
- Third quarter West Central spending also included $9.1 million to complete and tie-in four (4.0 net) wells which were drilled in 2014 and the first quarter of 2015. Two of these wells were brought online concurrent with completion of the expanded East Edson 45 MMcf/d gas plant in mid-September. The two remaining wells were brought on-stream in late October and early November, concurrent with easing of firm transportation restrictions on the TransCanada pipeline system.
- Perpetual achieved a 25 percent reduction in completion costs for the four wells completed during the third quarter as compared to the prior year, reflecting improved completion techniques and cost savings from suppliers.
- Test results for the four recently completed wells continue to exceed expectations. The four wells tested between 12 MMcf/d and 15 MMcf/d at greater than 5,000 kPa flowing pressure, with instantaneous peak rates as high as 20 MMcf/d. All four wells significantly exceed the McDaniel booked proved plus probable initial rate of 5.5 MMcf/d as well as the internal type curve initial rate of 8.2 MMcf/d.
- With the start-up and expansion of the new East Edson gas plant and with all completed wells on-stream, Perpetual has effectively replaced lost production volumes of approximately 5,750 boe/d associated with the West Edson property swap completed on April 1, 2015 with new production at East Edson.

- West Central Alberta represents Perpetual's lowest operating cost property, with operating costs for the first nine months of 2015 averaging $3.96/boe. Operating costs in West Central Alberta are expected to continue to decrease over time with the full impact of production and operations through the new East Edson plant. This level of costs represent top quartile operating performance for this diversifying segment of Perpetual's operations.

Optimize value of Mannville heavy oil

- Third quarter capital activities included $0.8 million allocated to the Company's Mannville heavy oil property to continue to expand waterflood activities, including the conversion of two injectors and additional pipeline and wellsite facilities to optimize water handling.
- Perpetual currently has thirteen injectors online, injecting close to 6,000 bbl/d of water with seven injectors online in the Sparky Upper Mannville I2I pool and six injectors online in the Upper Mannville B Lloyd pool, with one additional coming online in the fourth quarter of 2015. Results thus far continue to be encouraging.
- Drilling activities for Mannville heavy oil continue to be deferred until crude oil prices recover to preserve value of the Company's drilling inventory.

Maximize value of shallow gas

- Perpetual continued to limit capital spending on eastern Alberta shallow gas properties during the third quarter with $0.2 million incurred on optimization projects designed to mitigate production declines. Production from shallow gas assets has declined 15 percent from 60.4 MMcf/d in the third quarter of 2014 to 51.3 MMcf/d in the third quarter of 2015.
- Extensive operating cost reduction initiatives continue to be implemented in eastern Alberta to improve netbacks. The Company has re-deployed operations personnel and utilized Company-owned equipment to accelerate the abandonment and reclamation of inactive sites, thereby reducing maintenance costs, surface lease rentals and municipal taxes as well as future liabilities. Third quarter spending on decommissioning obligations of $1.0 million was largely focused on shallow gas properties.
- Municipal property taxes represent a significant portion of shallow gas operating costs at an average of $0.46/Mcf, or representing 18.6 percent of operating cost for the nine months ended September 30, 2015. The calculation of property taxes for pipelines and wells is based on a prescribed formula methodology which disregards depletion and depreciation and results in a tax assessment base that grossly misrepresents the property value of Perpetual's shallow gas, mature pipeline assets in particular. The result is that high property taxes are effectively consuming all free operating cash flow for these mature properties, making the economic production of shallow gas virtually impossible at current natural gas prices.

Refine elements of production growth strategy for 2017 to 2020

- Strategic development at Panny reached a milestone in mid-October 2015 with first heat in the ground, following third quarter spending of $1.7 million to install the downhole heater and complete construction of a bitumen battery related to the LEAD pilot project. Preliminary results from the first heating phase of this pilot project have been positive, both operationally and technically as assessed through detailed data monitoring in the near proximity observation wells. First oil production is expected in the first quarter of 2016.
- Perpetual's non-operated Duvernay formation horizontal volatile oil well (35 percent working interest) at Waskahigan remained shut-in during the third quarter, pending availability of takeaway capacity for the associated natural gas. Future production performance will be closely monitored to establish longer term liquids content, gas ratios and production capability as well as other operational and capital execution parameters to inform the future development and value potential of the Company's 6,240 contiguous gross acres in the play.
- Despite restricted capital investment, technical work continued on the Company's extensive shallow shale gas resource play in the Colorado formation in eastern Alberta.
- Exploration, evaluation and development planning is ongoing for Perpetual's approximately 10,000 net acres of land prospective for horizontal development in multiple zones in the deep basin in the Columbia area in West Central Alberta.

OUTLOOK

Remainder of 2015

Perpetual expects to generate minimal funds flow over the remainder of 2015 based on current forward commodity prices, despite 2015 oil and liquids production averaging close to 2,350 bbl/d and natural gas sales averaging approximately 105 MMcf/d. Drilling activities will continue to be restricted through the balance of 2015 in the absence of price recovery, with mind and management focused on financial restructuring, cost-reduction and optionality to preserve upside value and inventory with a view to eventual price recovery.

2016 Outlook

Based on current forward commodity prices, Perpetual, with approval of its Board of Directors, will be deferring decisions regarding the 2016 capital expenditure program until there is clarity on commodity prices to generate meaningful corporate funds flow or alternatively, proceeds from asset dispositions, sale of Tourmaline shares or other financing arrangements sufficient to finance debt obligations and exploration and development spending. Management will continue to focus on financial restructuring, cost-reduction and preservation of value throughout 2016.

Financial and Operating Highlights	Three Months Ended September 30			Nine Months Ended September 30		
(Cdn$ thousands except as noted)	2015	2014	% Change	2015	2014	% Change
Financial						
Oil and natural gas revenue	35,460	63,126	(44)	109,393	200,228	(45)
Funds flow (1)	(2,514)	20,831	(112)	1,642	64,079	(97)
Per share (1) (2)	(0.02)	0.14	(114)	0.01	0.42	(98)
Net earnings (loss)	(67,139)	36,414	(284)	4,265	21,639	(80)
Per share – basic (2)	(0.44)	0.24	(283)	0.03	0.15	(80)
Per share – diluted (2)	(0.44)	0.23	(291)	0.03	0.14	(79)
Total assets	774,376	807,055	(4)	774,376	807,055	(4)
Net bank debt outstanding (1)	76,706	5,618	1265	76,706	5,618	1265
Senior notes, at principal amount	275,000	275,000	-	275,000	275,000	-
Convertible debentures, at principal amount	34,878	59,878	(42)	34,878	59,878	(42)
Period end balance of marketable securities	(207,081)	–	100	(207,081)	–	100
Total net debt (1)	179,503	340,496	(47)	179,503	340,496	(47)
Capital expenditures						
Exploration and development (3)	14,686	46,617	(68)	76,244	90,439	(16)
Dispositions, net of acquisitions	(2,630)	(46,998)	(94)	(23,713)	(49,756)	(52)
Other	584	347	68	885	530	67
Net capital expenditures	12,640	(34)	-	53,416	41,213	30
Common shares outstanding (thousands)						
End of period	153,194	150,014	2	153,194	150.014	2
Weighted average - basic	150,980	149,574	1	149,636	148,957	1
Weighted average - diluted	150,980	160,282	(6)	152,978	158,580	(6)
Operating						
Average production						
Natural gas (MMcf/d) (4)	105.5	97.8	8	103.9	96.1	8
Oil (bbl/d) (4)	1,426	2,894	51	1,743	2,996	(42)
NGL (bbl/d) (4)	741	430	72	659	507	30
Total (boe/d)	19,758	19,640	1	19,722	19,499	1
Average prices						
Natural gas, before derivatives ($/Mcf)	2.91	4.35	(33)	2.92	4.73	(38)
Natural gas, including derivatives ($/Mcf)	2.86	4.35	(34)	3.03	4.45	(32)
Oil, before derivatives ($/bbl)	40.58	78.37	(48)	43.31	79.78	(46)
Oil, including derivatives ($/bbl)	41.40	74.55	(44)	55.61	72.88	(24)
NGL ($/bbl)						

Barrel of oil equivalent, including derivatives ($/boe)	18.27	34.40	(47)	21.10	35.21	(40)
Wells Drilled (gross/net)						
Gas	-/-	13/8.1		6/4.5	17/10.6	
Oil	-/-	7/6.1		-/-	20/17.8	
Observation	-/-	-/-		2/2.0	-/-	
Total	-/-	20/14.2		8/6.5	37/28.4	
Success rate (%)	-/-	100/100		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 "OUTLOOK" may constitute forward-looking statements under applicable securities laws. The forward-looking information includes, without limitation, statements regarding capital expenditure levels for 2015; capital cost reduction initiatives; 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 and the indirect exposure to Tourmaline's business; 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 19,800 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 November 10, 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 "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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