

CALGARY, May 9, 2016 /CNW/ - (TSX:PMT) - [Perpetual Energy Inc.](http://www.perpetualenergyinc.com) ("Perpetual", the "Corporation" or the "Company") reports its financial and operating results for the three months ended March 31, 2016. 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, 2016 can be obtained through the Corporation's website at www.perpetualenergyinc.com and SEDAR at www.sedar.com.

FIRST QUARTER HIGHLIGHTS

Production and Operations

- In light of the persistent deterioration of commodity prices, Perpetual continued to restrict its capital spending programs. Exploration and development spending of \$4.8 million during the first quarter of 2016 was primarily allocated to west central Alberta for drilling one (1.0 net) natural gas well at East Edson. Completion of this well has been deferred to later in 2016 subject to a recovery in natural gas prices.
- First quarter average production of 18,378 boe/d was down 19 percent compared to the first quarter of 2015, reflecting natural declines as well as reduced volumes associated with the second quarter 2015 West Edson property swap for shares in [Tourmaline Oil Corp.](http://www.tourmalineoilcorp.com) ("TOU"). Reductions were partially offset by an increase in East Edson production related to the Company's successful 2015 drilling program and facilities expansion. East Edson production averaged 57.5 MMcfe/d in the first quarter of 2016 compared to 37.0 MMcfe/d in the first quarter of 2015.
- Natural gas production of 98.2 MMcf/d decreased seven percent from 105.1 MMcf/d in the fourth quarter of 2015, reflecting natural declines and the decision to defer drilling and completion projects and preserve inventory and value with a view to eventual commodity price recovery. Compared to the first quarter of 2015, natural gas production decreased 18 percent, reflecting natural declines and the West Edson property swap.
- Natural gas liquids ("NGL" or "liquids") production increased 17 percent to 836 bbl/d in the first quarter of 2016 compared to 713 bbl/d during the same period in 2015, consistent with increased liquids-rich natural gas production from 2015 capital development in East Edson.
- Crude oil production of 1,174 bbl/d declined eight percent from the previous quarter (Q4 2015 – 1,278 bbl/d) and 43 percent compared to the prior year (Q1 2015 - 2,045 bbl/d) due to natural declines and the decision to defer drilling and stage waterflood activities in light of depressed crude oil prices.

Financial Highlights

- Petroleum and natural gas revenue, before derivatives, for the first quarter of 2016 decreased 41 percent to \$24.7 million compared to \$41.8 million in 2015, reflecting lower commodity prices and reduced production.
- Perpetual's average natural gas price, before derivatives, of \$2.25/Mcf decreased 25 percent from \$3.01/Mcf in the first quarter of 2015, reflecting the decrease in AECO monthly prices which averaged \$2.00/GJ (Q1 2015 - \$2.80/GJ). Crystallizations of future natural gas contracts totalling \$7.7 million were included in realized gains on derivatives of \$8.0 million, which increased Perpetual's realized gas price to \$3.15/Mcf in the first quarter of 2016, almost unchanged from \$3.14/Mcf in 2015.
- Perpetual's oil price, before derivatives, of \$22.08/bbl in the first quarter of 2016 decreased 41 percent compared to 2015 due to global benchmark oil price declines which were partially offset by a weaker Canadian dollar. Realized gains of \$1.3 million increased Perpetual's realized oil price to \$33.90/bbl, including derivatives (Q1 2015 - \$40.60/bbl).
- Perpetual's first quarter realized NGL price of \$29.33/bbl decreased 19 percent from the previous year (Q1 2015 - \$36.15/bbl), reflecting the continued drop in all NGL component prices offset partially by a higher percentage of condensate in the NGL sales mix which attracts higher pricing. Perpetual's average NGL sales composition for the first quarter 2016 consisted of 71 percent C5+ as compared to 65 percent C5+ in the comparative quarter of 2015.
- Despite lower commodity prices, operating netbacks of \$8.11/boe in the first quarter of 2016 increased 31 percent from \$6.21/boe for the same period in 2015 as a result of hedging gains combined with reduced royalties, operating costs and transportation, reflecting the Company's focus on cost reductions in all areas of spending.
- The crystallization of natural gas hedges and significant corporate cost-savings initiatives largely offset the \$17.1 million decrease in petroleum and natural gas revenue in the first quarter of 2016 and managed funds flow to a positive \$48,000 (Q1 2015 - \$1.5 million).
- In January 2016, Perpetual closed a fully backstopped rights offering and issued 665.4 million common shares (33.3 million common shares post-consolidation) of the Company for gross proceeds of \$25 million, including 427.4 million (21.4 million post-consolidation) issued to entities controlled by the Chairman of Perpetual's Board of Directors for proceeds of \$16.1 million. On March 24, 2016 shareholders of the Corporation approved the consolidation of outstanding common shares of the Company on the basis of 20 common shares to one common share.

- At March 31, 2016, Perpetual had total debt, net of working capital and the market value of 6.25 million TOU shares held by Perpetual, of \$149.2 million, down \$54.5 million (27 percent) from December 31, 2015. The mark-to-market value of TOU shares held by Perpetual at March 31, 2016 appreciated 18.3 percent from year end 2015 to \$171.9 million. The sale of 0.25 million TOU shares during the quarter for net proceeds of \$7.4 million provided enhanced liquidity.
- Perpetual recorded net income of \$32.8 million in the first quarter of 2016, compared to a net loss of \$32.7 million in 2015, primarily attributed to unrealized gains recorded on commodity price derivative contracts, gains on non-core asset dispositions and a gain on the change in fair value of TOU shares held by the Company.

2016 STRATEGIC PRIORITIES

Perpetual has identified its top four strategic priorities for 2016, which include:

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.

In light of continuing depressed commodity prices, Perpetual has prioritized strengthening the balance sheet and liquidity management through debt reduction, restricted spending, financial recapitalization, reduced 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 throughout 2016 in order to establish a sustainable cost structure in this low commodity price environment.

Reduce debt and restore cash flow

- Perpetual completed several transactions during the first quarter of 2016 to generate liquidity and improve the Company's balance sheet including; closing of the fully backstopped rights offering in January for gross proceeds of \$25 million, sale of 250,000 TOU shares at an average price of \$29.45 for proceeds of \$7.4 million, and crystallization of \$7.7 million in hedging gains from future natural gas contracts.
- Asset dispositions during the first quarter generated \$6.5 million, including the disposition of 37 sections of its 425 net sections of oil sands leases in northeast Alberta in exchange for gross proceeds of \$6.2 million and a one percent gross overriding royalty, as well as the sale of three idle separators for proceeds of \$0.3 million.
- In April 2016, Perpetual announced a proposal to give holders of senior notes an opportunity to exchange their senior notes for TOU shares owned by Perpetual (the "Securities Swap" or "Securities Swap Proposal") on the basis of 21 TOU shares for each \$1,000 principal amount of the 8.75% senior notes due March 15, 2018 (the "2018 Senior Notes") and 20 TOU shares for each \$1,000 principal amount of the 8.75% senior notes due July 23, 2019 (the "2019 Senior Notes"). An aggregate of \$209.8 million principal amount of senior notes were tendered, consisting of \$112.1 million of 2018 Senior Notes (\$81.6 million of which are held by Perpetual's directors and officers and entities controlled by directors and officers) and \$97.7 million of 2019 Senior Notes (\$56.9 million of which are held by Perpetual's directors and officers and entities controlled by directors and officers).
- On April 27, 2016, \$150 million face value of senior notes were swapped, including \$76.8 million of the 2018 Senior Notes and \$73.2 million of the 2019 Senior Notes, for 3.1 million TOU shares owned by Perpetual plus accrued and unpaid interest of \$2.4 million which was paid in cash. All senior notes tendered to the Securities Swap Proposal by non-insiders were swapped. Annual interest savings associated with the \$150 million of senior notes cancelled is \$13.1 million, with \$8.7 million in estimated savings through the remainder of 2016.
- The Company has extended its Security Swap Proposal to remaining senior note holders to exchange outstanding senior notes for TOU shares on the same terms, with a commitment to swap a minimum of an additional face value of \$25 million of senior notes for approximately 0.5 million TOU shares on or about May 10, 2016. Non-insiders of Perpetual will have a right of first acceptance for any incremental amount up to \$25 million of senior notes tendered.
- Concurrent with the announcement of the Security Swap Proposal, in April 2016, Perpetual entered into a new margin loan with more favorable terms including a lower interest rate, higher loan to value ratio and extended maturity to April 30, 2017. The new margin loan, together with available cash on hand, was utilized to repay the previous \$42 million margin loan, facilitating the release of 3.1 million TOU shares which were used for the Security Swap. The new margin loan is fully drawn at \$22.8 million and is secured by a pledge of 2.1 million TOU shares.
- Incorporating the cancellation of the anticipated minimum \$175 million face value of senior notes to be exchanged on or about May 10, 2016 for an estimated aggregate 3.6 million TOU shares through the Securities Swap, repayment of the margin loan and partial replacement with a new margin loan estimated at \$19.0 million and the current market value of an estimated remaining 2.65 million TOU shares held, Perpetual's estimates its current net debt, net of working capital and the market value of TOU shares, to be approximately \$70 million.

- At March 31, 2016, Perpetual had in place a revolving credit facility of \$20 million, consisting of a \$5 million demand loan and a \$15 million working capital facility. The revolving feature of the credit facility was scheduled to expire on October 31, 2016 with the next semi-annual redetermination set to occur on this date. Despite the provision for no interim scheduled review until maturity, in April 2016, Perpetual's lenders completed a discretionary review of Perpetual's borrowing base triggered by lower actual and future commodity prices than previously forecast which resulted in a reduction to the credit facility from \$20 million to \$6 million. The reduced credit facility expires on October 31, 2016 and will effectively be used to support outstanding letters of credit totaling an estimated \$5.6 million.
- Total production and operating expenses decreased 34 percent to \$14.4 million for the first quarter of 2016 compared to \$21.8 million for the same period in 2015, reflecting the West Edson property swap for TOU shares as well as cost reductions in all operating areas including the re-deployment of operations personnel to abandonment and reclamation projects and operating efficiencies at the low cost Company-owned and operated gas plant at East Edson which started up in the third quarter of 2015.
- General and administrative expenses were reduced through diminished consulting fees and savings related to modified work schedules, elimination of annual bonuses, staff reductions and cost cutting in all areas of administration. These savings were offset by related restructuring costs of approximately \$1.0 million and reduced overhead recoveries associated with a restricted capital spending program in 2016.
- Perpetual has natural gas commodity price contracts in place to provide downside protection on an estimated 72 percent of forecasted natural gas production for the remainder of 2016.
- Perpetual has oil sales contracts in place on 1,000 bbl/d with a floor price at WTI of USD\$43.50/bbl for the remainder of 2016; protecting downside risk on close to 60 percent of forecast oil and liquids production.

Grow value and scope of Greater Edson liquids-rich gas

- The majority of Perpetual's exploration and development spending during the first quarter of 2016 was allocated to west central Alberta where one (1.0 net) natural gas well at East Edson was drilled. The well was the third well drilled on an existing four well pad with completion activities deferred pending an assessment of project economics based on realized commodity prices as the year progresses.
- 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. Start-up of the Company-operated gas plant in the third quarter of 2015, combined with a diligent focus on cost management is reflected in a first quarter area operating cost of \$2.52/boe for East Edson production.

Maximize value potential of Eastern Alberta assets

- At Mannville, drilling operations to further accelerate the recovery of the Company's heavy oil reserves have been deferred to preserve value. Instead, the Company has focused on waterflood activities to arrest production declines, increase heavy oil recoveries and improve netbacks. Positive waterflood response has been observed in several heavy oil pools where producing gas oil ratios are declining and oil production rates are stabilizing and in some cases inclining.
- Perpetual spent \$1.1 million during the first quarter of 2016 on abandonment and reclamation projects to reduce future costs associated with non-producing shallow gas wells and pipelines in eastern Alberta as part of the Company's shallow gas operating cost reduction program. The majority of first quarter decommissioning expenditures were internal labor costs as the Company continued its program to redeploy operational personal and internal resources to accelerate progress and drive efficiencies on abandonment and reclamation projects.
- The Company continues to prioritize cost reductions on its shallow gas assets. However municipal property taxes represent a significant portion of fixed operating costs as the calculation of property taxes for machinery and equipment, pipelines and wells is based on a prescribed formula methodology which results in a tax assessment base that is dramatically misrepresentative of the actual property value for the Company's mature shallow gas assets. As a result, property taxes in Eastern Alberta completely eliminate positive operating cash flow on most shallow gas properties at current commodity prices.

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, with first production recovered on flowback in the first quarter of 2016 following a successful first heating phase of the pilot which commenced in September 2015. The cyclic heat stimulation test thus far is yielding valuable insights regarding reservoir performance, the function of the electrical heating cable and other operational considerations. Cumulative oil recovery for the first planned cycle materially exceeded expectations. The second heating cycle began in early May after a short planned shut-in period designed for reservoir monitoring purposes.

- A downhole pump assembly was installed in the Company's non-operated Duvernay volatile oil evaluation well at Waskahigan during the first quarter. As operations have stabilized with availability of natural gas takeaway capacity, production monitoring is ongoing to understand the long term production capability and flow characteristics of the Duvernay formation on this acreage.
- Pending commodity price recovery, Perpetual's extensive land positions for resource-style plays captured in the Alberta deep basin at Columbia and the Colorado shale gas play in east-central Alberta provide considerable exposure for future exploration and development. With capital spending currently restricted, exploration, evaluation and development planning is ongoing on these potentially high impact opportunities.

2016 OUTLOOK

Perpetual remains focused on strengthening its balance sheet, managing liquidity and restoring positive funds flow as top priorities in the current depressed commodity price environment. In addition to the \$150.0 million senior notes which were swapped for TOU shares and cancelled on April 27, 2016, the Company intends to swap and cancel a minimum of \$25 million and a maximum of \$85 million additional outstanding senior notes for 0.5 to 1.8 million of its remaining 3.2 million TOU shares in May. Proforma the \$150 million settled swap and cancellation of the minimum additional swap amount of \$25 million, the Company estimates its total debt, net of the market value of remaining TOU shares held, would be approximately \$70 million. The estimate of total net debt is comprised of \$100.0 million in face value senior notes, \$21.3 million due November 16, 2016 as per the financing arrangement secured by 1.0 million TOU shares, a margin loan of close to \$19 million secured by the remaining 1.7 million TOU shares due April 2017 and an estimated working capital deficit of \$10.0 million, offset by the market value of the remaining 2.7 million TOU shares of approximately \$80 million (based on a market price of \$29.91 per TOU share on May 9, 2016).

The Company's Board of Directors, together with Management, continue to defer material capital spending in light of depressed commodity prices. Approximately \$6 million of capital expenditures for the remainder of 2016 will be allocated to continue to advance heavy oil waterflood activities, strategic testing on high impact opportunities and high return abandonment and reclamation activities which will be executed primarily utilizing internal manpower and equipment. In addition, completion and tie in of the East Edson well drilled during the first quarter is forecast to add production volumes in the third quarter but will be assessed on a project economics basis as the year progresses prior to execution.

Perpetual estimates that expenses will exceed revenues for the remainder of 2016 resulting in negative funds flow of \$10 to \$15 million based on current forward commodity prices, with total oil and liquids production averaging close to 1,700 bbl/d and natural gas sales averaging approximately 84 MMcf/d. The Company will continue to pursue reductions in all areas of its cost structure in order to restore positive funds flow and will focus on sources of liquidity, including strategic asset sales, throughout the remainder of 2016.

Financial and Operating Highlights	Three Months Ended March 31		
(Cdn\$ thousands except as noted)	2016	2015	% Change
Financial			
Oil and natural gas revenue	24,694	41,804	(41)
Funds flow ⁽¹⁾	48	1,521	(97)
Per share ^{(1) (2) (3)}	0.00	0.20	(100)
Net income (loss)	32,764	(32,717)	200
Per share - basic ^{(2) (3)}	0.72	(4.41)	116
Per share - diluted ^{(2) (3)}	0.70	(4.41)	116
Total assets	645,342	751,753	(14)
Net bank debt outstanding ⁽¹⁾	25,932	72,585	(64)
Senior notes, at principal amount	275,000	275,000	-
TOU share financial arrangement, at carrying amount	20,100	-	-
Carrying value of marketable securities	(171,875)	-	-
Convertible debentures, at principal amount	-	34,878	(100)
Total net debt ⁽¹⁾	149,157	382,463	(61)

Capital expenditures

Exploration and development ⁽⁴⁾	4,809	48,384	(90)
Dispositions, net of Acquisitions	(6,466)	14	-
Other	20	21	(5)
Net capital expenditures	(1,637)	48,419	(103)

Common shares outstanding (thousands)⁽³⁾

End of period	52,383	7,508	598
Weighted average - basic	45,573	7,426	514
Weighted average - diluted	47,022	7,426	533

Operating

Average production ⁽⁵⁾

Natural gas (MMcf/d)	98.2	120.4	(18)
Oil (bbl/d)	1,174	2,045	(43)
NGL (bbl/d)	836	713	17
Total (boe/d)	18,378	22,819	(19)

Average prices

Natural gas, before derivatives (\$/Mcf)	2.25	3.01	(25)
Natural gas, including derivatives (\$/Mcf)	3.15	3.14	-
Oil, before derivatives (\$/bbl)	22.08	37.37	(41)
Oil, including derivatives (\$/bbl)	33.90	49.41	(31)
NGL (\$/bbl)	29.33	36.15	(19)
Barrel of oil equivalent, including derivatives (\$/boe)	19.55	21.34	(8)

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 on 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 "2016 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; 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 16,350 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 May 9, 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.](http://www.perpetualenergyinc.com) 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.

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