CALGARY, March 15, 2017 /CNW/ - (TSX:PMT) – Perpetual Energy Inc. ("Perpetual", the "Corporation" or the "Company") is pleased to release its fourth quarter and year end 2016 financial and operating results. A complete copy of Perpetual's audited consolidated financial statements, Management's Discussion and Analysis ("MD&A") and Annual Information Form for the year ended December 31, 2016 will be available through the Corporation's website at www.perpetualenergyinc.com and SEDAR at www.sedar.com.

FOURTH QUARTER 2016 HIGHLIGHTS AND SUBSEQUENT EVENTS

- On October 1, 2016, Perpetual completed the strategic disposition of a large percentage of its mature shallow gas properties i east central and northeast Alberta, along with their associated decommissioning obligations (the "Shallow Gas Properties"). 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 to the extent average monthly AECO natural gas prices exceed $2.81/GJ through August 2018, with no operating exposure or future capital spending commitments. The Shallow Gas Properties included approximately 35.5 MMcfe/d of production and 82.1 Bcfe of proved plus probable working interest reserves, $128.0 million in discounted decommissioning obligations and 353,777 net acres of undeveloped lands. The positive impacts to future adjusted funds flow are far reaching as these mature legacy assets had been adjusted funds flow negative for many years, largely due to high fixed operating costs which included extremely high municipal taxes and high general and administrative costs related to the large number of low productivity wells and related leases.

- Beginning in early December, drilling operations commenced at both Mannville and East Edson, with a single rig drilling program in each area. Prior to year-end 2016, the Company rig released one well (1.0 net) and spud a second on a two well pad at East Edson, both targeting the Wilrich formation. At Mannville, two (2.0 net) exploratory wells were drilled in the fourth quarter. The Mannville wells were targeting the Company's regional shallow shale gas play and have resulted in one net gas well and one well which encountered drilling problems prior to reaching its targeted depth and was successfully re-drilled in the first quarter of 2017. Both of the exploratory shallow shale gas wells are currently undergoing completion operations. The fourth quarter 2016 capital program also included expenditures for high return conventional shallow gas workovers and recompletions as well as waterflood operations in the Mannville area. Fourth quarter 2016 exploration and development spending totaled $7.0 million.

- Operating costs of $2.15/boe ($1.6 million) were 69 percent lower compared to $6.92/boe in the fourth quarter of 2015, driven by the disposition of the high cost Shallow Gas Properties which focused Perpetual's natural gas production base to the low cost East Edson property. Operating costs in 2017 are anticipated to be $4.75 to $5.25/boe.

- Cash interest costs of $1.5 million were down 81 percent compared to $8.0 million in the fourth quarter of 2015, largely as a result of the $214.4 million reduction in the outstanding balance of senior notes in the second quarter of 2016.

- Driven by the 87 percent decrease in costs, Perpetual recorded adjusted funds flow of $3.3 million ($4.45/boe) for the fourth quarter of 2016 compared to $0.4 million ($0.20/boe) in 2015, reflecting the improved cost structure resulting from strategic operational and financing decisions throughout 2016.

- Fourth quarter production of 8,118 boe/d (79 percent East Edson) was 59 percent lower than 2015 (19,661 boe/d; 53 percent East Edson), reflecting the full impact of lost volumes associated with the disposition of the Shallow Gas Properties and natura declines resulting from the Company's decision to restrict capital spending during 2016 in response to low commodity prices.

- Perpetual's average natural gas price, including derivatives, for the fourth quarter of 2016 of $2.41/Mcf was 17 percent lower than $2.92/Mcf in the fourth quarter of 2015 despite an increase in the average conversion ratio for Perpetual's natural gas production to 1.16 GJ/Mcf from 1.13 GJ/Mcf in the 2015 period. Perpetual's oil price, including derivatives, of $38.95/bbl in the fourth quarter was comparable to the 2015 period ($39.81/bbl). Average realized natural gas liquids ("NGL") prices of $46.99/bbl were 40 percent higher than the prior year ($33.68/bbl), reflecting the slightly higher percentage of condensate in the Company's NGL blend as well as slightly higher benchmark prices for all NGL components.

- Net income of $20.4 million ($0.39/share) was recorded for the fourth quarter of 2016, including a non-cash gain of $0.7 millio related to the change in the fair value of the Company's investment in Tourmaline Oil Corp. ("TOU"), a gain on disposition of the Shallow Gas Properties of $19.2 million and $6.9 million related to a net impairment reversal driven by improved performance at Mannville.

- Perpetual completed a number of financing transactions during the fourth quarter of 2016 and first quarter of 2017. Collectively, these financing transactions significantly strengthen Perpetual's liquidity and debt repayment profile and secure funding for the Company's attractive 2017 and 2018 business plan. As a result of these transactions, Perpetual's liquidity increased by $68 million and the term of the Company's credit facility was extended to October 31, 2017, while outright total debt, net of TOU shares held, has been reduced by $11 million. The significant financing transactions are as follows:

  - Amendment and extension to November 2017 of its TOU share margin loan from $10.6 million to approximately $17.6 million, while reducing the number of TOU shares pledged as security from 0.84 million to 0.65 million TOU shares with a secured floor price of $27.38 per TOU share;
  - Partial repayment and refinancing of its existing TOU share margin loan previously maturing in March 2017, reducing the loan amount outstanding to $18.9 million, extending the maturity to August 1, 2017 and increasing the number of shares pledged as collateral to 0.89 million TOU shares, with a new floor price on these shares of $21.14 per TOU share;
  - Exchange of $17.4 million aggregate principal amount of its existing senior notes maturing in 2018 and 2019 for new 8.75% senior notes having an extended maturity date of January 23, 2022 (the "2022 Senior Notes");
  - Establishment of a $45 million second lien senior secured term loan facility (the "Second Lien Facility") bearing annual interest at 8.1 percent and maturing March 14, 2021. The initial draw on the Second Lien facility was $35 million with the remaining $10 million to be drawn prior to November 30, 2017. In addition, for no additional consideration, 5.4 million warrants were issued which entitle the holder to acquire common shares on a one for one basis for a period of up to thre years, at an exercise price of $2.34 per share (the "Warrants"), equal to a 45 percent premium to the volume weighted average trading price of the common shares for the ten trading days prior to the date of issue of the Warrants on March 14, 2017;
  - Issuance of 5.1 million common shares and 1.1 million Warrants to purchase common shares on the same terms and conditions as the Warrants (collectively, the "Equity Units") at $1.75 per Equity Unit for aggregate gross proceeds of $9 million (the "Equity Private Placement");
  - Extension of the Company's current bank lending arrangements to October 31, 2017, while providing for a $14 million increase in total borrowing capacity under the credit facility to $20 million: and
  - Issuance of a notice for the early redemption of all of the $27.6 million aggregate outstanding principal amount of its 8.75% senior notes maturing March 15, 2018 (the "2018 Senior Notes") effective April 15, 2017. The redemption amount payable will be either: CDN $1,000 for each $1,000 principal amount of 2018 Senior Notes; or at the election of an eligib holder and subject to the limitations described in the notice, $1,000 principal amount of 2022 Senior Notes for each $1,000 principal amount of 2018 Senior Notes.

2016 ANNUAL FINANCIAL AND OPERATING HIGHLIGHTS

Capital Spending and Property Dispositions

- Perpetual's exploration and development spending in 2016 totaled $14.0 million, 75 percent of which was concentrated on the West Central Alberta deep basin assets. Capital expenditures included drilling four wells (4.0 net), with two (2.0 net) liquids-rich wells at East Edson and two (2.0 net) horizontal well at Mannville targeting shallow gas, one of which encountered uphole drilling problems and was subsequently re-drilled in January 2017. Capital activity in 2016 also included continuation of waterflood activities and a shallow gas recompletion program at Mannville. In addition, Perpetual advanced phase one of its strategic low pressure electro-thermally assisted drive ("LEAD") pilot project with cyclic heat stimulation ("CHS") testing in the Bluesky formation at Panny. Currently in the fourth cycle, results to date have exceeded expectations and the CHS test is providing valuable insights to inform a potential commercial development plan and the future pilot project.

- Net property dispositions of $26.2 million in 2016 included the sale of certain oil sands leases with a retained gross over-riding royalty, non-core undeveloped land, a 25 percent interest in certain seismic, and idle production equipment for proceeds of $7.7 million. The Company also disposed of its 30 percent partnership interest in its gas storage business at Warwick and surrounding buffer lands as well as the Shallow Gas Properties.

- Perpetual spent $3.8 million on abandonment and reclamation projects during 2016 mainly in eastern Alberta. The Company scaled up the redeployment of operational personal and internal resources to accelerate progress and drive efficiencies on abandonment and reclamation projects, resulting in the realization of substantial cost savings on 2016 projects. These efficiencies, combined with the disposition of Shallow Gas Properties, reduced the the Company's decommissioning obligations by $125.5 million year over year to $33.6 million at year-end 2016.

2016 Year-End Reserve Highlights

- Total proved and probable reserves were 61.3 MMboe at December 31, 2016, down 16.5 MMboe from year-end 2015. Dispositions of 14.1 MMboe accounted for 85 percent of the reduction, while production of 5.1 MMboe was partially offset by positive additions of 2.7 MMboe. Adjusting for production and reserves related to the dispositions, total proved and probable reserves were effectively flat year over year.

- While proved and probable reserves were down 21 percent, the net present value discounted at ten percent of the proved and probable reserves increased by 12 percent at year-end 2016 to $380.7 million, highlighting the limited reserve value associated with the disposed Shallow Gas Properties, as well as, increased value in the Company's core assets at East Edson and Mannville, despite lower forecast commodity prices. The increase in value of the proved and probable reserves was driven by strong well performance in Perpetual's core retained assets as well as a 20 percent reduction to future development capital ("FDC").

- East Edson represented 93 percent of total proved and probable reserves at year-end 2016 (2015 – 73 percent). Despite bringing only one new well online in 2016 and production of close to 2.7 MMboe, proved and probable reserves at East Edson were virtually flat at 56.8 MMboe. Positive technical revisions were related to stronger performance from producing wells as well as upward adjustments to both initial productivity and the production decline profile in the type curve to match historical well performance. This increase in type curve resulted in fewer wells required to fill the Company's existing infrastructure and meet firm transportation commitments in the Edson area, largely driving the reduction in FDC within McDaniel's prescribed nine-year development plan. As a result, 8.5 net undeveloped wells at East Edson were shifted from the reserve report to the Company's prospect inventory.

- Heavy oil production at Mannville of 424 Mboe was offset by upward technical revisions to the proved reserves related to the positive impact of waterflood implementation during 2016. While Mannville heavy oil reserves account for just five percent of Perpetual's total proved and probable reserves, this core area accounts for 17 percent of Perpetual's total proved developed producing reserves and 14 percent of total proved and probable developed producing reserves.

- Perpetual's net asset value discounted at ten percent at year-end 2016 is estimated at $394.8 million. ($7.39 per share).

Production and Operations Highlights

- Total natural gas, oil and NGL production for the year ended December 31, 2016 of 14,128 boe/d was 28 percent lower than 2015 (19,706 boe/d), reflecting the Shallow Gas Property disposition and natural declines related to the decision to restrict capital spending in response to low commodity prices in 2016. Perpetual's natural gas production averaged 74.7 MMcf/d. Consistent with restricted capital spending and declining East Edson gas production, NGL production of 614 bbl/d (67 percent condensate) in 2016 decreased 14 percent from 711 bbl/d (68 percent condensate) in 2015. Oil production of 1,058 bbl/d for 2016 was 35 percent lower than 2015 (1,626 bbl/d).

- Total operating expenses decreased 46 percent to $35.0 million ($6.77/boe) for 2016 compared to $65.1 million ($9.06/boe) in 2015, reflecting company-wide cost saving initiatives, the re-deployment of operations personnel to abandonment and reclamation projects, and concentration of operations to the low cost East Edson area with the impact of the sale of the Shallow Gas Properties for the full duration of the fourth quarter. Operating costs at East Edson averaged $2.55/boe for 2016 compared to $3.97/boe in 2015.

- Municipal property taxes of $7.3 million continued to represent a significant portion of fixed operating costs at $1.42 per boe (21 percent of total operating costs) for the year ended December 31, 2016. 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 property value for the Company's mature shallow gas assets. As a result, property taxes for Shallow Gas Properties in Eastern Alberta for the first three quarters of 2016 was $5.2 million ($3.00/boe), which represented 26 percent of operating costs for the shallow gas production and 320 percent of pre-municipal tax operating netbacks for these properties, completely eliminating positive operating cash flow on most shallow gas properties.

Financial Highlights

- Realized revenue of $86.1 million in 2016 was 41 percent lower than 2015 due to lower commodity prices combined with the 28 percent decrease in average daily production.

- AECO Monthly Index prices which were 24 percent lower in 2016 as compared to 2015 was reflected in Perpetual's natural gas price before derivatives of $2.19/Mcf, down from $2.87/Mcf in 2015. Perpetual's average realized gas price, including derivatives, decreased 20 percent to $2.42/Mcf for the year ended December 31, 2016 from $3.01/Mcf in 2015. The Corporation's realized 2016 natural gas price, with derivatives, includes $2.7 million of realized losses on natural gas derivatives offset by $8.9 million of gains realized on crystallizations of contracts before maturity.

- Perpetual's oil price, before derivatives, of $34.93/bbl in 2016 decreased 15 percent compared to 2015 due primarily to the 11 percent decline in WTI pricing. Perpetual's realized oil price of $37.60/bbl, including derivatives, was higher than the price before derivatives due to gains of $1.3 million recorded on financial crude oil derivative contracts reduced by $0.3 million of losses realized on crystallizations of contracts before maturity.

- Perpetual's realized average NGL price increased five percent from the prior year to $35.45/bbl, reflecting the improvement in all NGL component prices as NGL inventory levels began to stabilize.

- Royalty expense of $9.4 million in 2016 represented a combined royalty rate of 11.6 percent compared to 11.5 percent in 2015. Average crown royalty rates decreased to 2.1 percent in 2016 compared to 3.1 percent in 2015 as a result of lower commodity prices. Freehold and overriding royalty rates for the year ended December 31, 2016 increased from 8.4 percent in 2015 to 9.5 percent in 2016 as the East Edson joint venture royalty of 5.6 MMcf/d plus associated oil and NGLs represented a larger percentage of reduced production given the impact of reduced capital spending.

- Operating netbacks of $6.53/boe in 2016 were 12 percent lower than in 2015 ($7.44/boe), driven by the 18 percent ($3.80/boe) decline in realized revenue due to lower commodity prices which more than offset the positive impact of lower operating and transportation costs per boe.

- Cash interest expense in 2016 decreased 52 percent to $14.7 million (2015 – $30.6 million) as a result of the 81 percent reduction in total net debt from $203.6 million at year-end 2015 to $38.1 million at year-end 2016, net of working capital and including the mark to market value of the TOU shares held. The reduction was accomplished through asset sales and the exchange of $214.4 million aggregate principal amount of senior notes for 4.4 million of the Company's TOU shares (the "Security Swap") in April and May 2016.

- Despite significant corporate cost savings, low commodity prices continued to have a dramatic impact on financial results with adjusted funds flow of $0.9 million for 2016 as compared to 2.0 million in 2015. Operating, transportation, administrative and financing expenses were 40 percent ($50.2 million) lower than in 2015 (17 percent lower ($2.92/boe) on a unit-of-production basis).

- The Corporation recorded net income of $107.1 million ($2.11/share) in 2016 which included: an $81.6 million gain on the Security Swap; a $58.9 million change in the market value of the TOU share investment based on the increase in trading price from $22.35/share on December 31, 2015 to $35.91/share at year end 2016; a net $6.9 million impairment reversal primarily recorded on the Company's Mannville heavy oil property; as well as a $21.6 million gain primarily related to the disposition of the Shallow Gas Properties; offset by related restructuring costs of $5.6 million.

2017 OUTLOOK

Success in advancing the Company's strategic priorities has established a foundation for strong growth in production and adjusted funds flow in 2017. Perpetual's top four strategic priorities for 2017 include:

- Grow the value of Greater Edson liquids-rich gas;
- Optimize the value potential of Eastern Alberta assets;
- Advance high impact opportunities; and
- Optimize the balance sheet for growth.

Closing of the suite of financing transactions during the first quarter of 2017 has established sufficient liquidity to execute the planned growth-oriented capital program and manage debt maturities into 2018 at current commodity prices. The Company will continue its diligent focus on increasing netbacks through reductions in all areas of spending, including operating, financing and administrative costs, to confirm the sustainable cost structure established through strategic decisions over the past two years.

In 2017, Perpetual will focus its capital spending on its core operating areas, with spending at East Edson, representing close to 85 percent of total forecast exploration and development expenditures. In the first quarter of 2017, the Company will spend close to $26 million. Activity will include frac and tie-in operations on the East Edson well drilled in the fourth quarter of 2016 and drilling of five additional Wilrich horizontal wells. A minimum of four of the six new drills are forecast to be completed, tied in and on production prior to spring break up, with the timing of the complete and frac operations on the additional two drills dependent on surface access conditions. The Company plans to recommence its one rig drilling program after break up to continue to grow production at East Edson, with the drilling of up to an additional eight wells. The one rig drilling program in East Edson is expected to re-establish throughput using Company-owned infrastructure approaching the capacity of 60 to 65 MMcf/d plus associated liquids by year-end 2017.

The Company is also finishing the execution of it first quarter drilling program at Mannville. Four horizontal heavy oil wells, three of which are exploratory, have been successfully drilled, completed, equipped and tied in with results pending as all four wells are currently cleaning up on initial flow back. Pending successful drilling results and commodity prices, up to four additional heavy oil wells are planned for the second half of 2017 in Mannville. Two horizontal wells to evaluate shallow shale gas plays in the Viking and Colorado formations have been drilled, taking advantage of synergies with the heavy oil drilling program. Completion and testing operations are currently ongoing. The first quarter 2017 capital program also includes expenditures for high return conventional shallow gas workovers and recompletions as well as waterflood operations in the Mannville area.

The table below summarizes expected capital spending and drilling activities for the first and second half of 2017.

Exploration and development capital expenditures	H1 2017 $ millions	# of wells (gross/net)	H2 2017 $ millions	# of wells (gross/net)	Total $ millions	# of wells (gross/net)
East Edson liquids-rich gas	25	5/5.0	30	8/8.0	55	13/13.0
Mannville heavy oil	4	4/3.3	4	4/4.0	8	8/7.3
Eastern shallow gas and other	3	1/1.0	1	-	4	1/1.0
Total capital spending[(1)]	32	9/8.3	35	12/12.0	67	22/21.3

(1) Excludes budgeted abandonment and reclamation spending of up to $4 million in 2017.

Capital spending during 2017 will be funded through a combination of adjusted funds flow and proceeds from the financing transactions closed on March 14, 2017.

Based on the total capital spending plan in 2017 of $67 million, Perpetual expects to exit 2017 at a production rate of 13,000 to 13,500 boe/d in December 2017, with full year 2017 production averaging between 10,750 to 11,000 boe/d (85 percent natural gas). This represents growth in average daily production from fourth quarter 2016 to full year 2017 of close to 30 percent and an increase in exit rate based on average December production of approximately 60 percent year over year.

In order to protect a base level of adjusted funds flow, Perpetual has commodity price contracts in place in 2017 on an estimated 45 percent of forecast production for the remainder of the year. These include natural gas contracts at AECO hub from April to December 2017 on close to 27,500 GJ/d at an estimated price of $3.15/GJ; and oil sales arrangements on 750 bbl/d protecting a WTI floor price of $USD50.00/bbl.

Based on these assumptions and the current forward market for oil and natural gas prices, Perpetual forecasts 2017 adjusted funds flow of approximately $40 million ($0.68 per share). Incorporating the current market value of 1.67 million TOU shares of $28.95 per share, the Company estimates year-end 2017 total net debt of approximately $80 million, with a corresponding debt to trailing twelve months adjusted funds flow ratio of approximately 2.0.

Incorporating the assumptions outlined above, the following table shows Perpetual's estimated 2017 forecast adjusted funds flow using various commodity price sensitivities for the full year of 2017:

Projected 2017 adjusted funds flow[(2)] ($ millions) 2017 AECO gas price ($/GJ)[(1)]

2017		$2.00 / $2.50	$3.00	$3.50	$4.00	$4.50
WTI price (US$/bbl)[(1)]	$40.00	30.6 / 34.4	38.3	42.1	46.0	49.8
	$45.00	31.9 / 35.7	39.6	43.4	47.3	51.1
	$50.00	33.2 / 37.0	40.9	44.7	48.6	52.4
	$55.00	36.2 / 40.0	43.9	47.7	51.6	55.5
	$60.00	39.1 / 42.9	46.8	50.6	54.5	58.3
	$65.00	40.5 / 44.4	48.2	52.1	55.9	59.8

(1) The current settled and forward average AECO and WTI prices for calendar 2017 as of March 14, 2017 were $2.58 per GJ and US$49.98 per bbl, respectively.

(2) Adjusted funds flow is a non-GAAP measures. Please refer to "Non-GAAP Measures" in Perpetual's Management Discussion and Analysis dated March 14, 2017.

Financial and Operating Highlights	THREE MONTHS Ended December 31			YEAR ENDED December 31,		
($Cdn thousands except volume and per share amounts)	2016	2015	Change	2016	2015	Change
Financial						
Oil and natural gas revenue	17,940	33,044	(46%)	81,403	142,437	(43%)
Cash flow from (used in) operating activities	4,470	11,980	(63%)	(7,136)	12,406	(158%)
Adjusted funds flow [(1)]	3,326	362	819%	920	2,004	(54%)
Per share [(1)] [(2)]	0.06	0.05	20%	0.02	0.27	93%
Net earnings (loss)	20,379	(93,539)	122%	107,149	(89,274)	220%
Per share [(2)]	0.39	(12.34)	103%	2.11	(11.89)	118%
Total assets	361,405	603,450	(40%)	361,405	603,450	(40%)
Net bank debt outstanding [(1)]	43,870	73,891	(38%)	43,870	73,891	(38%)

Senior notes, at principal amount	60,573	275,000	(78%)	60,573	275,000	(78%)
Carrying value of marketable securities	(66,343)	(145,275)	(54%)	(66,343)	(145,275)	(54%)
Total net debt (1)	38,100	203,616	(80%)	38,100	203,616	(80%)
Net capital expenditures						
Exploration and development	7,044	806	774%	14,039	75,431	(81%)
Other	25	25	–	541	910	(41%)
Capital expenditures	7,069	831	751%	14,580	76,341	(81%)
Geological and geophysical expenditures	(3)	(93)	97%	23	1,526	(98%)
Dispositions, net of acquisitions	1,248	3	415%	(26,212)	(23,710)	(11%)
Net capital expenditures	8,314	741	1002%	11,609	54,157	(79%)
Common shares outstanding (thousands) (5)						
End of period	53,421	19,067	180%	53,421	19,067	180%
Weighted average	52,924	7,582	598%	50,733	7,507	576%
Operating						
Average production						
Natural gas (MMcf/d) (3)	40.3	105.1	(62%)	74.7	104.2	(28%)
Oil and NGL (bbl/d) (3)	1,403	2,144	(35%)	1,672	2,337	(28%)
Total (boe/d)	8,118	19,661	(59%)	14,128	19,706	(28%)
Average prices						
Natural gas, before derivatives ($/Mcf)	3.31	2.74	21%	2.19	2.87	(24%)
Natural gas, including derivatives ($/Mcf)	2.41	2.92	(17%)	2.42	3.01	(20%)
Oil, before derivatives ($/bbl)	42.35	33.04	28%	34.93	41.27	(15%)
Oil, including derivatives ($/bbl)	38.95	39.81	(2%)	37.60	52.48	(28%)
NGL ($/boe)	46.99	33.68	40%	35.45	33.72	5%
Drilling (wells drilled gross/net)						
Gas	3/3.0	–		4/4.0	6/4.5	
Oil	–	–		–	–	
Observation/Service	–	–		–	2/2.0	
Total	3/3.0	–		4/4.0	8/6.5	
Success rate (%)	66.7/66.7	–		75/75	100/100	

(1) These are non-GAAP measures. Please refer to "Non-GAAP Measures" below.

(2) Based on weighted average basic 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.

(5) 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. All ommon shares are net of shares held in trust.

Forward-Looking Information

Certain information regarding Perpetual in this news release including management's assessment of future plans and operations may constitute forward-looking information or statements under applicable securities laws. The forward looking information includes, without limitation, statements made under the heading "2017 Outlook"; anticipated amounts and allocation of capital spending; statements pertaining to adjusted funds flow levels, self-funding, future development and capital efficiencies; statements regarding estimated production and timing thereof; forecast average production; completions and development activities; infrastructure expansion and construction; anticipated effect of commodity prices on reserves; estimates of gross recoverable gas sales; estimated net asset value as at December 31, 2016 and on a pro forma basis; prospective oil and natural gas liquids production capability; projected realized natural gas prices and adjusted funds flow; estimated asset retirement obligations; anticipated effect of commodity prices on future development capital and reserves; commodity prices and foreign exchange rates; and gas price management. 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's 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 MD&A for the year-ended December 31, 2016 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 law.

Uncertainties in Estimating Reserves

There are numerous uncertainties inherent in estimating quantities of crude oil, natural gas and NGL reserves and the future adjusted funds flows attributed to such reserves. The reserve and associated adjusted funds flow information set forth above are estimates only. In general, estimates of economically recoverable crude oil, natural gas and NGL reserves and the future net adjusted funds flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially. For those reasons, estimates of the economically recoverable crude oil, NGL and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

BOE Equivalents

Perpetual's aggregate proved and probable reserves are reported in barrels of oil equivalent (boe). Boe may be misleading, particularly if used in isolation. In accordance with NI 51-101 a boe conversion ratio for natural gas of 6 Mcf: 1 boe has been used, which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value. The following abbreviations used in this news release have the meanings set forth below:

Bcfe	billion cubic feet equivalent
MMboe	million barrels of oil equivalent
Mboe	thousand barrels of oil equivalent

Non-GAAP Financial Measures

This press release includes references to financial measures commonly used in the oil and gas industry of adjusted funds flow, operating netback and net debt, which do not have a standardized meaning prescribed by International Financial Reporting Standards ("GAAP"). Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Management uses the term "adjusted funds flow" for its own performance measures and to provide shareholders and potential investors with a measurement of the Company's efficiency and its ability to generate the cash necessary to fund a portion of its future growth expenditures or to repay debt. Perpetual considers operating netback an important performance measure as it demonstrates its profitability relative to current commodity prices. Operating netbacks are calculated by deducting royalties, operating costs, and transportation from realized revenue. Operating netbacks are also calculated on a per boe basis using average boe production for the period. Operating netbacks on a per boe basis can vary significantly for each of the Company's operating areas. Net bank debt is measured as current and long term bank indebtedness including adjusted working capital deficiency (surplus). Net debt includes the carrying value of net bank debt and the TOU share margin loans and the principal amount of senior notes reduced for the mark-to-market value of TOU shares held. Net bank debt and net debt are used by management to analyze leverage. Investors are cautioned that non-GAAP measures should not be construed as alternatives to measures of financial performance determined in accordance with GAAP as an indication of the Company's performance. See Non-GAAP Financial Measures" in the Management's Discussion and Analysis for the definition and description of these terms.

Industry Metrics

The terms FDC, operating netbacks and net asset value, while commonly used in the oil and gas industry, do not have standardized meanings and may not be comparable to similar measures presented by other companies, and therefore should not be used to make such comparisons.

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