

CALGARY, May 9, 2017 /CNW/ - (TSX:PMT) - [Perpetual Energy Inc.](http://www.perpetualenergyinc.com) ("Perpetual", the "Corporation" or the "Company") is pleased to release its first quarter 2017 financial and operating results. A complete copy of Perpetual's unaudited condensed interim consolidated financial statements and related Management Discussion and Analysis ("MD&A") for the three months ended March 31, 2017 can be obtained through the Company's website at www.perpetualenergyinc.com and SEDAR at www.sedar.com.

FIRST QUARTER 2017 HIGHLIGHTS

Perpetual focused on four key strategic priorities during the first quarter of 2017:

- 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.

Perpetual completed a number of financing transactions during the first quarter which collectively increased the Company's liquidity by \$68 million, significantly improving its debt repayment profile and providing funding for its growth-oriented capital program. Subsequent to the end of the quarter, on April 17, 2017, Perpetual completed the early repayment at par of \$27.1 million 8.75% senior notes that were scheduled to mature on March 15, 2018 (the "2018 Senior Notes") and the remaining \$0.5 million outstanding were exchanged for new 8.75% senior notes maturing on January 23, 2022. After giving effect to the early repayment of the 2018 Senior Notes, approximately 50% of Perpetual's debt outstanding matures in 2021 or later and available liquidity comprised of cash on hand along with undrawn amounts available under the \$20 million reserve based, revolving credit facility and the \$45 million senior secured term loan facility was approximately \$37 million.

During the first quarter of 2017, capital spending ramped up following a period of minimal investment due to low commodity prices in 2016, reaching \$24.6 million, a five-fold increase over the prior year period. Drilling and completion activity was focused at East Edson, comprising 75% of capital expenditures. Five Wilrich horizontal wells were drilled. Three wells were completed, tied in and on production prior to spring break-up, including one well that was drilled in the fourth quarter of 2016. The remaining three wells will be completed and brought on production later in the second quarter after spring break-up. Two well pads were built and associated pipelines were installed during the first quarter when construction costs are typically lower which will reduce the time required to bring new wells on production as they are drilled and completed later in 2017. Drilling costs in the first quarter were reduced by 30% per well from the same period in 2016 as a result of successful well design changes.

Capital spending in eastern Alberta comprised the remaining 25% of capital spending in the first quarter, and included the successful drilling, completion, equip and tie-in of four horizontal heavy oil wells in the Mannville area, three of which were exploratory. The development well is on-stream and producing banked oil as expected from waterflood operations. The three exploratory wells are equipped with two currently producing. Mechanical cleanouts are planned in May for two of the wells with suspected sand issues. The commercial viability of the future development of the newly discovered pools will be evaluated through the second quarter. First quarter 2017 capital program also included expenditures for high return conventional shallow gas workovers and recompletions as well as waterflood operations.

In addition, two horizontal pilot wells were drilled during the fourth quarter of 2016 and the first quarter of 2017 to evaluate drilling and completion well designs and reservoir performance to advance the understanding of the Company's Viking and Colorado shallow shale gas plays. Completion and evaluation operations are ongoing with more definitive results expected later in the third quarter of 2017.

First quarter production averaging 8,143 boe/d was flat compared to the fourth quarter of 2016 as natural declines were offset by increased production due to the ramp up of capital investment subsequent to the completed sale of high liability shallow gas assets on October 1, 2016 (the "Shallow Gas Disposition"). Compared to the first quarter of 2016, total production was down 10,235 boe/d or 56% primarily driven by the sale of 6,507 boe/d related to producing assets included in the Shallow Gas Disposition which represented 64% of the period over period variance. The remaining first quarter variance was due to natural production declines as capital spending was constrained throughout 2016 due to low commodity prices.

Despite flat production compared to the fourth quarter of 2016 and the 56% decline from the first quarter of 2016, adjusted funds flow grew to \$5.1 million in the first quarter of 2017, compared to \$3.3 million in the previous quarter and a nominal amount for the first quarter in 2016. Improved performance compared to both prior periods reflected higher netbacks related to increased average realized prices and lower costs in all aspects of the business. Operating costs during the first quarter of 2017 on a unit-of-production basis were reduced by 27% compared to the same period in 2016 demonstrating the Company's positive results over the past 12 months to affect a sustainable cost structure to increase operating netbacks per boe.

OUTLOOK

Success in advancing the Company's strategic priorities has established a foundation for strong growth in production and adjusted funds flow in 2017. Financing transactions closed during the first quarter of 2017 established sufficient liquidity to

execute the planned growth-oriented capital program and manage debt maturities into 2019 at current commodity prices. The Company will continue its diligent focus on capital efficiency improvements and reductions in operating, financing and administrative costs to improve upon the sustainable cost structure established through strategic decisions implemented over the past two years.

Based on the total capital spending plan in 2017 of \$65 to \$70 million, Perpetual expects to exit 2017 at a production rate of 13,000 to 13,500 boe/d. Weather-related drilling and completion delays have reduced second quarter production forecasts and, depending on timing to resume field operations, full year 2017 production is expected to average 10,000 to 11,000 boe/d (85% natural gas). This represents growth in exit rate based on average December production of approximately 60% compared to the prior year.

Subject to resumption of activity following spring break-up, the Company is planning to frac three standing horizontal Wilrich wells at East Edson in late May or early June. Plans are in place to recommence drilling after break-up to grow production at East Edson, with the drilling, completion and tie-in of up to eight additional wells during the remainder of 2017. 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. Cleanout operations are also planned at Mannville on the two new heavy oil exploration wells as soon as field conditions allow. Pending results from the two exploratory wells, up to four additional heavy oil wells are planned for the fourth quarter of 2017 in Mannville.

Capital spending during the remainder of 2017 will be funded through a combination of adjusted funds flow, proceeds from the financing transactions closed on March 14, 2017 and asset sales, including the potential sale of [Tourmaline Oil Corp.](#) shares ("TOU"), as required.

In order to protect a base level of adjusted funds flow, Perpetual has commodity price contracts in place in 2017 on an estimated 45% of forecast production for the remainder of the year. These include a combination of forward month physical and financial natural gas contracts at AECO hub on 27,500 GJ/d to October 2017 at an average price of \$3.15/GJ and 32,500 GJ/d for November and December 2017 at an average price of \$3.07/GJ. Perpetual also has 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 \$33 to \$40 million. Incorporating the current market value of 1.67 million TOU shares of approximately \$28 per share, the Company estimates year-end 2017 total net debt of approximately \$85 to \$90 million, with a corresponding estimated net debt to trailing twelve months adjusted funds flow ratio of approximately 2.5 at year end 2017.

Financial and Operating Highlights	Three months ended March 31,		
(\$Cdn thousands except volume and per share amounts)	2017	2016	Change
Financial			
Oil and natural gas revenue	18,158	24,694	(26%)
Cash flow from (used in) operating activities	(2,289)	(6,770)	(66%)
Adjusted funds flow ⁽¹⁾	5,110	48	n/a
Per share ^{(1) (2)}	0.09	0.00	n/a
Net earnings (loss)	(14,172)	32,764	(143%)
Per share - basic ⁽²⁾	(0.26)	0.72	(136%)
Per share - diluted ⁽²⁾	(0.26)	0.70	(137%)
Total assets	389,739	645,342	(40%)
Term loan, at principal amount	35,000	–	n/a
Carrying amount of TOU share margin loans	35,039	62,100	(44%)
Senior notes, at principal amount	60,573	275,000	(78%)
Carrying value of marketable securities	(49,440)	(171,875)	(71%)
Adjusted working capital surplus ⁽¹⁾	(16,714)	(16,068)	4%
Net debt ⁽¹⁾	64,458	149,157	(57%)

Net capital expenditures

Exploration and development and other ⁽³⁾	24,590	4,829	409%
Dispositions, net of acquisitions	(228)	(6,466)	(96%)
Net capital expenditures	24,362	(1,637)	1,588%

Common shares outstanding (thousands)⁽⁴⁾

End of period	58,990	52,117	(13%)
Weighted average - basic	54,468	45,573	(20%)
Weighted average - diluted	54,468	47,022	(16%)

Operating

Average production

Natural gas (MMcf/d) ⁽⁵⁾	40.7	98.2	(59%)
Oil and NGL (bbl/d) ⁽⁵⁾	1,356	2,010	(33%)
Total (boe/d)	8,143	18,378	(56%)

Average prices

Natural gas, before derivatives (\$/Mcf)	3.43	2.25	52%
Natural gas, including derivatives (\$/Mcf)	5.04	3.15	60%
Oil, before derivatives (\$/bbl)	43.72	22.08	98%
Oil, including derivatives (\$/bbl)	31.39	33.90	(7%)
NGL (\$/bbl)	49.70	29.33	69%

Drilling (wells drilled gross/net)

Gas	6/6.0	1/1.0	
Oil	4/3.3	–	
Total	10/9.3	1/1.0	

(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) Includes geological and geophysical expenditures.

(4) Common shares outstanding amounts are presented net of shares held in trust.

(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 may constitute forward-looking information or statements under applicable securities laws. The forward looking information includes, without limitation, statements made under the heading "Outlook"; anticipated amounts and allocation of capital spending; statements pertaining to adjusted funds flow levels, future development and capital efficiencies; statements regarding estimated production and timing thereof; forecast year-end exit and average production rates; completions and development activities; infrastructure expansion and construction; prospective oil and natural gas liquids production capability; projected realized natural gas prices and adjusted funds flow; 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.

The forward-looking information and statements contained in this news release speak only as of the date of this news release and neither the Corporation nor any of its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, unless expressly required to do so by applicable securities laws.

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.

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 debt includes adjusted working capital deficiency (surplus), the TOU share margin loans and the principal amount of the term loan and senior notes reduced for the mark-to-market value of TOU shares held. Net debt is used by management to analyze borrowing capacity. 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.

About Perpetual

Perpetual is an oil and natural gas exploration, production and marketing company headquartered in Calgary, Alberta. Perpetual operates a diversified asset portfolio, including liquids-rich natural gas assets in the deep basin of west central Alberta, heavy oil and shallow natural gas in eastern Alberta, with longer term opportunities through undeveloped oil sands leases in northern Alberta. Additional information on Perpetual can be accessed at www.sedar.com or from the Corporation's 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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