Perpetual Energy Inc. Releases Positive Third Quarter 2017 Financial and Operating Results

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CALGARY, Nov. 7, 2017 /CNW/ - (TSX:PMT) – Perpetual Energy Inc. ("Perpetual", the "Corporation" or the "Co pleased to release its third quarter 2017 financial and operating results. A complete copy of Perpetual's unaudited cond interim consolidated financial statements and related Management Discussion and Analysis ("MD&A") for the three and months ended September 30, 2017 can be obtained through the Company's website at www.perpetualenergyinc.com a at www.sedar.com.

The strategic focusing of our asset base, strengthening of our balance sheet, and steady execution of our growth-orien program delivered attractive results in the third quarter. Adjusted funds flow of $8.2 million ($0.14 per share) was up 56 million) over the second quarter and $8.8 million over the comparative period in 2016. The main drivers of improved pe were a combination of production growth of 12%, despite voluntary shut-ins, and significant cost improvements in all as business, particularly at East Edson where operating costs were driven down another 22% to $2.42/boe during the third Furthermore, proactive natural gas price optimization strategies mitigated the impact of extremely low and volatile natur prices in Alberta and translated into an average realized natural gas sales price of $3.11/Mcf, more than 50% higher tha monthly index prices.

THIRD QUARTER 2017 HIGHLIGHTS

Production and Operations

- Exploration and development spending totaled $25.4 million in the third quarter ($53.9 million year to date), a sign increase over prior year spending of $1.4 million ($7.0 million year to date).
- Drilling and completion activity was focused in West Central Alberta at East Edson during the third quarter of 201 included the drilling of four (4.0 net) Wilrich horizontal wells and the completion of seven (7.0 net) wells, four of wh drilled in the first half of 2017. An additional one (0.4 net) exploration well was rig released in the third quarter in t Columbia/Brazeau area within West Central Alberta, with frac and follow on evaluation activities taking place in O
- Third quarter average production of 10,330 boe/d was driven by positive results from the Company's focused cap to develop Wilrich reserves, and more than offset the average 450 boe/d of voluntary shut-ins that the Company opportunistically implemented to maximize value with minimal impact on adjusted funds flow. This price optimizat was set up by transportation constraints created by pipeline maintenance activities in Alberta during the quarter a continued into the fourth quarter.
- Production growth was focused in West Central, which comprised 80% of total production, and increased 17% (1 over the second quarter. New wells are performing at or above projected type curves. West Central production wa constrained by Perpetual's firm transportation capacity as well as the voluntary shut-ins implemented through tem restriction of select wells. Third quarter exit production rates were more than 40% higher than second quarter exit
- Oil and natural gas liquid ("NGL") production averaged 1,711 bbl/d, virtually flat to the second quarter and represe total production.
- Perpetual's average realized natural gas price in the third quarter of $3.11/Mcf decreased by 2% from second qua compared to a 27% decrease in the average AECO Monthly Index for the same period. Key factors contributing to premium to AECO include:

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  - Approximately 50% of third quarter production was sold under contracted physical and financial arrangeme
average price of $3.14/GJ;
  - Price optimization strategies were applied to prompt month physical settlements which included a $0.10/GJ
to Perpetual's average realized price associated with the voluntary shut-in of production during the quarter t
advantage of temporary situations when natural gas could be purchased at nominal cost and delivered agai
volume commitments at attractive margins while retaining reserves; and
  - Over 80% of Perpetual's natural gas is produced from East Edson which yields higher heat content gas, (G
of 1.17) translating into higher realized natural gas prices.
- Realized oil prices during the third quarter of $43.01/bbl were relatively consistent with prices realized during the
quarter of 2017 while NGL prices declined 12% over the same period to $39.06/bbl.
- Total production and operating expenses decreased 28% relative to the second quarter to $3.3 million ($3.50/boe
decrease reflected continued diligent cost management, and $0.9 million ($0.95/boe) of non-recurring adjustment
with third party processing facilities that were sold as part of the Shallow Gas Disposition. When excluding the $0
impact of non-recurring adjustments, third quarter operating costs on a unit of production basis were $4.45/boe, d
from the second quarter of 2017. Operating costs per unit of production at East Edson averaged $2.42/boe and a
to continue to decrease due to the impact of increased production on a substantially fixed operating cost base.

Financial Highlights

- Realized revenue of $20.7 million was up 4% from $19.9 million in the second quarter, reflecting strong productio
commodity price management performance despite lower AECO Monthly Index natural gas prices. Natural gas re
represented 66% of total petroleum and natural gas revenue in the third quarter of 2017 (Q3 2016 – 76%),
reflecting 84% of average production.
- Perpetual demonstrated significant improvement in its per unit cost structure in the third quarter. Compared to the
quarter of 2017, royalties, production and operating expenses, and general and administrative expenses decreas
$1.55/boe (36%), $1.07/boe (19%) and $0.74/boe (20%), respectively, due to the impact of increasing production
high percentage of fixed costs combined with prudent cost control.
- Adjusted funds flow reached $8.2 million ($0.14/share) in the third quarter, up 56% ($3.0 million) over second qua
funds flow of $5.2 million ($0.09/share) and $8.8 million over the comparative period in 2016. Adjusted funds flow
$8.62/boe, an increase of $2.38/boe (38%) from the second quarter of 2017 as improved operating performance s
outpaced the 8% ($1.93/boe) decrease in realized revenue per boe. The 12% quarter over quarter increase in pro
the third quarter contributed the remaining increase in adjusted funds flow.
- The Company recorded a net loss for the third quarter of 2017 of $8.1 million, compared to a net loss of $7.2 milli
previous quarter. Improved quarter over quarter adjusted funds flow was more than offset by additional unrealized
related to the decline in market value of its investment of 1.67 million shares of Tourmaline Oil Corp. (TSX &ndas
- Perpetual continued to take steps to strengthen its financial position during the third quarter which included the fo
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  - On July 4, 2017, the Company announced that it had doubled its borrowing capacity available under its rese
credit facility (the "Credit Facility") to $40 million and extended its repayment term to two years, at lower bor
  - On July 31, 2017, the Company also completed the refinancing of the $36.5 million of margin loans secured
Company's TOU shares, with $18.7 million of proceeds from a replacement one-year margin loan, and borr
its Credit Facility.
  - In mid-July, $1.0 million face value of senior notes due to mature on July 23, 2019 (the "2019 Senior Notes"
re-purchased at 96.75% of face value and retired.
  - On July 7, 2017, Moody's Investor Service upgraded Perpetual's corporate credit rating to Caa1 stable. As a
30, 2017, 45% of Perpetual's debt matures in 2021 or later.

OUTLOOK

Success in advancing the Company's strategic priorities has established a foundation for strong growth in production a
funds flow in 2017 and 2018. The Company expects to continue to drive capital efficiency improvements and reduction
operating, financing and administrative costs to improve upon the sustainable cost structure achieved through strategic
implemented over the past two years.

Based on the total capital spending plan in 2017 of $73 to $78 million, Perpetual continues to expect to exit 2017 at a production rate approaching 13,000 boe/d (85% natural gas). This represents growth in exit rate based on average December production of approximately 60% compared to the prior year.

Capital spending during the remainder of 2017 will be funded through adjusted funds flow generation, the final $10 million drawdown of the Term Loan and borrowings under the Credit Facility. Perpetual is currently in discussions with its Credit Facility lenders regarding the redetermination of its borrowing limit effective November 30, 2017, and anticipates an increase to the Credit Facility borrowing base.

Based on these assumptions and the current forward market for oil and natural gas prices, Perpetual forecasts 2017 adjusted funds flow of approximately $28 to $32 million. Incorporating the current market value of 1.67 million TOU shares, the Company estimates year-end 2017 total net debt of approximately $100 to $105 million, with a corresponding estimated net debt to trailing twelve months adjusted funds flow ratio of approximately 3.4 at year end 2017.

For 2018, Perpetual is planning a capital program that will be funded by adjusted funds flow. Annual production in 2018 is anticipated to increase by approximately 30% over 2017.

The Company will continue to monitor commodity market fundamentals closely over the coming months and adjust activities as required, balancing the positive momentum that is translating into operational excellence in executing our East Edson development program with spending within our means to maintain adequate liquidity and balance sheet strength.

2017 STRATEGIC PRIORITIES

During the third quarter of 2017, significant progress was made to advance Perpetual's top four strategic priorities for 2017 which include:

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

Grow value of Greater Edson liquids-rich gas

- Perpetual's single rig drilling program at East Edson has continued through the third quarter with the rig release o net) Wilrich horizontal wells and the completion and frac of seven (7.0 net) wells, four of which were drilled in the 2017. New wells are performing at or above expected type curve.
- Drilling and completion costs continue to show a 35 to 40% improvement over prior year costs as a result of well changes. Ten monobore wells with an average 1,700 metre horizontal section have now been drilled, completed at an average cost of $4.1 million per well, with the most recent two-well pad coming in at $3.7 million per well, e $2,400 per horizontal metre. Going forward, extended reach horizontal ("ERH") wells with horizontal laterals of m 3,000 metres are expected to further improve costs to $2,000 per horizontal metre and drive capital efficiencies t $8,000 per boe/d average for the first year of production.
- During the fourth quarter of 2017, the Company plans to drill four (4.0 net) wells at East Edson, and evaluate the viability and production capability from ERH wells of varying lengths. With the completion and frac of these wells, capability at East Edson will continue to exceed the company-owned infrastructure capacity and matching firm tr capacity of 60 to 65 MMcf/d plus associated liquids.
- Additional compression will be installed at the West Wolf Lake plant during the fourth quarter to increase total Ea natural gas processing capacity to 78 MMcf/d to match the increase in its firm transportation capacity scheduled April 1, 2018.
- Third quarter production at East Edson comprised 80% of total production, and increased 17% over the second q driven by the East Edson capital program despite production constraints caused by firm transportation capacity a shut-ins averaging 450 boe/d in the third quarter as part of Perpetual's price optimization strategy.

- Perpetual continues to achieve a top quartile operating cost structure at East Edson and further improved to avera $2.42/boe (Q3 2016 – $3.20/boe; Q2 2017 – $3.11/boe) as a result of increased production and ad savings realized through diligent cost management. Operating costs per unit of production are expected to contin decrease due to the impact of increased production at East Edson on a substantially fixed operating cost base.

Optimize value potential of Eastern Alberta assets

- Capital spending in Eastern Alberta was minimal during the third quarter with operations primarily directed to aba and reclamation projects. Perpetual has received two reclamation certificates in the third quarter (29 reclamation year-to-date) which enable reduced property tax and surface lease rental costs going forward. Abandonment and expenditures over the remainder of 2017 of up to $0.8 million supporting continued cost reduction initiatives are a
- Crude oil production in eastern Alberta declined 7% quarter over quarter to 956 bbl/d, reflecting minimal capital sp natural declines. Capital spending is expected to increase in the fourth quarter of 2017 as waterflood optimization with the conversion of two new injectors.
- Gas production in eastern Alberta was effectively flat at 6.4 MMcf/d quarter over quarter as recompletion and wor activities offset natural declines. Low variable operating costs and synergy with well abandonment programs in th area result in gas recompletions paying out within 6 to 12 months at current commodity prices. These will continu fourth quarter of 2017 with up to ten additional recompletions planned.
- Production and operating expenses in eastern Alberta were $7.43/boe during the third quarter (Q3 2016 – Q2 2017 – $13.28/boe). Lower quarter over quarter costs related to $0.9 million of non-recurring 13 month adjustments associated with third party processing facilities that were sold as part of the Shallow Gas Disposition Company continues to prioritize cost reductions on its eastern Alberta assets, including a focus on municipal prop which represent a significant portion of fixed operating costs as the tax base assessment is dramatically misrepre the actual tangible property value.

Advance high impact opportunities

- The two horizontal wells drilled during the fourth quarter of 2016 and the first quarter of 2017 to advance the evalu shallow shale gas play in the Viking and Colorado formations are on production at low rates. Fracture stimulation gas well has not been fully executed to date and additional spending has been delayed pending further learnings performance monitoring and stronger natural gas prices.
- In the Columbia/Brazeau area of West Central Alberta, Perpetual participated for its 40% working interest in a thi operated exploratory horizontal well targeting the Fahler formation. The well was rig released at the end of the thi with frac and follow-on evaluation activities currently underway.
- Limited spending during the third quarter was allocated to Perpetual's Panny bitumen project. Plans are underwa the evaluation of solvent technology in the Bluesky reservoir at Panny, utilizing important learnings from the cyclic stimulation pilot project to date. Solvent technology is expected to increase capital efficiencies and at the same ti positively enhance environmental performance through reduced emissions.

Optimize balance sheet for growth

- On July 4, 2017, the Company announced that it had doubled its borrowing capacity available under its reserve b facility (the "Credit Facility") to $40 million and extended its repayment term to two years, at lower borrowing cost
- On July 31, 2017, Perpetual entered into a new $18.7 million margin loan secured by 1.67 million TOU shares tha July 2018. Proceeds from the new margin loan along with borrowings under the Credit Facility were used to repa share put option margin loans that were scheduled to mature in August and November of 2017. Proceeds of $1.0 realized from the sale of underlying put options.
- In mid-July, $1.0 million face value of 2019 Senior Notes were purchased at 96.75% of face value and retired. Th in addition to the senior note transactions executed during the first half of 2017, contributed to a 46% decrease in principal balance outstanding from year end with the next maturity due in Q3 2019.
- Total net debt at September 30, 2017 stood at $92.7 million which was an increase of 36% from June 30, 2017 o million. Approximately $52.9 million, representing 46% of Perpetual's debt and 57% of net debt, matures in 2021
- On October 5, 2017 Perpetual borrowed the remaining $10 million under the Term Loan, increasing the total bala outstanding to $45 million.

- Incorporating net debt at September 30, 2017, adjusted for the $10 million drawn under the Term Loan in early O Perpetual has access to draw approximately $16 million under the Credit Facility. Combined with the current marl the Company's TOU share investment, net of the new margin loan, total current available liquidity is approximatel million. Perpetual is currently in discussions with its Credit Facility lenders regarding the redetermination of its bor effective November 30, 2017, and anticipates an increase to the borrowing limit.

- In light of the positive financing transactions, in early July, Moody's Investor Service upgraded Perpetual's corpora rating to Caa1 stable.

- In order to protect a base level of adjusted funds flow, Perpetual has commodity price contracts in place for the re 2017 comprised of forward month physical and financial natural gas contracts at AECO hub on a net 27,500 GJ/d December 2017 at an average price of $3.16/GJ and 12,500 GJ/d for November 2017 through March 2018 at an price of $2.94/GJ. Perpetual also has oil sales arrangements on 750 bbl/d protecting a WTI floor price of $USD50 the remainder of 2017.

- During the third quarter, Perpetual diversified its natural gas price exposure from AECO by entering into arrangen the sales point of 34.1 MMcf/d to a basket of five North American natural gas hub pricing points (Chicago, Dawn, Malin and Mich Con) for a five year period commencing November 1, 2017 (39.0 MMcf/d commencing April 1, 20 on current futures prices, Perpetual expects these gas price diversification contracts will provide a significant prer AECO prices for the November 2017 to December 2018 time frame.

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.

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended September 30,			Nine Months Ended Se	
(Cdn$ thousands except volume and per share amounts)	2017	2016	% Change	2017	2016
Financial					
Oil and natural gas revenue	20,026	22,268	(10)	57,912	63,463
Cash flow from (used in) operating activities	5,778	(1,710)	N/A	8,217	(11,876)
Adjusted funds flow(1)	8,199	(602)	N/A	18,552	(2,406)
Per share(1)(2)	0.14	(0.01)	N/A	0.32	(0.05)
Net income (loss)	(8,082)	(10,919)	26	(29,473)	86,770
Per share - basic(2)	(0.14)	(0.21)	33	(0.51)	1.74
Per share - diluted(2)	(0.14)	(0.21)	33	(0.51)	1.65
Total assets	356,449	471,185	(24)	356,449	471,185
Revolving bank debt	29,262	10,632	175	29,262	10,632
Term Loan, at principal amount	35,000	–	N/A	35,000	-
TOU share margin loans, at principal amount	18,740	22,623	(17)	18,740	22,623
Senior notes, at principal amount					

32,490

60,573

(46)

32,490

60,573

Carrying value of TOU share investment	(42,304)	(65,659)	(36)	(42,304)	(65,659)
Adjusted working capital deficiency	19,556	2,031	863	19,556	2,031
Net debt[1]	92,744	30,200	207	92,744	30,200
Net capital expenditures					
Capital expenditures	25,392	1,411	1,700	53,988	7,511
Geological and geophysical costs	–	–	–	(22)	26
Net payments (proceeds) on acquisitions and dispositions	680	(988)	N/A	1,452	(7,756)
Net capital expenditures	26,072	423	6,064	55,418	(219)
Common shares outstanding (thousands)[3]					
End of period	59,316	52,327	13	59,316	52,327
Weighted average – basic	59,152	52,253	13	57,572	49,997
Weighted average – diluted	59,152	52,253	13	57,572	52,529
Operating					
Average production					
Natural gas (MMcf/d)[4]	51.8	75.5	(31)	45.9	86.3
Oil and NGL (bbl/d)[4]	1,711	1,528	12	1,595	1,764
Total (boe/d)[4]	10,330	14,123	(27)	9,240	16,146
Average prices					
Natural gas ($/Mcf)	3.11	2.12	47	3.65	2.42
Oil ($/bbl)	43.01	38.90	11	39.86	37.21
NGL ($/bbl)	39.06	35.80	9	43.59	32.72
Drilling (wells drilled gross/net)					
Gas	5/4.4	–		12/11.4	1/1.0
Oil	–	–		4/3.3	-
Total	5/4.4	–		16/14.7	1/1.0

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

(2) Based on weighted average basic or diluted common shares outstanding for the period.

(3) Common shares are net of shares held in trust.

(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 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 it 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.

Financial Outlook

Also included in this news release are estimates of Perpetual's 2017 adjusted funds flow, total net debt and net debt to trailing twelve months adjusted funds flow ratio, which are based on, among other things, the various assumptions as to production levels, capital expenditures, and other assumptions disclosed in this news release. To the extent such estimates constitute a financial outlook, they were approved by management and the Board of Directors of Perpetual on November 6, 2017 and are included to provide readers with an understanding of Perpetual's anticipated adjusted funds flow, total net debt and net debt to trailing twelve months adjusted funds flow ratio based on the capital expenditure, production and other assumptions described herein and readers are cautioned that the information may not be appropriate for other purposes.

Initial Production Rates

Any references in this news release to initial clean up and flow back rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter and are not necessarily indicative of long-term performance or ultimate recovery. While encouraging, 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.

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 realized revenue, 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. Realized revenue is used by management to calculate the Corporation's net realized commodity prices taking into account monthly settlements on financial crude oil and natural gas forward sales, collars and basis differentials. 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.

SOURCE Perpetual Energy Inc.

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