

# Perpetual Energy Inc. reports fourth quarter and year-end 2018 financial and operating results and credit facility extension

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CALGARY, March 27, 2019 - (TSX:PMT) &ndash; [Perpetual Energy Inc.](#) ("Perpetual", the "Corporation" or the "Company") pleased to release its fourth quarter and year-end 2018 financial and operating results and announce the confirmation of its borrowing limit on its bank credit facility at \$55 million and the extension of the maturity date to November 30, 2020. A 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, 2018 will be available through the Corporation's website at [www.perpetualenergyinc.com](http://www.perpetualenergyinc.com) and SEDAR at [www.sedar.com](http://www.sedar.com).

## FOURTH QUARTER AND YEAR-END 2018 FINANCIAL AND OPERATING RESULTS

The execution of our growth-oriented capital program at East Edson in 2017 set the stage for improved performance across operating measures in 2018. However, the collapse in Western Canadian natural gas prices in early 2018 drove the Company to minimize natural-gas focused development activities until stronger pricing could be realized. Commodity price volatility was experienced in Western Canada due to restricted market access for oil, natural gas and natural gas liquids ("NGL"), driving prices lower for all commodities relative to North American benchmarks, especially during the fourth quarter. Perpetual was well positioned to participate in the stronger natural gas pricing environment driven by the early onset of winter in other parts of North America through its market diversification strategy, resulting in solid results in the fourth quarter and year ended December 31, 2018 as highlighted below:

### Fourth Quarter 2018 Highlights

#### Capital Spending, Production and Operations

- Exploration and development spending in the fourth quarter of 2018 was \$5.6 million, consistent with capital spending guidance provided with Perpetual's third quarter earnings release, and 71% lower than the comparative period in 2017.
- In West Central, capital expenditures of \$4.2 million were directed towards the frac and tie-in operations of the Wilrich extended reach horizontal ("ERH") natural gas well that was drilled during the first quarter of 2018. This frac was intended to align high initial production rates with higher anticipated winter natural gas prices. Capital was spent on the installation of field compression and a sweetening tower to restore several higher level wells back to production in early 2019.
- Fourth quarter exploration and development spending of \$1.4 million in Eastern Alberta included completion costs for three (3.0 net) heavy oil horizontal wells which were drilled during the third quarter, along with a frac that was re-entered to add three additional multi-lateral legs at Mannville. Capital was also invested to finish the one-megawatt electricity generator project at the Mannville plant site which came online in early October. The plant is utilizing fuel gas produced from the Mannville gas plant and converting it to electricity to be sold on the grid, increasing the value of Mannville natural gas production.
- Production averaged 9,491 boe/d in the fourth quarter, down 19% from the prior year period as 2018 natural gas price capital spending was deferred to preserve value during the low natural gas price environment in Alberta, with investment weighted to heavy oil drilling and waterflood activities.
- Production was comparable to the third quarter of 2018, with steady increases through the fourth quarter resulting from tie-in and ramp up of production from the third quarter heavy oil drilling program and the consolidation of the remaining working interest in a Company-operated heavy oil pool in Mannville completed during the third quarter of 2018, the tie-in of the East Edson natural gas well in November, and the re-start of production from the East Edson four well mid-December that had been shut-in at the request of the Alberta Energy Regulator ("AER") after the operator of Sequoia Resources Corp. ("Sequoia"), filed for bankruptcy in March 2018. Perpetual also opportunistically shut-in 450 boe/d of East Edson production during the fourth quarter to take advantage of temporary situations when natural gas could be purchased at minimal cost to satisfy pre-sold volume commitments at attractive margins, resulting in increased realized revenue while retaining reserves for future production.

### Financial Highlights

- Natural gas prices in Alberta continued to be weak in the fourth quarter of 2018, remaining disconnected from other American markets that experienced a significant run up in prices from the seasonal increase in demand driven by on-set of winter weather. Perpetual's market diversification contract which commenced sales in November 2017, Company to sell approximately 80% of its natural gas to markets outside of Alberta, resulting in a realized natural gas price that was 2.8 times the AECO Daily Index average price for the fourth quarter. The market diversification contract resulted in incremental revenue over AECO Daily Index pricing of \$6.8 million (\$1.64/Mcf) in the fourth quarter of 2018, \$19.5 million (\$1.02/Mcf) in 2018, and \$1.0 million (\$0.19/Mcf) in the fourth quarter of 2017.
- Perpetual's realized oil price of \$19.83/bbl was 58% lower than the fourth quarter of 2017. The decrease in realized oil price was due to the substantial widening of the WCS differential to an average US\$39.42/bbl from US\$12.26/bbl in the fourth quarter of 2017, which far outweighed the 6% increase in WTI benchmark pricing over the same period.
- Perpetual's realized NGL price for the fourth quarter of 2018 was \$35.73/bbl, down 34% from the fourth quarter of 2017, reflecting a decrease in all NGL component prices which were impacted by similar transportation capacity issues and the WCS differential to widen.
- Net loss for the fourth quarter of 2018 was \$0.3 million (\$0.01/share) compared to \$6.5 million (\$0.11/share) in the fourth quarter of 2017. The reduction in net loss is mainly due to increased unrealized gains on derivatives associated with the rise in NYMEX futures prices in the fourth quarter, partially offset by an increased unrealized loss on the [Tourmaline Oil](#) ("TOU") share investment compared to the prior year period.
- Net cash flow from operating activities for the fourth quarter ended December 31, 2018, was \$5.2 million compared to \$1.5 million in the prior year period. Changes in non-cash working capital balances contributed \$1.5 million of the decrease in cash flows from operating activities compared to the prior year period.
- Strong realized natural gas price performance significantly outweighed the impact of deteriorating oil and NGL prices experienced during the fourth quarter, with adjusted funds flow of \$8.1 million (\$0.13/share) exceeding fourth quarter guidance of \$5 to \$7 million.

## 2018 Annual Highlights

### Capital Spending, Production and Operations

- Perpetual executed a \$26.5 million exploration and development capital program in 2018 that was funded from operating cash flow. Natural gas development spending was restricted due to the weak natural gas price environment in Western Canada. Effective program execution and strong asset performance resulted in replacement of 134% of 2018 production, proved plus probable reserve additions of 5.2 MMboe and 2% growth year-over-year, as reported by the independent engineering firm McDaniel and Associates Consultants Ltd. ("McDaniel").
- Spending in West Central in 2018 was \$13.7 million, and included the drilling, completion and tie-in of one (1) Wilrich ERH natural gas well, along with the frac and tie-in of two additional wells which were drilled in the fourth quarter of 2017. Additional capital expenditures consisted of maintenance activities associated with reconfiguring existing wells for higher NGL recoveries.
- Spending in Eastern Alberta in 2018 was \$12.9 million, and consisted of a six well (6.0 net) horizontal drilling program including several multi-laterals, one waterflood injector well conversion, one water disposal well conversion and associated facilities on the Company's Mannville heavy oil properties, along with the relocation of the one-megawatt electricity generator from Panny to the Mannville plant site to convert natural gas to electricity sales.
- Finding and development costs ("F&D") were \$5.09/boe on a proved and probable basis, including changes in future development capital. Combined with an operating netback of \$13.79/boe, Perpetual achieved an attractive F&D ratio of 2.7 times. Exploration and development capital spending, less proceeds on dispositions, net of acquisitions, was \$1.5 million in 2018, resulting in finding, development and acquisition costs ("FD&A") of \$2.43/boe and a proved plus probable FD&A recycle ratio of 5.7 times.
- For the year ended December 31, 2018, Perpetual spent \$1.9 million on acquisitions, consolidating the remaining working interest in a Company-operated Mannville heavy oil pool and adding undeveloped oil sands leases in the Mannville which are geographically and technically synergistic to the existing Panny pilot project and prospective for cold flow in the Bluesky formation.
- Dispositions included the sale of non-core royalty interests and exploration and evaluation properties for gross proceeds of \$13.4 million and the transfer to the purchaser of \$0.5 million in liabilities related to decommissioning obligations, resulting in a net gain on oil and gas properties of \$0.7 million. Net proceeds on dispositions were reduced by \$8.5 million in net losses associated with the retained marketing arrangements related to the sale of mature shallow gas properties in eastern and northeast Alberta in the fourth quarter of 2016 (the "Shallow Gas Disposition").
- For the year ended December 31, 2018, Perpetual spent \$2.0 million (2017 – \$2.3 million) on abandonment and reclamation projects and received 21 reclamation certificates, compared to 35 in 2017. Expenditures of \$1.5 million are forecast in 2019, focused in Eastern Alberta under the area-based closure approach.
- Production in 2018 averaged 10,594 boe/d, an increase of 7% over 9,876/boe in 2017. Production reached peak in the first quarter of 2018 and then declined through the spring and summer before increasing during the fourth quarter. East Edson was deferred pending higher natural gas prices.

- Natural gas production increased 6% to 52.6 MMcf/d (2017 &ndash; 49.6 MMcf/d) and NGL production increased 11% to 774 bbl/d (2017 &ndash; 655 bbl/d), reflecting the drilling, completion and tie-in of one (1.0 net) Wilrich ERH well, along with the frac and tie-in of two additional wells which were drilled in the fourth quarter of 2017. Du Perpetual shut-in an average 200 boe/d to take advantage of temporary situations when natural gas could be sold at minimal cost to satisfy pre-sold volume commitments at attractive margins, resulting in realized revenue of \$0.03/Mcf) while retaining reserves for future production.
  - Crude oil production averaged 1,050 bbl/d, an 11% increase from the prior year, due to strong waterflood performance and positive heavy oil drilling results in Mannville.
- Perpetual's operating netback of \$53.3 million (\$13.79/boe) increased 3% from \$51.7 million (\$14.35/boe) in 2017. The increase in the 2018 operating netback was due to the strong contribution of the market diversification contract to realized revenue by an incremental \$1.02/Mcf, despite the 31% year-over-year decline in AECO Daily Index prices, partially offset by higher operating costs in Eastern Alberta related to the repair and cleanup costs from the Mannville break, combined with the impact of expanded operations.

## Financial Highlights

- Realized revenue was \$89.2 million, up 5% from the prior year as a result of the 7% increase in production, offset by a decrease in realized revenue per boe. Included in realized revenues for the 2018 year were \$3.1 million in realized gains on derivatives comprised of \$3.9 million of gains on natural gas hedges, partially offset by \$0.8 million of losses on WCS and differential hedges.
- For the year ended December 31, 2018, Perpetual's realized natural gas price was \$3.05/Mcf, down 13% from \$3.49/Mcf in 2017, reflecting a 31% decrease (\$0.66/Mcf) in AECO Daily Index prices and higher realized gains on derivatives in 2017, which were partially offset by the full year contribution from the market diversification contract in 2018. The proactive market diversification strategy implemented in 2017 contributed an incremental \$1.02/Mcf over the AECO Daily Index average price in 2018 (2017 \$0.06/Mcf), an uplift of 68% over average AECO Daily Index prices during 2018, effectively insulating Perpetual from the 31% year-over-year decline in AECO Daily Index pricing. The 40,000 boe market diversification contract is priced based on daily index prices at five pricing hubs outside of Alberta that closely track North American NYMEX prices and is effectively mitigating the impact of low and volatile natural gas prices in the Alberta AECO hub.
  - Perpetual's realized NGL price was \$52.96/bbl, up 14% from \$46.60/bbl in 2017, correlating with the 27% increase in WTI prices over the comparable period. Approximately 60% of Perpetual's NGL production is comprised of heavy oil which typically tracks light oil prices.
  - Average realized oil price was \$40.62/bbl, down 2% from \$41.62/bbl in 2017, as increased average WTI prices were fully offset by wider WCS differentials over the same period.
- Net loss for 2018 was \$20.4 million (\$0.34/share), down from \$36.0 million in 2017 (\$0.62/share). Net loss from operations was \$0.7 million for 2018, an improvement of \$5.0 million. The reduction was largely due to a reduced unrealized loss of \$9.6 million in 2018 (2017 &ndash; \$22.7 million unrealized loss) related to the change in the fair value of the share investment, combined with losses incurred in 2017 to manage the natural gas floor price obligation associated with the Shallow Gas Disposition.
- Net cash flow from operating activities was \$31.5 million compared to \$19.2 million in 2017. Substantially all of the increase was attributable to changes in non-cash working capital balances, reflecting lower accounts payable and accrued liabilities year-over-year as a result of the reduction in fourth quarter spending compared to the prior year period.
- Adjusted funds flow was \$30.2 million (\$0.50/share), down 3% from 2017 despite the significant decrease in AECO Daily Index gas prices.
- At December 31, 2018, Perpetual had total net debt of \$112.6 million, up \$6.6 million (6%) from December 31, 2017. The increase is mainly attributable to the \$9.9 million reduction in the fair value of TOU shares during 2018. As at year-end, 56% of net debt outstanding was repayable in 2021 or later. Perpetual's net debt to trailing twelve months adjusted EBITDA increased slightly during 2018 to 3.7 times at December 31, 2018 (December 31, 2017 &ndash; 3.4 times).
- On November 7, 2018, the revolving bank debt borrowing limit ("Borrowing Limit") was reduced from \$60 million to \$40 million by the Company's lenders with the next Borrowing Limit redetermination scheduled on or prior to May 31, 2019. Perpetual has available liquidity at December 31, 2018 of \$22.7 million, comprised of an unutilized Borrowing Limit against the Company's credit facility of \$8.7 million and the market value of its TOU share investment, net of the associated margin demand loan, of \$14.0 million.

## CREDIT FACILITY EXTENSION

On March 27, 2019, a \$55 million Borrowing Limit was confirmed by the Company's lenders and the maturity was extended to November 30, 2020. The credit facility will revolve until May 31, 2020 and may be extended for a further 364-day period subject to approval by the Company's lenders. Perpetual is considering options to repay the \$14.6 million unsecured senior notes that mature on July 23, 2019, including arranging replacement financing and the sale of a portion of its Tourmaline shares or other assets.

## 2019 OUTLOOK

On August 3, 2018, the Company received a Statement of Claim that was filed by PricewaterhouseCoopers Inc. LIT ("PwC"), in its capacity as trustee in bankruptcy of Sequoia, with the Alberta Court of Queen's Bench (the "Court"), against Perpetual. The claim relates to an over two-year-old transaction when, on October 1, 2016, Perpetual closed the Shallow Gas Disposition to an arm's length third party at fair market value at the time after an extensive and lengthy marketing, due diligence and negotiation process. This transaction was one of several completed by Sequoia. Sequoia assigned itself into bankruptcy on March 23, 2018. PwC is seeking an order from the Court to either set this transaction aside or declare it void, or damages of approximately \$217 million. On August 27, 2018, Perpetual filed a Statement of Defence and Application for Summary Dismissal with the Court in response to the Statement of Claim. All allegations made by PwC have been denied and an application to the Court to dismiss all claims has been made on the basis that there is no merit to any of them. Perpetual's Application for Summary Dismissal was heard during the fourth quarter of 2018 (the "Sequoia Litigation"). The Court's decision is anticipated to be received in the second quarter of 2019.

Perpetual's 2019 capital expenditure and adjusted funds flow guidance remains unchanged from guidance released with its 2018 third quarter results on November 7, 2018.

The Company's Board of Directors has approved a total capital spending program of \$21 to \$25 million for 2019 to be funded from adjusted funds flow. At least 50% will be spent in Eastern Alberta, primarily targeting heavy oil development at Mannville along with abandonment and reclamation work of up to \$2 million to prudently address decommissioning obligations associated with non-producing wells. The remaining 50% of expenditures will be concentrated in East Edson, developing liquids-rich natural gas reserves in the Wilrich formation if AECO forward gas prices support investment in the second half of 2019, or alternatively, will be deployed in an expanded heavy oil drilling program. The Company has minimal capital spending planned for the first half of 2019. The second half program is planned to align operations with higher anticipated commodity prices.

Forecast capital activity in Mannville for 2019 includes the drilling of 10 (10.0 net) new wells, targeting a mix of infill wells and step outs in waterflooded pools as well as multi-lateral wells in several pools in Eastern Alberta. Timing for the 2019 program is in the third quarter to take advantage of lower drilling, completion, and equipping costs generally realized in the summer in Mannville. Additionally, up to 10 shallow gas recompletions are planned to be executed in late 2019, if gas prices improve, to partially offset natural gas declines in Eastern Alberta. Decommissioning expenditures will continue to be focused in the Mannville area and are expected to provide future lease rental and property tax expense reductions while maintaining regulatory compliance. In Eastern Alberta, production is forecast to increase by 20% to 30% from 2018, to a range of 2,200 to 2,400 boe/d (61% oil) in 2019.

At East Edson, the Company has budgeted a two (2.0 net) well drilling program to come onstream during the fourth quarter of 2019, as well as capital for a strategic secondary zone recompletion program and maintenance. The two wells will be extended reach horizontal ("ERH") wells, as the performance of the ERH wells drilled in late 2017 and early 2018 indicate improved capital efficiencies over the wells drilled with less than 2,500 meters of lateral length. If AECO forward gas prices normalize above \$2.00/Mcf, drilling activities are expected to continue into 2020. Processing capacity at the Company's 100% working interest and operated West Wolf Lake facility is 65 MMcf/d, with an additional 13 MMcf/d of working interest capacity at the non-operated Rosevear plant, plus associated liquids. The planned drilling will not have a material impact on production in 2019, as new wells are forecast to come on stream late in the year. Natural declines and capital spending deferrals to late 2019 result in lower anticipated 2019 production in East Edson with an average of 7,000 to 7,200 boe/d (10% oil and NGL). Despite reduced production in East Edson and a substantially fixed operating cost base, operating costs are forecast to remain low in 2019, at less than \$3.25/boe.

The table below summarizes anticipated capital spending and drilling activities for the first and second half of 2019.

#### 2019 Exploration and Development Forecast Capital Expenditures

	H1 2019	# of wells	H2 2019	# of wells
	(\$ millions) (gross/net)		(\$ millions) (gross/net)	
West Central liquids-rich gas	0	0/0.0	12	2/2.0
Eastern Alberta	0	0/0.0	11	10/10.0
Total <sup>(1)</sup>	0	0/0.0	23	12/12.0

<sup>(1)</sup> Excludes budgeted abandonment and reclamation spending of \$1.5 to \$2.0 million in 2019

Perpetual is targeting a 2019 capital program that is funded by adjusted funds flow. Perpetual forecasts average production of 9,200 to 9,600 boe/d, with oil and NGL production growing to represent more than 20% of the production mix. This represents a reduction in average daily production in 2019 of 10% to 15% relative to 2018, but includes a 17% increase in average oil and NGL production. The Company expects to exit the year at over 11,500 boe/d (approximately 80% natural gas) as production ramps up again in the fourth quarter driven by the second half capital spending program targeting seasonal natural gas price optimization.

Cash costs of \$17.00 to \$18.00/boe are forecast for 2019, up approximately 13% to 16% from 2018 due to the impact of lower forecast 2019 production at East Edson on a substantially fixed operating cost base. The increase in higher netback and higher operating cost oil production in 2019 is also expected to contribute to the increase in 2019 cash costs per boe.

Perpetual has diversified its commodity and natural gas pricing point exposure (net of royalties) away from AECO as detailed below:

#### Market/Pricing Point

Natural gas	Estimated 2019 Exposure
AECO <sup>(1)</sup>	&ndash;
AECO - fixed price	2%
Empress	7%
Dawn	15%
Michcon	10%
Chicago	24%
Malin	21%
Total natural gas	79%
Natural gas liquids - Condensate <sup>(1)</sup>	4%
Natural gas liquids - Other <sup>(1)</sup>	2%
Crude oil <sup>(1)(2)</sup>	15%
Total	100%

(1) Net of royalties

(2) For the 2019 calendar year, Perpetual has a costless collar on 500 bbl/d protecting a WTI floor price of US\$60.00/bbl with a ceiling price of US\$72.40/bbl, along with a 750 bbl/d WCS differential fixed at US\$25.22/bbl

Guidance assumptions are as follows:

	2019 Guidance
Exploration and development expenditures (\$ millions)	\$21 - \$25
2019 cash costs (\$/boe)	\$17.00 - \$18.00
2019 average daily production (boe/d)	9,200 &ndash; 9,600
2019 average production mix (%)	20% - 24% oil and NGL

Commodity price assumptions reflect market price levels as follows:

	2019 Commodity Price
	Assumptions
2019 average NYMEX natural gas price (US\$/MMBtu)	\$2.99
2019 average West Texas Intermediate ("WTI") oil price (US\$/bbl)	\$56.56
2019 average Western Canadian Select ("WCS") differential (US\$/bbl) (\$15.88)	
2019 average exchange rate (US\$1.00 = Cdn\$)	\$1.34

Year end 2019 net debt (net of the estimated market value of the Company's TOU share investment of approximately \$34 million), is forecast at \$107 to \$113 million, a marginal increase from guidance provided with Perpetual's third quarter earnings release of \$104 to \$107 million. Estimated mid-range guidance for the 2019 year-end net debt to trailing twelve months adjusted funds flow ratio is forecast at approximately 4.5 times. Current guidance is based on the following assumptions:

- Net debt at December 31, 2018 of \$112.6 million
- Adjusted funds flow for 2019 of \$22 to \$27 million (\$0.36/share to \$0.44/share)
- Capital spending for 2019 of \$21 to \$25 million
- Decommissioning expenditures for 2019 of \$1.5 to \$2.0 million

The following sensitivities can be applied to estimate changes to projected 2019 cash flow from operating activities and adjusted funds flow, assuming no change in differentials to Perpetual's market pricing points:

- For every US\$0.25/MMBtu increase or decrease in the Calendar 2019 NYMEX Daily Index price, adjusted funds increases or decreases by \$4.8 million;
- For every US\$2.50/bbl increase or decrease in the Calendar 2019 WTI oil price, adjusted funds flow increases or decreases by \$1.4 million;
- For every 2.5 MMcf/d increase or decrease in average natural gas production, adjusted funds flow increases or decreases by \$1.4 million;
- For every 250 bbl/d increase or decrease in average crude oil and NGL production, adjusted funds flow increases or decreases by \$4.2 million; and

- For every \$0.05 increase or decrease in the Cdn\$/US\$ exchange rate, adjusted funds flow increases or decreases by \$0.05 million.

Financial and Operating Highlights	Three Months ended		Year ended			
	December 31		December 31			
(\$Cdn thousands,	2018	2017	Change	2018	2017	Change
except volume and per share amounts)						
Financial						
Oil and natural gas revenue	21,510	23,810	(10%)	86,128	81,722	5%
Net loss	(331)	(6,498)	(95%)	(20,380)	(35,971)	(43%)
Per share &ndash; basic and diluted <sup>(2)</sup>	(0.01)	(0.11)	(91%)	(0.34)	(0.62)	(45%)
Cash flow from (used in) operating activities	5,163	10,953	(53%)	31,525	19,170	64%
Per share <sup>(1)(2)</sup>	0.09	0.18	(50%)	0.53	0.33	61%
Adjusted funds flow <sup>(1)</sup>	8,052	12,541	(36%)	30,155	31,093	(3%)
Per share <sup>(2)</sup>	0.13	0.21	(38%)	0.50	0.54	(7%)
Revolving bank debt	42,561	31,581	35%	42,561	31,581	35%
Senior notes, principal amount	32,490	32,490	&ndash;	32,490	32,490	&ndash;
Term loan, principal amount	45,000	45,000	&ndash;	45,000	45,000	&ndash;
TOU share margin demand loan, principal amount	14,144	18,490	(24%)	14,144	18,490	(24%)
TOU share investment	(28,132)	(37,985)	(26%)	(28,132)	(37,985)	(26%)
Net working capital deficiency <sup>(1)</sup>	6,543	16,404	(60%)	6,543	16,404	(60%)
Total net debt <sup>(1)</sup>	112,606	105,980	6%	112,606	105,980	6%
Net capital expenditures						
Capital expenditures	5,617	19,047	(71%)	26,888	73,035	(63%)
Net payments (proceeds) on acquisitions and dispositions	(1,285)	970	(232%)	(3,030)	2,422	(222%)
Net capital expenditures	4,332	20,017	(78%)	23,858	75,457	(68%)
Common shares outstanding (thousands)						
End of period <sup>(3)</sup>	60,240	59,263	2%	60,240	59,263	2%
Weighted average &ndash; basic and diluted	60,448	59,338	2%	60,039	58,017	3%
Operating						
Average production						





Natural gas (MMcf/d)	44.9	60.8	(26%)	52.6	49.6	6%
Oil (bbl/d)	1,301	888	47%	1,050	948	11%
NGL (bbl/d)	715	738	(3%)	774	655	18%
Total (boe/d)	9,491	11,765	(19%)	10,594	9,876	7%
Average prices						
Realized natural gas price (\$/Mcf)	4.38	3.22	36%	3.05	3.51	(13%)
Realized oil price (\$/bbl)	19.83	47.30	(58%)	40.62	41.62	(2%)
Realized NGL price (\$/bbl)	35.73	54.17	(34%)	52.96	46.60	14%
Wells drilled						
(1) These are non-GAAP measures. Please refer to "Non-GAAP Measures" at the end of this press release						
Natural gas &ndash; gross (net)	&ndash; (&ndash;) 3 (3.0)			1 (1.0)	15 (14.4)	
(2) Based on weighted average basic common shares outstanding for the period						
Oil &ndash; gross (net)	&ndash; (&ndash;) &ndash; (&ndash;)			6 (6.0)	4 (3.3)	
(3) All common shares are net of shares held in trust (2018 &ndash; 661; 2017 &ndash; 447). See "Note 16 to the Audited Consolidated Financial Statements"						
Total &ndash; gross (net)	&ndash; (&ndash;) 3 (3.0)			7 (7.0)	19 (17.7)	

## Oil and Gas Advisories

The reserves estimates contained in this news release represent gross reserves as at December 31, 2018 as estimated by McDaniel and Associates Consultants Ltd. ("McDaniel") and are defined under National Instrument 51-101 as interest before deduction of royalties and without including any of royalty interests. The recovery and reserves estimates of crude oil, NGL and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and NGL reserves may be greater than or less than the estimates provided herein.

To provide a single unit-of-production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (boe), using the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 boe ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the boe ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

This news release contains metrics commonly used in the oil and natural gas industry, such as "finding and development" costs or "F&D" costs, "F&D recycle ratio", "finding, development and acquisition" costs or "FD&A" costs and "FD&A recycle ratio". These oil and gas metrics have been prepared by management and do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included in this news release to provide readers with additional measures to evaluate Perpetual's performance, however, such measures are not reliable indicators of Perpetual's future performance and future performance may not compare to Perpetual's performance in previous periods and therefore such metrics should not be unduly relied upon. Management uses these oil and gas metrics for its own performance measurements and to provide shareholders and investors with measures to compare Perpetual's operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this news release, should not be relied upon for investment or other purposes.

F&D costs are calculated on a per boe basis by dividing the aggregate of the change in future development

capital ("FDC") from the prior year for the particular reserve category and the costs incurred on development and exploration activities in the year by the change in reserves from the prior year for the reserve category. FD&A costs are calculated on a per boe basis by dividing the aggregate of the change in FDC from the prior year for the particular reserve category and the costs incurred on development and exploration activities and property acquisitions (net of dispositions) in the year by the change in reserves from the year for the reserve category. Both F&D costs and FD&A costs take into account reserves revisions during the year on a per boe basis. The aggregate of the F&D costs incurred in the financial year and changes during that year in estimated FDC generally will not reflect total F&D costs related to reserves additions for that year. F&D costs both including and excluding acquisitions and dispositions have been presented in this news release because acquisitions and dispositions can have a significant impact on ongoing reserves replacement costs and excluding these amounts could result in an inaccurate portrayal of our cost structure.

F&D recycle ratio and FD&A recycle ratio is calculated by dividing the operating netback for the period by the F&D costs per boe or FD&A costs per boe for the particular reserve category.

#### 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, anticipated amounts and allocation of capital spending; statements pertaining to adjusted funds flow levels, statements regarding estimated production and timing thereof; statements pertaining to type curves being exceeded, forecast average production; completions and development activities; infrastructure expansion and construction; estimated FDC required to convert proved plus probable non-producing and undeveloped reserves to proved producing reserves; prospective oil and natural gas liquids production capability; projected realized natural gas prices and adjusted funds flow; estimated decommissioning obligations; commodity prices and foreign exchange rates; and commodity 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 news 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 news 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, 2018 and those included in other reports on file with Canadian securities regulatory authorities which may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) and at Perpetual's website ([www.perpetualenergyinc.com](http://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.

#### Financial Outlook

Also included in this news release are estimates of Perpetual's 2019 adjusted funds flow, which is 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 estimate constitutes a financial outlook, it was approved by management and the Board of Directors of Perpetual on March 27, 2019 and is included to provide readers with an understanding of Perpetual's anticipated adjusted funds flow and sensitivities 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.

#### Non-GAAP Measures

This news release contains the terms "adjusted funds flow", "adjusted funds flow per share", "adjusted funds flow per boe", "available liquidity", "cash costs", "net working capital deficiency (surplus)", "net debt", "net bank debt", "net debt to adjusted funds flow ratio", "operating netback", "realized revenue" and "enterprise value" which do not have standardized meanings prescribed by GAAP. Management believes that in addition

to net income (loss) and net cash flows from operating activities as defined by GAAP, these terms are useful supplemental measures to evaluate operating performance. Users are cautioned however that these measures should not be construed as an alternative to net income (loss) or net cash flows from operating activities determined in accordance with GAAP as an indication of Perpetual's performance and may not be comparable with the calculation of similar measurements by other entities.

**Adjusted funds flow:** Management uses adjusted funds flow and adjusted funds flow per boe as key measures to assess the ability of the Company to generate the funds necessary to finance capital expenditures, expenditures on decommissioning obligations and meet its financial obligations. Adjusted funds flow is calculated based on cash flows from (used in) operating activities, excluding changes in non-cash working capital and expenditures on decommissioning obligations since Perpetual believes the timing of collection, payment or incurrence of these items is variable. Expenditures on decommissioning obligations may vary from period to period depending on capital programs and the maturity of the Company's operating areas. Expenditures on decommissioning obligations are managed through the capital budgeting process which considers available adjusted funds flow. The Company has also deducted the change in gas over bitumen royalty financing from adjusted funds flow, in order to present these payments net of gas over bitumen royalty credits received. These payments are indexed to gas over bitumen royalty credits and are recorded as a reduction to the Corporation's gas over bitumen royalty financing obligation in accordance with IFRS. Additionally, the Company has excluded payments of restructuring costs associated with the disposition of the shallow gas assets on October 1, 2016 (the "Shallow Gas Disposition"), which management considers to not be related to cash flow from operating activities. Restructuring costs include employee downsizing costs and surplus office lease obligations. Commencing in the first quarter of 2018, the Company no longer excludes 'exploration and evaluation & geological and geophysical costs' from the calculation of adjusted funds flow as these costs are no longer significant to the Company's business. The calculation of adjusted funds flow for comparative periods has been adjusted to give effect to this change.

Adjusted funds flow per share is calculated using the same weighted average number of shares outstanding used in calculating income (loss) per share. Adjusted funds flow is not intended to represent net cash flows from (used in) operating activities calculated in accordance with IFRS.

Adjusted funds flow per boe is calculated as adjusted funds flow divided by total production sold in the period.

**Available Liquidity:** Available Liquidity is defined as Perpetual's Credit Facility Borrowing Limit, plus [Tourmaline Oil Corp.](#) ("TOU") share investment, less borrowings and letters of credit issued under the Credit Facility and TOU share margin demand loan. Management uses available liquidity to assess the ability of the Company to finance capital expenditures, expenditures on decommissioning obligations and meet financial obligations.

**Cash costs:** Management believes that cash costs assist management and investors in assessing Perpetual's efficiency and overall cost structure. Cash costs are comprised of royalties, production and operating, transportation, general and administrative and cash interest expense and income. Cash costs per boe is calculated by dividing cash costs by total production sold in the period.

**Realized revenue:** Realized revenue is the sum of realized natural gas revenue, realized oil revenue and realized NGL revenue which includes realized gains (losses) on financial natural gas, crude oil and foreign exchange contracts but excludes any realized gains (losses) resulting from contracts related to the Shallow Gas Disposition. Realized revenue, including foreign exchange and market diversification contracts, 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, basis differentials, and forward foreign exchange sales. These contracts are put in place to protect Perpetual's adjusted funds flow from potential volatility in commodity prices and foreign exchange rates, and as such, any related realized gains or losses are considered part of the Corporation's realized price.

**Operating netback:** Perpetual considers operating netback to be an important performance measure as it demonstrates its profitability relative to current commodity prices. Operating netback is calculated by deducting royalties, operating costs, and transportation from realized revenue. Operating netback is also calculated on a per boe basis using production sold for the period. Operating netback on a per boe basis can vary significantly for each of the Company's operating areas.

Net working capital deficiency (surplus): Net working capital deficiency (surplus) includes total current assets and current liabilities excluding short-term derivative assets and liabilities related to the Corporation's risk management activities, current portion of gas over bitumen royalty financing, TOU share investment, TOU share margin demand loan, revolving bank debt, senior notes, and current portion of provisions.

Net bank debt, net debt and net debt to adjusted funds flow ratio: Net bank debt is measured as current and long-term revolving bank debt including net working capital deficiency (surplus). Net debt includes the carrying value of net bank debt, the principal amount of the term loan, the principal amount of the TOU share margin demand loan and the principal amount of senior notes, reduced for the mark-to-market value of the TOU share investment. Net debt, net bank debt and net debt to adjusted funds flow ratios are used by management to assess the Corporation's overall debt position and borrowing capacity. Net debt to adjusted funds flow ratios are calculated on a trailing 12-month basis.

Enterprise value: Enterprise value is equal to net debt plus the market value of issued equity and is used by management to analyze leverage. Enterprise value is not intended to represent the total funds from equity and debt received by the Corporation upon issuance.

For additional reader advisories in regards to non-GAAP financial measures, including Perpetual's method of calculation and reconciliation of these terms to their corresponding GAAP measures, see the section entitled "Non-GAAP Measures" within the Company's MD&A filed on SEDAR.

SOURCE [Perpetual Energy Inc.](#)

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