Perpetual Energy Inc. Reports First Quarter 2020 Financial and Operating Results

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CALGARY, May 4, 2020 - (TSX: PMT) – Perpetual Energy Inc. ("Perpetual", or the "Company") is pleased to rel quarter 2020 financial and operating results. A complete copy of Perpetual's unaudited condensed interim consolidated statements and related Management's Discussion and Analysis ("MD&A") for the three months ended March 31, 2020 obtained through the Company's website at www.perpetualenergyinc.com and SEDAR at www.sedar.com.

EAST EDSON TRANSACTION

On April 1, 2020, the Company closed the sale of a 50% working interest in its East Edson property in West Central Alb third-party purchaser for consideration including a cash payment of $35 million and the carried interest funding of the dr and tie-in costs for an eight-well drilling program (the "East Edson Transaction"). A minimum of two horizontal wells targ development of the Wilrich formation are required to be drilled, completed and tied-in following spring break-up 2020. T purchaser is required to complete the eight-well horizontal drilling program by April 1, 2022.

The cash proceeds from the East Edson Transaction will be used to repay bank debt and fund profitable investment in Clearwater play in Eastern Alberta as oil prices recover and stabilize. The eight-well development capital carry at East anticipated to restore gross production levels to more fully utilize the existing processing capacity, improve operating ne given the largely fixed operating cost base, and result in improved capital spending efficiency.

FIRST QUARTER 2020 HIGHLIGHTS

Capital Spending, Production and Operations

- Late in the first quarter of 2020, the onset of the COVID-19 pandemic caused a wide-spread economic slowdown corresponding oil and natural gas demand destruction. The impact of COVID-19, coupled with the Saudi Arabia a induced oil price shock, dramatically impacted Perpetual's operations. Oil prices dropped abruptly to levels below variable production costs, prompting the shut-in of all heavy oil production in late March to minimize operating los preserve reserves.

- To ensure employees remain safe and healthy, corporate employees began working from home in mid-March and protocols have been put in place to enforce physical distancing and reduce the risk of transmission. Emergency s measures have been announced by both federal and provincial governments which are expected to provide cost $0.8 million over 2020, as well as the temporary payment deferral of various taxes and other costs.

- Exploration and development spending for the first quarter of 2020 was $5.2 million, and included costs to drill, co tie-in four (4.0 net) heavy oil wells in the Ukalta area of Eastern Alberta, targeting the Clearwater formation. The p successfully demonstrated enhanced capital efficiency and performance utilizing a modified drilling mud system a additional development drilling inventory. These four wells commenced production in late January through early M production had ramped up to a combined rate of over 540 bbl/d prior to curtailment and shut-in later in March in re the significant decline in heavy oil prices. Additional Clearwater exploration and development opportunities were a during the quarter.

- Perpetual spent $0.2 million (Q1 2019 – $0.3 million) on abandonment and reclamation projects. Nine recl certificates were received from the AER during the first quarter of 2020 (Q1 2019 – four reclamation certifi will result in the cessation of associated property tax and surface lease expenses.

- Production averaged 7,479 boe/d in the first quarter of 2020, down 27% from the comparable period in 2019 and from the fourth quarter of 2019. The decrease was driven by natural declines at East Edson due to the deferral of capital spending in response to continued low natural gas prices. Additionally, the temporary shut-in of heavy oil p late March reduced first quarter production by approximately 100 boe/d. Heavy oil production in Eastern Alberta w higher than the first quarter of 2019, despite the heavy oil production shut-in during March. The increase in oil-we production was due to the positive impact of the heavy oil focused 2019 and first quarter 2020 Clearwater drilling Ukalta, combined with lower base declines at Mannville due to waterflood operations.

- Production and operating costs were down by $1.1 million (22%) compared to the first quarter of 2019. On a unit- basis, production and operating expenses were up 6% to $6.12/boe for the first quarter of 2020, compared to $5. the comparable period of 2019. West Central production and operating expenses of $1.7 million were down 16% the first quarter of 2019, while production was down 32% over the same period, illustrating the largely fixed cost r East Edson property.

Financial Highlights

- Realized revenue was $13.88/boe in the first quarter of 2020, 43% lower than the comparative period of 2019 ($2 The decrease was due to the 67% reduction in Perpetual's realized natural gas price to $1.16/Mcf, combined with oil price of $32.60/bbl which was 21% lower than the comparative period of 2019. Lower realized natural gas pric result of the 22% and 38% decrease in the AECO and NYMEX Daily Index prices, respectively. The decline in NY outpaced AECO price decreases and reduced the basis differential price, combining to generate AECO-NYMEX hedging losses that further reduced realized prices.

- Perpetual's operating netback of $1.6 million ($2.39/boe) in the first quarter of 2020 decreased 87% from $12.3 m ($13.36/boe) in the comparative 2019 period as a result of lower reference prices for both natural gas and crude and financial hedging losses, and the 27% decrease in production caused by natural declines at the East Edson West Central.

- Non-cash impairment charges of $60.5 million were recognized in the first quarter of 2020, triggered by the impac materially lower third-party engineering consultant forward commodity price forecasts on Perpetual's heavy oil an natural gas assets, along with certain undeveloped lands classified as exploration and evaluation ("E&E") assets.

- Net loss for the first quarter of 2020 was $59.7 million ($0.98/share) due primarily to impairment charges of $60.5 offset partially by unrealized gains on derivatives of $12.1 million (Q1 2019 – $7.6 million unrealized loss) to the reduction in forward WTI and WCS oil prices.

- Cash flow used in operating activities in the first quarter of 2020 was $3.1 million ($0.05/share), down $12.4 millio prior year period (Q1 2019 – cash flow from operating activities of $9.3 million or $0.15/share) due to the i 27% decrease in production combined with lower realized natural gas and crude oil prices of 67% and 21%, resp

- Adjusted funds flow in the first quarter of 2020 was negative $3.6 million ($0.06/share), down $10.0 million (157% prior year period of $6.4 million ($0.11/share) due primarily to lower realized commodity prices as well as the 27% production.

- The Company's remaining 1.0 million TOU shares were sold in January 2020 for proceeds of $14.3 million which repay the outstanding TOU share margin loan of $0.1 million and reduce the bank Credit Facility.

- At March 31, 2020, Perpetual had total net debt of $128.7 million, up $10.6 million (9%) from December 31, 2019 increase in net debt was attributable to cash flows used in operating activities of $3.1 million, combined with first capital expenditures of $5.2 million.

- Incorporating the impact of the East Edson Transaction, effective April 1, 2020, Perpetual's syndicate of Credit Fa reduced the Borrowing Limit from $45 million to $20 million, with the next Borrowing Limit redetermination schedu prior to July 31, 2020. The Credit Facility will continue to revolve until July 31, 2020 and may be extended for a fu of up to 364 days subject to approval by the Company's lenders. If not extended, the Credit Facility will cease to r all outstanding advances will be repayable on November 30, 2020.

- After giving effect to the $35 million of cash proceeds received from the East Edson Transaction and the reduced Limit effective April 1, 2020, Perpetual had available liquidity of $13.6 million.

SEQUOIA LITIGATION

On January 13, 2020, the Court of Queen's Bench issued its written decision related to the Statement of Claim filed on August 3, 2018 against Perpetual and its President and Chief Executive Officer ("CEO") with respect to the Company's disposition of shallow gas assets in Eastern Alberta to an unrelated third party on October 1, 2016 (the "Sequoia Litigation"). The decision dismissed and struck all claims against the Company's CEO and all but one of the claims filed by PwC in its capacity as trustee in bankruptcy (the "Trustee") against Perpetual. The Court did not find that the test for summary dismissal relating to whether the transaction was an arm's length transfer for purposes of section 96(1) of the Bankruptcy and Insolvency Act (the "BIA") was met, on the balance of probabilities. Accordingly, the BIA claim was not dismissed or struck and only that part of the claim can continue against Perpetual. The Trustee filed a notice of appeal with the Court of Appeal of Alberta, challenging the decision, and Perpetual filed a similar notice of appeal contesting the BIA claim portion of the decision. The appeal proceedings are scheduled to be heard in December 2020.

On January 28, 2020, the Court of Appeal issued its decision with respect to Perpetual's application for security for cos the Trustee to post security with the Court of Appeal in the amount of $0.2 million. Applications have been filed by the T appeal the security for costs decision and alter the reasons for the decision. The Court of Appeal is scheduled to hear t applications in June 2020.

On February 25, 2020, Perpetual filed a new application to strike and summarily dismiss the BIA claim on the basis tha no transfer at undervalue, and Sequoia was not insolvent at the time of the transaction nor caused to be insolvent by th transaction. The Court is scheduled to hear this application in June 2020.

Management expects that the Company is more likely than not to be successful in defending against the Sequoia Litiga that no damages will be awarded against it, and therefore, no amounts have been accrued as a liability in Perpetual's fi statements.

2020 OUTLOOK

Capital spending in the first quarter of 2020 of $5.2 million was primarily directed to the four well (4.0 net) heavy oil drill targeting the Clearwater formation in the Ukalta area of Eastern Alberta. In response to the recent significant decline in prices, all further capital expenditures in 2020 in Eastern Alberta will be deferred and substantially all of the Company's production has been temporarily suspended, pending a recovery to oil prices. Capital activity in 2020 at the 50% owned property will consist of the carried interest drilling program forming part of the East Edson Transaction consideration.

Assuming a mid-year recovery of oil prices sufficient to support the restart of oil production later in the year, Perpetual a average 2020 sales volumes of 4,500 to 5,500 boe/d (25% liquids). Actions have been implemented to minimize operat corporate costs. To ensure employees remain safe and healthy, corporate employees began working from home in mid strict social distancing and hygiene protocols were implemented across field operations. All employees have been redu of base compensation with a corresponding reduction in hours worked, to reduce costs by an estimated annualized am million per year.

Abandonment and reclamation expenditures of $1.4 million are forecast for 2020, primarily at Mannville, as required to the minimum expenditure level directed by the Alberta Energy Regulator's area-based closure program, addressing decommissioning obligations and thereby decreasing fixed operating costs associated with non-producing wells. In late Government of Alberta announced its Site Rehabilitation Program aimed at incenting abandonment and reclamation ac Perpetual will consider directing additional spending to retire inactive wells and sites depending on incentives available resources permit.

Financial and Operating Highlights

	Three months ended March 31,		
($Cdn thousands except volume and per share amounts)	2020	2019	Change
Financial			
Oil and natural gas revenue	10,497	22,199	(53%)
Net loss			

(59,718)

(59,718)

(4,892)

(1,121%)

Per share – basic and diluted(2)	(0.98)	(0.08)	(1,125%)
Cash flow from (used in) operating activities	(3,114)	9,292	(134%)
Adjusted funds flow(1)	(3,601)	6,362	(157%)
Per share – basic and diluted(1)(2)	(0.06)	0.11	(155%)
Total assets	173,241	328,495	(47%)
Revolving bank debt	39,145	39,598	(1%)
Term loan, principal amount	45,000	45,000	–
TOU share margin demand loan, principal amount	–	14,100	(100%)
Senior Notes, principal amount	33,580	32,490	3%
TOU share investment	–	(34,196)	(100%)
Adjusted working capital deficiency(1)	10,925	5,364	104%
Net debt(1)	128,650	102,356	26%
Capital expenditures	5,233	1,238	323%
Net payments (proceeds) on acquisitions and dispositions	–	–	–
Net capital expenditures	5,233	1,238	323%
Common shares (thousands)(3)			
End of period	60,717	60,037	1%
Weighted average - basic and diluted	60,674	60,111	1%
Operating			
Daily average production			
Natural gas (MMcf/d)	33.3	50.0	(33%)
Oil (bbl/d)	1,320	1,121	18%
NGL (bbl/d)	606	785	(23%)
Total (boe/d)	7,479	10,240	(27%)
Average prices			
Realized natural gas price ($/Mcf)	1.16	3.54	(67%)
Realized oil price ($/bbl)	32.60	41.12	(21%)
Realized NGL price ($/bbl)	36.48	32.16	13%
Wells drilled – gross (net)			
Natural gas	– (–)	– (–)	
Oil	4 (4.0)	– (–)	
Total			

4 (4.0)

– (–)

(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) All common shares are net of shares held in trust (Q1 2020 – 0.6 million; Q1 2019 – 0.9 million). See "Note 14 to the condensed interim consolidated financial statements".

ADDITIONAL INFORMATION

About Perpetual

Perpetual is an oil and natural gas exploration, production and marketing company headquartered in Calgary, Alberta. I operates a diversified asset portfolio, including liquids-rich natural gas assets in the deep basin of west central Alberta, and shallow natural gas in eastern Alberta, with longer term opportunities through undeveloped oil sands leases in nort 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.

Forward-Looking Information

Certain information regarding Perpetual in this news release including management's assessment of future plans, oper certain of the information contained under the heading "2020 Outlook" in this news release, may constitute forward-look information or statements under applicable securities laws. The forward looking information includes, without limitation, cash proceeds from the East Edson Transaction including the repayment of bank debt and the funding of profitable inve the Clearwater play in Eastern Alberta, the future recovery and stabilization of oil prices, any benefits to be derived fron Edson Transaction including that the eight-well capital carry at East Edson will restore gross production levels to more the existing processing capacity, improve operating netbacks and result in improved capital spending efficiency, the tim next Borrowing Limit review and any future extension of the credit facility, the nature of the capital spending in 2020 at t owned East Edson property, the deferral and suspension of oil capital expenditures in 2020 including heavy oil product anticipated timing of an oil price recovery and production restart, anticipated average 2020 sales volumes, the ability to operating and corporate costs, abandonment and reclamation expenditure forecasts for 2020 and ability to decrease fix operating costs associated with non-producing wells, anticipated amounts and allocation of capital spending; statement estimated production and timing thereof; forecast average production; completions and development activities; prospec natural gas liquids production capability; projected realized natural gas prices and adjusted funds flow; estimated deco 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 in the forward-look 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 op well as certain assumptions regarding the matters outlined above. Forward-looking information is based on current exp estimates and projections that involve a number of known and unknown risks, including, without limitation, the impact o ongoing oil price war between Russia and Saudi Arabia and COVID-19 as further described below, which could cause a results to vary and in some instances to differ materially from those anticipated by Perpetual and described in the forwa information contained in this news release. In particular and without limitation of the foregoing, the recent outbreak of C has had a negative impact on global financial conditions. Perpetual cannot accurately predict the impact COVID-19 will ability to execute its business plans in response to government public health efforts to contain COVID-19 and to obtain third parties' ability to meet their contractual obligations with Perpetual including due to uncertainties relating to the ultin geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and qu restrictions imposed by governments of affected jurisdictions; and the current and future demand for oil and gas. In the the prevalence of COVID-19 continues to increase (or fears in respect of COVID-19 continue to increase), governments increase regulations and restrictions regarding the flow of labour or products, and travel bans, and Perpetual's operatio providers and customers, and ability to advance its business plan or carry out its top strategic priorities, could be advers affected. In particular, should any employees, consultants or other service providers of Perpetual become infected with or similar pathogens, it could have a material negative impact on Perpetual's operations, prospects, business, financial and results of operations. Undue reliance should not be placed on forward-looking information, which is not a guarante performance and is subject to a number of risks or uncertainties, including without limitation those described herein and "Risk Factors" in Perpetual's Annual Information Form and MD&A for the year ended December 31, 2019 and in other r file with Canadian securities regulatory authorities which may be accessed through the SEDAR website (www.sedar.co Perpetual's website (www.perpetualenergyinc.com). Readers are cautioned that the foregoing list of risk factors is not e Forward-looking information is based on the estimates and opinions of Perpetual's management at the time the informa released, and Perpetual disclaims any intent or obligation to update publicly any such forward-looking information, whe result of new information, future events or otherwise, other than as expressly required by applicable securities law.

Non-GAAP Measures

This news release contains the terms "adjusted funds flow", "adjusted funds flow per share", "adjusted funds flow per b

"available liquidity", "cash costs", "net working capital deficiency (surplus)", "net debt", "net bank debt", "net debt to adju
flow ratio", "operating netback", "realized revenue" and "enterprise value" which do not have standardized meanings pr
GAAP. Management believes that in addition to net income (loss) and net cash flows from operating activities as define
these terms are useful supplemental measures to evaluate operating performance. Users are cautioned however that t
measures should not be construed as an alternative to net income (loss) or net cash flows from operating activities dete
accordance with GAAP as an indication of Perpetual's performance and may not be comparable with the calculation of
measurements by other entities.

Adjusted funds flow: Management uses adjusted funds flow and adjusted funds flow per boe as key measures to asses
of the Company to generate the funds necessary to finance capital expenditures, expenditures on decommissioning ob
meet its financial obligations. Adjusted funds flow is calculated based on cash flows from (used in) operating activities,
changes in non-cash working capital and expenditures on decommissioning obligations since Perpetual believes the ti
collection, payment or incurrence of these items is variable. Expenditures on decommissioning obligations may vary fro
period depending on capital programs and the maturity of the Company's operating areas. Expenditures on decommiss
obligations are managed through the capital budgeting process which considers available adjusted funds flow. The Co
also deducted payments of the gas over bitumen royalty financing from adjusted funds flow to present these payments
over bitumen royalty credits received. These payments are indexed to gas over bitumen royalty credits and are recorde
reduction to the Corporation's gas over bitumen royalty financing obligation in accordance with IFRS. Additionally, the C
has excluded payments of restructuring costs associated with employee downsizing costs, which management conside
related to cash flow from operating activities.

Adjusted funds flow per share is calculated using the same weighted average number of shares outstanding used in ca
income (loss) per share. Adjusted funds flow is not intended to represent net cash flows from (used in) operating activit
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 reserve-based credit facility (the "Credit Facility") borrov
(the "Borrowing Limit"), less borrowings and letters of credit issued under the Credit Facility. Management uses availab
assess the ability of the Company to finance capital expenditures and expenditures on decommissioning obligations, a
its financial obligations.

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

Realized revenue: Realized revenue is the sum of realized natural gas revenue, realized oil revenue and realized natur
liquids ("NGL") revenue which includes realized gains (losses) on financial natural gas, crude oil, NGL, and foreign exc
contracts. Realized revenue is used by management to calculate the Corporation's net realized commodity prices, takin
account monthly settlements on financial crude oil and natural gas forward sales, collars, basis differentials, and forwar
exchange sales. These contracts are put in place to protect Perpetual's adjusted funds flow from potential volatility in c
prices and foreign exchange rates. Any related realized gains or losses are considered part of the Corporation's realize

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

Net working capital deficiency (surplus): Net working capital deficiency (surplus) includes total current assets and curre
excluding short-term derivative assets and liabilities related to the Corporation's risk management activities, Tourmaline
("TOU") share investment, TOU share margin demand loan, revolving bank debt, term loan, current portion of gas over
royalty financing, current portion of lease liabilities, 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
bank debt including net working capital deficiency (surplus). Net debt includes the carrying value of net bank debt, the p
amount of the term loan, the principal amount of the TOU share margin demand loan and the principal amount of senio
reduced for the mark-to-market value of the TOU share investment. Net debt, net bank debt, and net debt to adjusted f
ratios are used by management to assess the Corporation's overall debt position and borrowing capacity. Net debt to a
funds flow ratios are calculated on a trailing twelve-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.

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:

bbls	barrels
boe	barrels of oil equivalent
Mcf	thousand cubic feet
MMcf	million cubic feet

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