

# Pace Reports Q3 Results and Continued Strong Oil Production from Southern Alberta Resource Play

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CALGARY, ALBERTA--(Marketwire - Nov. 6, 2012) - Pace Oil & Gas Ltd. ("Pace" or the "Company") (TSX:PCE) is pleased to provide an update of its operations and its financial results for the three and nine months ended September 30, 2012.

## HIGHLIGHTS

During Q3, 2012, Pace continued to focus on its primary oil operations at Dixonville and Matziwin. At Matziwin, the Company advanced its play concept completing and putting on stream 2 gross (2.0 net) wells that continue to exceed the Company's production type curve. At Dixonville, the Company completed its last phase of the waterflood expansion and now has the entire pool under water injection. The pool continues to show positive results from the waterflood and modest future capital programs will focus on increasing sweep efficiency and optimizations leading to improved operating costs, faster recoveries and minimized field downtime.

In Q3 2012 Pace moderated its capital program and spent within funds from operations. Pace generated \$14.0 million (\$0.30 per share) of funds from operations with capital investment of \$12.9 million. The Company's operations continued to be impacted by unscheduled shut-ins at third party facilities in the quarter causing production to be approximately 800 boe/d lower than forecast (including approximately 600 bbls/d of oil). Production for the quarter averaged 12,681 boe/d including 5,996 bbls/d of oil & NGLs and 40.1 mmcf/d of natural gas compared to 13,558 boe/d in Q3 2011.

## OPERATIONS

### Southern Alberta

At Matziwin, Pace now controls over 69,000 net acres of land and early results continue to exceed expectations. The Company completed 2.0 gross (2.0 net) wells in the quarter that were placed on stream in late July and early August. The first well was completed with a 15 stage slick water frac and approximately 300 tonnes of sand and 4,000 m3 of water. The well continues to produce ahead of the type curve with production averaging approximately 150 bbls/d of oil in September with stable watercuts. The second well was completed with a 20 stage slick water frac with approximately 300 tonnes of sand and 4,000 m3 of water. This well had initial 30 day production rate of approximately 250 bbls/d of oil and has maintained its strong production rate and averaged 210 bbls/d of oil in September.

Matziwin has good vertical well control and the Company has identified 87 low to medium risk horizontal locations for future development. The Company has identified a large captured oil resource on 100% Pace owned lands in an area with excellent access. Pace owns a 100% working interest in a recently expanded oil battery and with continued development the Company believes it will be able to further reduce its capital costs and strengthen its returns. There is upside to the Company's current type curve and this large oil resource play has potential to generate significant oil growth.

At Retlaw the Company completed its waterflood implementation on the operated Mannville BBB/NNN pool in Q2 2012. The pool shows initial signs of a positive waterflood response with a full production response expected in 2013.

### Dixonville

The Company's Dixonville property with its large Montney "C" oil pool continues to show strong waterflood response. With well conversions in Phases 4 & 5 now complete, Pace has the full pool under waterflood and expects continued stable low decline oil production and minimal future capital investment. The Company will continue to optimize this field by reducing operating costs in increasing recovery. With 188 mmbbl of original

oil in place the Company's independent reserve auditor have assigned proved reserves that equate to a recovery factor of less than 12% for total proved reserves and a recovery factor of approximately 15% for proved plus probable reserves. With a relatively low overall recovery from this pool, Pace continues to review the potential of an enhanced recovery scheme for this pool.

### Rainbow lake spill update

As previously reported, on May 19, 2012 an oil spill was discovered at a Pace operated Rainbow Lake water disposal well. The release was sweet Bluesky oil that leaked from an above ground section of piping. The release occurred as a result of a hole caused by internal pitting corrosion that was accelerated through stray electrical currents in the surrounding area. The source of the stray current is under investigation. Similar piping systems in the area were shut down and checked and did not exhibit corrosion concerns. A corrosion engineering firm has been retained by Pace to perform an assessment of Pace's operating infrastructure. Pace has completed a substantial amount of clean-up and continues to work collaboratively with all government agencies to ensure the site is remediated. Costs to the end of September 30, 2012 were estimated at \$19.9 million and total clean-up costs are estimated at \$25 million (including contingent costs for excavation around the wellhead) which is within the company's total insurance coverage of \$30 million. The majority of the site is being bio-remediated and naturally attenuated to minimize surface disturbance while an excavation contingency plan for the area surrounding the well head is being developed if the need arises.

Pace has received confirmation of coverage from all insurance providers and expects to recover all costs in excess of its deductibles. Pace has received \$10.0 million to date including \$1.0 million in Q3 2012 and \$9.0 million subsequent to quarter end.

### Financial Highlights

#### Financial

(000s, except per share amounts) Q3 2012 Q3 2011 Q2 2012 YTD 2012 YTD 2011

Funds from operations \$ 14,006 \$ 21,174 \$ 16,485 \$ 45,218 \$ 71,693

Per share- Basic 0.30 0.45 0.35 0.96 1.51

Per share- Diluted 0.30 0.45 0.35 0.96 1.50

Net income (loss) \$ (4,859) \$ 5,524 \$ (56,581) \$ (66,426) \$ 16,253

Per share- Basic (0.10) 0.12 (1.20) (1.41) 0.34

Per share- Diluted (0.10) 0.12 (1.20) (1.41) 0.34

Total capital expenditures \$ 12,909 \$ 21,794 \$ 13,688 \$ 68,293 \$ 83,436

Net acquisitions (dispositions) - - - (2,000 )

Net debt 210,348 166,273 210,765 210,348 166,273

#### Operations

##### Average daily production

Oil & NGLs (bbls/d) 5,996 6,061 6,375 6,519 6,002

Natural gas (mcf/d) 40,109 44,981 44,340 42,869 47,894

Combined (boe/d) 12,681 13,558 13,765 13,664 13,985

% Oil & NGLs 47 % 45 % 46 % 48 % 43 %

(\$/boe)

Sales price \$ 42.31 \$ 46.58 \$ 40.04 \$ 43.50 \$ 47.40

Royalties (8.69) (10.53) (8.46) (9.97) (10.22)

Operating expenses (14.99) (13.38) (15.34) (15.51) (13.36)

Transportation expenses (2.08) (2.27) (2.11) (2.10) (2.03)

Operating netback \$ 16.55 \$ 20.40 \$ 14.13 \$ 15.92 \$ 21.79

Field operations experienced both planned and unexpected downtime resulting in production of 5,996 bbls/d of liquids and a total of 12,681 boe/d for Q3 2012. Pace previously reported downtime in Northwest Alberta and Red Earth and had expected all production to be back online in Q3. In Northwest Alberta, the majority of the production is still offline with continued infrastructure problems with two third party operators. The Company is pursuing alternative options to bring the production back online and now expects volumes to return in early 2013. Estimated production to be brought back on line is between 500 and 600 boe/d (~75% oil). At Red Earth production resumed in September, but Q3 2012 production averaged approximately 160 boe/d less than Q2 2012 as the wells were brought on late in Q3 2012. In addition, Pace experienced both scheduled and unscheduled downtime at Dixonville and also converted producing wells to injectors as part of its full scale plan to complete the waterflood project.

### OUTLOOK

Over the past two years, Pace has been focused and disciplined in its transition to an oil weighted

intermediate sized producer. Pace has been successful in increasing its oil production, oil reserves and its oil opportunity base. The Company has a large production base with solid, oil-weighted reserves; a stable low decline production base and a large inventory of low risk oil and gas exploitation opportunities. The Company now has the entire Dixonville pool under waterflood which will generate significant free cash flow in the future with minimal capital investment. At Matziwin the Company has acquired a significant land position and its latest drilling results are exceeding its type curve expectations.

For the balance of the year, the Company's capital program will be focused in the Matziwin area. Since the end of the quarter Pace has drilled one horizontal well and has recently spud another horizontal well on its land base. The Company will have both of these wells completed and on stream by mid December 2012. The Company expects to drill 1-2 additional wells in this area before year end with these wells to be completed and on stream prior to the end of January 2013.

With the unexpected downtime and continued shut in production in Northwest Alberta, Pace expects production to average approximately 13,400 boe/d for 2012. The Company had originally forecast shut in volumes back on production by the end of Q3 2012 but 500 to 600 boe/d (~75% oil) remains shut in and are not forecast to be online until Q1 2013.

Pace is committed to unlocking value for its shareholders by delivering on its resource plays and maintaining financial discipline. The challenges of the global economy have had a significant impact on capital markets and commodity markets in all sectors. In order to increase its financial flexibility and provide more focus to Pace's operations, the Company is reviewing options including non-core/non-strategic asset sales or pursuing joint venture partnerships that could improve the Company's financial flexibility and accelerate the development of its resource plays.

For 2013 the Company will continue development of its oil resource play at Matziwin and continue to enhance its waterfloods in Dixonville and Southern Alberta. Pace plans to drill up to 25 wells at Matziwin in 2013 with infrastructure capital of approximately \$5 million to increase oil handling capacity to between 3,000 - 4,000 bbls/d and to drill a water disposal well. Pace will also continue optimizing its waterfloods and will allocate capital to enhance or speed up recovery and to reduce operating costs. Additional details of the Company's 2013 capital program and guidance are expected to be released in December 2012. Pace has developed a strong stable reserve base and has added an oil resource opportunity. The Company plans to reduce its leverage and focus its operations to execute an efficient, predictable capital program. With planned asset divestitures and focused development of its core assets Pace will be well positioned to transition to a sustainable dividend paying corporation. The Company will continue to review its strategic plan with a view of providing long-term value to its shareholders.

Pace Oil & Gas Ltd. is a Calgary, Alberta based intermediate sized oil-weighted company with a large portfolio of near term oil resource opportunities in the Western Canadian Sedimentary Basin. Pace has a growing oil production base in the Peace River Arch area with its large Montney pool at Dixonville, its Slave Point light oil resource play at Red Earth and in Southern Alberta, is successfully developing and exploiting a large inventory of identified Mannville channels and is very encouraged by its new resource opportunity at Matziwin. The Company has a large land inventory of over 870,000 net acres and a large 3-D seismic database to identify drilling opportunities and uses the newest proven technologies in horizontal drilling, multi-stage completions, and enhanced oil recovery processes to grow its production and reserve base.

Pace's common shares trade under the symbol PCE on the TSX and PACEF on the OTC.

## **ADVISORY**

Natural gas is converted to barrels of oil equivalent ("boe") at a ratio of six thousand cubic feet to one barrel of oil. Boe's may be misleading, particularly if used in isolation.

## **FORWARD-LOOKING STATEMENTS**

*Certain statements contained within this press release constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. The use of any of the words "targeting", "continue", "until", "forecast", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. In particular, statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the*

future. In addition, this press release contains forward-looking statements with respect to: (i) production volumes and expectations regarding the timing of when additional production volumes will be brought on stream; (ii) Pace's drilling plans and the results therefrom including expectations regarding well completions and the start-up of new wells; (iii) future development and exploration activities and the timing thereof; (iv) Pace's plans for the development of its proven and probable undeveloped reserves. With respect to the forward-looking statements contained in this press release, Pace has made assumptions regarding:

- prevailing commodity prices and exchange rates;
- availability of labour and drilling equipment;
- future operating expenses including processing and gathering fees;
- timing and amount of capital expenditures;
- government regulation in the areas of taxation, royalty rates and environmental protection;
- production of new and existing wells and the timing of new wells coming on-stream; and
- the performance characteristics of oil and natural gas properties.

Although Pace believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Pace can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. These statements speak only as of the date of this press release or as of the date specified in the documents incorporated by reference into this press release, as the case may be. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to:

- volatility in market prices for oil and natural gas, and in exchange rates;
- liabilities inherent in oil and natural gas operations and limitations on insurance;
- changes or fluctuations in production levels;
- stock market volatility and market valuation of our stock;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions and exploration and development programs;
- geological, technical, drilling, production and processing problems;
- changes in legislation including changes in tax laws, royalty rates and incentive programs relating to the oil and natural gas industry; and

other factors which are included under "Risk Factors" in Pace's Annual Information Form on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)). Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this press release are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and Pace does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

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