Spyglass Resources Corp. Announces 2013 First Quarter Results, May Cash Dividend, Consolidated Reserves and Provides Capital Program Update

14.05.2013 | Marketwired

NOT FOR DISTRIBUTION TO U.S. NEWSWIRE SERVICES OR FOR DISSEMINATION IN THE UNITED STATES. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF U.S. SECURITIES LAW.

All values are in Canadian dollars unless otherwise indicated. Conversion of natural gas volumes to barrels of oil equivalent (boe) are at 6:1.

CALGARY, ALBERTA -- (Marketwired - May 13, 2013) - Spyglass Resources Corp. ("Spyglass", or the "Company") (TSX:SGL) announces its unaudited interim financial and operating results for the quarter ended March 31, 2013. Spyglass has filed interim Financial Statements and Management's Discussion and Analysis on www.sedar.com and will also be made available at www.spyglassresources.com.

On March 28, 2013, Spyglass completed a business combination by way of a plan of arrangement (the "Arrangement") with Pace Oil & Gas Ltd. ("Pace"), AvenEx Energy Corp. ("AvenEx") and Charger Energy Corp. ("Charger") whereby Pace, AvenEx and Charger exchanged all of their issued and outstanding shares for common shares of Spyglass. With Pace continuing as the reporting issuer, Pace results for the first quarter of 2013 are presented on a standalone basis from January 1 to March 28, 2013 and incorporate the Arrangement and the combined financial and operating results for the three companies from March 29 to March 31, 2013. Additional details concerning the Arrangement are contained in the Joint Information Circular dated January 18, 2013 filed on SEDAR at www.sedar.com.

First Quarter of 2013

- Closed strategic business combination creating an intermediate resource company with a cash dividend, a low decline production base and a balanced commodity profile.

- Production for the first quarter of 2013 was approximately 12,128 boe/d. Pro forma production for the first quarter of 2013 (including Pace, AvenEx and Charger for the entire quarter) was approximately 17,340 boe/d, consisting of 49% oil and liquids.

- Bank debt of $272 million drawn on a $400 million credit facility, net debt of $300 million at quarter end.

- Net income of $61 million, the majority which is due to the $81.9 million gain on business combination as a result of the Arrangement.

The following is selected operating and financial information for the first quarter of 2013 incorporating Pace standalone results from January 1, 2013 to March 28, 2013 and Spyglass results from March 29, 2013 to March 31, 2013. The 2012 figures reflect Pace on a standalone basis.

Operating	Q1 2013	Q1 2012
Production		
Oil (bbls/d)	5,876	6,804
NGLs (bbls/d)	279	388
Natural Gas (Mcf/d)	35,840	44,190
Total (boe/d)	12,128	14,557

Financial ($MM)	Q1 2013	Q1 2012
Fund Flow from Operations (1)	7,053	14,727
Net Debt (2)	300,253	212,873
Net Income	61,353	(4,986)

(1) Funds flow from operations is calculated as cash flow from operating activities adjusted for changes in non-cash working capital, transaction costs and decommissioning expenditures.

(2) Net debt is calculated as bank debt plus working capital deficit excluding current portion of financial derivative instruments.

Consolidated Reserves

The following is selected pro forma oil and natural gas reserves information is presented on a combined basis as of December 31, 2012:

Reserves and Net Present Value(1)(2)	Oil (Mbbl)	Nat. Gas (MMcf)	NGL (Mbbl)	Total (Mboe)(3)	NPV 1
Proved Developed Producing	25,662	103,114	831		
% by Product	59 %	39 %	2 %		
Total Proved	30,725	151,209	1,169		
% by Product	54 %	44 %	2 %		
Total Proved plus Probable	45,182	263,628	2,079		
% by Product	50 %	48 %	2 %		

(1) Reserves for Pace and AvenEx as prepared by McDaniel and Charger reserves as prepared by Sproule, GLJ and Insite as of December 31, 2012.

(2) Company gross reserves, which are working interest (operated and non-operated) share before deduction of royalties and without including royalty interests.

(3) The Company has adopted the standard of 6 Mcf to 1 boe when converting natural gas to barrels of oil equivalent. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf :1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

(4) Calculated on a before-tax basis. Pace and AvenEx reserves as of December 31, 2012 at McDaniel January 1, 2013 price forecast. Charger reserves as of December 31, 2012 at Sproule December 31, 2012 price forecast.

May Dividend

The board of directors (the "Board") has approved the May cash dividend of $0.0225 per share payable on June 17, 2013 to shareholders of record on May 27, 2013. The ex-dividend date will be May 23, 2013.
The dividend policy of Spyglass is at the discretion of the Board and will be reviewed monthly in the context of a number of factors including current and forecast commodity prices, foreign exchange rates, an active commodity price risk management program, status of current operations and future investment opportunities. Spyglass dividends paid on common shares will be designated as "eligible dividends" for Canadian income tax purposes.

Risk Management Update

Spyglass uses a commodity price risk management program to mitigate the impact of crude oil and natural gas price volatility on cash flow which is intended to support the Spyglass dividend and capital program. Spyglass hedges production 12 to 18 months forward using a combination of fixed price and participating products.

For May to December 2013, Spyglass has approximately 45% of its estimated crude oil production hedged at an average fixed price of WTI C$94.13/bbl (including both Canadian and US dollar denominated contracts) and approximately 47% of its estimated natural gas production hedged at an average fixed price of $3.40/Mcf. Spyglass has protected an additional 12% of its estimated May to December 2013 natural gas production by purchasing put options with an average floor price of $3.12/Mcf.

For calendar 2014, Spyglass has hedged approximately 17% of its estimated crude oil production at an average fixed price of WTI C$92.95/bbl and approximately 35% of its estimated natural gas production at an average fixed price of $3.76/Mcf.

Spyglass has additional call options primarily related to crude oil that were assumed from predecessor companies. These contracts currently expose 300 bbl/d (sold call options) of 2013 crude oil production between WTI C$76.97/bbl and WTI C$105.00/bbl (including both Canadian and US dollar denominated contracts).

For further detail on our risk management program please refer to Spyglass' MD&A or www.spyglassresources.com.

2013 Capital Program and Outlook

Spyglass' mature, low decline producing assets coupled with its capital efficient light oil development opportunities provide the scale, stability and low-risk running room to support a sustainable yield model.

Spyglass' 2013 capital budget is anticipated to be approximately $72 million, including the $12 million spent by Pace in the first quarter of 2013. The capital program will be primarily focused on low risk, light oil development opportunities intended to offset the Company's natural production declines (estimated at 20 percent) and sustain the monthly cash dividend to shareholders. Approximately 67% of the remaining $60 million capital budget will be allocated to development drilling, including approximately 18 to 20 net wells focused primarily on Southern Alberta (Glauconite, Mannville, Pekisko) and the Viking light oil play at Halkirk-Provost. The remainder of the capital budget will be directed towards optimization, workovers, maintenance, land, seismic, integrity, reclamation and corporate items. As expected, spring breakup has resulted in reduced activity levels during the second quarter and as such, the capital program will be substantially weighted towards the second half of 2013.

The following is selected information relating to Spyglass' 2013 capital program:

2013 Capital Program	($MM)
Drilling	$40
Optimization & Maintenance	14
Abandonment, Reclamation, Remediation & Pipeline Integrity	7
Corporate (Capitalized G & A & Other)	7
Land & Seismic	4
Total	$72
Q1 2013 Capital Expenditures	(12)
Capital Budget for Remainder of 2013	$60

Consistent with previous guidance, this level of development activity is expected to result in 2013 exit production of approximately 18,000 boe/d (50% - 52% oil and liquids) and full year 2013 average of approximately 16,000 boe/d (which includes Pace results for the first quarter). With minimal activity occurring in the second quarter of 2013 it is expected that production volumes will decline slightly in the quarter and increase in the second half of the year as capital activity increases. Management anticipates 2013 operating expenses of $17.00 to $18.50 per boe.

Spyglass' 2013 budget is expected to result in a basic dividend payout ratio of approximately 30% and an all-in payout ratio of approximately 100%, assuming 2013 average prices of WTI C$94.54 / bbl for oil with a 20% corporate oil differential and AECO $3.57 / Mcf for natural gas. Net debt at year end is expected to be in line with current levels. The company will also be evaluating non-core asset dispositions throughout the remainder of 2013 to enhance financial flexibility. Spyglass continues to focus on the integration of our people, assets and systems, with an emphasis on realizing synergies and cost efficiencies.

Spyglass' low decline, stable asset base and low risk portfolio of capital efficient development opportunities is well-suited to sustaining a monthly cash dividend and delivering a strong total return to shareholders.

Reader Advisory and Note Regarding Forward Looking Information

This news release contains forward‐looking statements and forward‐looking information within the meaning of applicable securities laws. These statements relate to future events or future performance. All statements other than statements of historical fact may be forward‐looking statements or information. Forward‐looking statements and information are often, but not always, identified by the use of words such as "appear", "seek", "anticipate", "plan", "continue", "estimate", "approximate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar expressions. More particularly and without limitation, this news release contains forward‐looking statements and information concerning the expected results of the Arrangement; the Company's petroleum and natural gas production and reserves; drilling opportunities; management team; business strategy; future development and growth opportunities; prospects; asset base; anticipated benefits from the Arrangement; value and debt levels; and capital programs. The forward‐looking statements and information are based on certain key expectations and assumptions made by the management, including expectations and assumptions concerning prevailing commodity prices and exchange rates, applicable royalty rates and tax laws; future well production rates and reserve volumes; the timing of receipt of regulatory approvals; the performance of existing wells; the success obtained in drilling new wells; the sufficiency of budgeted capital expenditures in carrying out planned activities; and the availability and cost of labour and services. Although management believes that the expectations and assumptions on which such forward looking statements and information are based are reasonable, undue reliance should not be placed on the forward‐looking statements and information since no assurance can be given that they will prove to be correct.

Forward-looking information is provided for the purpose of providing information about the current expectations and plans of management relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Since forward‐looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to reserves, production, costs and expenses; health, safety and environmental risks; commodity price and exchange rate fluctuations, marketing and transportation, loss of markets, environmental risks, competition, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, ability to access sufficient capital from internal and external sources, failure to obtain required regulatory and other approvals and changes in legislation, including but not limited to tax laws, royalties and environmental regulations. There are risks also inherent in the nature of the Arrangement, including failure to realize anticipated synergies or cost savings; risks regarding the integration of the three entities and incorrect assessments of the values of each entity. Readers are cautioned that the foregoing list of factors is not exhaustive. The forward‐looking statements and information contained in this news release are made as of the date hereof and no undertaking is given to update publicly or revise any forward‐looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities law.

Barrel of oil equivalents or BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not 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.

This press release shall not constitute an offer to sell, nor the solicitation of an offer to buy, any securities in the United States, nor shall there be any sale of securities mentioned in this press release in any State in the United States in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities law of any such state.

Contact

Spyglass Resources Corp.
Tom Buchanan, CEO
IR# 403.930.3524
ir@spyglassresources.com
www.spyglassresources.com

Spyglass Resources Corp.
Dan O'Byrne, President
IR# 403.930.3524
ir@spyglassresources.com

www.spyglassresources.com