

Zargon Oil & Gas Ltd. Provides 2013 Third Quarter Results and Provides a Little Bow Alkaline Surfactant Polymer ("ASP") Construction Project Update

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CALGARY, ALBERTA--(Marketwired - Nov 13, 2013) - Zargon Oil & Gas Ltd. ("Zargon" or the "Company") (TSX:ZAR)(TSX:ZAR.DB).

FINANCIAL & OPERATING HIGHLIGHTS (THREE MONTHS ENDED SEPTEMBER 30, 2013)

- Funds flow from operating activities of \$16.5 million were three percent higher than the \$16.0 million recorded in the prior quarter, and 15 percent higher than the \$14.4 million reported in the third quarter of 2012. Funds flow from operating activities for the 2013 third quarter included reductions of \$2.6 million of realized hedge losses and \$0.6 million of asset retirement expenditures.
- Third quarter 2013 production averaged 4,816 barrels of oil and liquids per day, a two percent decrease from the preceding quarter and third quarter 2013 natural gas production averaged 16.46 million cubic feet per day, an 11 percent increase from the preceding quarter. Total production averaged 7,560 barrels of oil equivalent per day, a two percent increase from the preceding quarter. During the quarter, oil and liquids production represented 64 percent of total production based on a 6:1 equivalent basis.
- Monthly cash dividends of \$0.06 per common share were declared in the third quarter of 2013 for a total of \$5.4 million (\$5.2 million after accounting for the common shares issued under the Dividend Reinvestment Plan ("DRIP") in lieu of cash dividends). These cash dividends (net of the DRIP) were equivalent to a payout ratio of 31 percent of funds flow from operating activities. Commencing with Zargon's September 2013 dividend, the DRIP has been suspended until further notice.
- Third quarter 2013 exploration and development capital expenditures (excluding property acquisitions and dispositions) were \$18.7 million and included \$11.4 million of expenditures related to the Little Bow ASP tertiary oil recovery project. In the quarter, Zargon drilled three (3.0 net) horizontal exploitation wells at Taber, Alberta.
- Zargon's September 30, 2013 debt, net of working capital (excluding unrealized derivative assets/liabilities) and using the full future face value of the convertible debenture of \$57.5 million, was \$117.6 million and is approximately 1.9 times the annualized 2013 nine months funds flow from operating activities. At September 30, 2013, Zargon had more than \$100 million of available credit facilities remaining on its \$165 million borrowing base.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(unaudited)	2013	2012	Percent Change	2013	2012	Percent Change
Financial Highlights						
Income and Investments (\$ millions)						
Gross petroleum and natural gas sales	45.14	36.91	22	122.81	120.07	2
Funds flow from operating activities	16.45	14.35	15	46.34	40.24	15
Cash flows from operating activities	16.30	12.16	34	43.44	42.02	3
Cash dividends (net of Dividend Reinvestment Plan)	5.17	7.75	(33)	14.94	22.65	(34)
Net earnings/(loss)	(2.35)	(4.02)	42	(0.99)	4.51	(122)
Field capital and administrative asset expenditures	18.68	9.08	106	51.92	39.16	33
Net property and corporate acquisitions / (dispositions)	(1.14)	1.27	(190)	(15.77)	(34.70)	55
Net capital expenditures	17.54	10.35	69	36.15	4.46	711
Per Share, Basic						
Funds flow from operating activities (\$/share)	0.55	0.48	15	1.55	1.36	14
Net earnings/(loss) (\$/share)	(0.08)	(0.14)	43	(0.03)	0.15	(120)
Cash Dividends (\$/common share)	0.18	0.30	(40)	0.54	0.90	(40)
Balance Sheet at Period End (\$ millions)						

Property and equipment (D&P)				392.88	386.72	2
Exploration and evaluation assets (E&E)				17.23	21.38	(19)
Total assets				441.87	440.77	-
Working capital deficiency				16.45	14.04	17
Long term bank debt				43.65	27.58	58
Convertible debentures at maturity				57.50	57.50	-
Shareholders' equity				182.51	210.35	(13)
Weighted Average Shares Outstanding for the Period (millions) - Basic	30.07	29.69	1	29.99	29.54	2
Weighted Average Shares Outstanding for the Period (millions) - Diluted	30.07	29.69	1	29.99	29.62	1
Total Common Shares Outstanding at Period End (millions)				30.09	29.78	1
Funds flow from operating activities is an additional GAAP term that represents net earnings/loss and asset retirement expenditures except for non-cash items.						
Working capital deficiency excludes derivative assets/liabilities.						
	Three Months Ended September 30,			Nine Months Ended September 30,		
(unaudited)	2013	2012	Percent Change	2013	2012	Percent Change
Operating Highlights						
Average Daily Production						
Oil and liquids (bbl/d)	4,816	5,079	(5)	4,952	5,319	(7)
Natural gas (mmcf/d)	16.46	15.33	7	15.49	17.59	(12)
Equivalent (boe/d)	7,560	7,634	(1)	7,533	8,250	(9)
Average Selling Price (before the impact of financial risk management contracts)						
Oil and liquids (\$/bbl)	94.10	72.71	29	81.92	76.03	8
Natural gas (\$/mcf)	2.27	2.08	9	2.85	1.92	48
Netback (\$/boe)						
Gross petroleum and natural gas sales	64.90	52.55	24	59.72	53.11	12
Royalties	(12.66)	(10.19)	24	(10.96)	(10.21)	7
Realized gain/(loss) on derivatives	(3.68)	1.44	(356)	(0.15)	(1.22)	88
Operating expenses	(16.53)	(14.90)	11	(17.29)	(15.96)	8
Transportation expenses	(0.72)	(0.44)	64	(0.69)	(0.47)	47
Operating netback	31.31	28.46	10	30.63	25.25	21
Wells Drilled, Net	3.0	3.0	-	8.1	12.8	(37)
Undeveloped Land at Period End (thousand net acres)				283	361	(22)

The calculation of barrels of oil equivalent ("boe") is based on the conversion ratio that six thousand cubic feet of natural gas is equivalent to one barrel of oil.

Message to Shareholders

Zargon Oil & Gas Ltd. has released financial and operating results for the third quarter of 2013 that demonstrated continued progress in our drive to become a long term sustainable, dividend-paying energy producer. The quarter was highlighted by an ongoing successful property disposition program and by the continued field construction of our Little Bow Alkaline Surfactant Polymer ("ASP") tertiary oil recovery project in Southern Alberta.

Zargon's sustainability model entails the balancing of cash inflows and outflows, the maintenance of a stable dividend, the eventual generation of meaningful free cash flow per share growth, while continuing the shift toward oil and liquids production. Zargon believes that the Little Bow ASP tertiary oil recovery production provides the foundation for these sustainability objectives by delivering a substantial low-decline, low-sustaining capital, high-netback and long-life project to the Company.

The Company's focus for the remainder of 2013 and the first six months of 2014 will be to:

- Deliver the Little Bow ASP project on-budget, with first chemical injections to occur by the end of the 2014 first quarter;
- Deliver a consistent dividend of \$0.06 per common share per month;

- Continue with an ongoing property divestiture program designed to high grade and concentrate the company's asset portfolio; and
- Maintain a strong balance sheet through oil hedging programs while limiting drilling capital to high-graded projects offering the most attractive risk adjusted returns.

Little Bow Alkaline Surfactant Polymer ("ASP") Project

Zargon's Little Bow ASP project entails the injection of a dilute chemical solution into a partially depleted reservoir to recover incremental oil reserves. During the three months since the last report, Zargon has continued to make good progress with this project, although the injection date has now been deferred to March 2014. At the site of the new Little Bow ASP injection facility the pre-fabricated modules have been delivered and the mechanical and electrical construction is more than 60 percent complete. The necessary pipeline additions and well conversions are also mostly complete. Chemical supply contracts have been finalized and operator training activities are proceeding.

The total budgeted construction capital cost of phases 1 and 2 of the Little Bow ASP project is unchanged at approximately \$60 million (as spent dollars). Of this total, \$6.5 million of expenditures were incurred in 2012, \$12.3 million were incurred in the 2013 first half and \$11.4 million were incurred in the 2013 third quarter. By the end of the year, an additional \$14 million is forecast to be spent with the phase 1 project's final \$4 million to be spent the first quarter of 2014. The implementation of phase 2 is scheduled for 2015 and will require an additional \$12 million of capital. The estimated phase 1 and 2 chemical cost for the 2014-2019 injection period will be capitalized and is now forecasted at \$78 million (as spent dollars) up from the previous estimate of \$66 million. This increase in cost reflects an optimized increased polymer bank that has been modeled to increase recoverable reserves by six percent from Zargon's previous estimate to 5.2 million barrels of incremental oil. In their 2012 year end review, McDaniel and Associates Consultants Ltd. has already recognized 4.0 million barrels of Zargon probable undeveloped oil reserves for phases 1 and 2 of the project.

Based on the current construction schedule, we forecast that the Little Bow ASP project will provide 140 barrels of oil per day of incremental production in 2014, which will be comprised of an initial production response in the 2014 third quarter and a 2014 year end rate of 350 barrels of oil per day. Phase 1 and 2 incremental production rates are forecast to exceed 900 and 1,550 barrels of oil per day in 2015 and 2016, respectively. Using these rates with an estimated field oil price of \$67 Cdn. per barrel (assuming an Edmonton par price of \$85 Cdn. per barrel), a 12 percent incremental tertiary royalty rate and operating costs of \$10 per barrel of incremental oil, the project is forecast to provide a field netback of more than \$48 per barrel of incremental oil production and deliver a property capital recycle ratio (including sunk costs) of about 1.8 times.

Follow-on capital expenditures of \$77 million (including chemical costs) for phases 3 and 4 of the Little Bow ASP project are expected to yield an additional 3.6 million barrels of incremental oil and Zargon's combined Little Bow project's (phases 1 through 4) total production is expected to stabilize at 2,200 barrels of oil per day in the 2021 through 2023 period. For further information regarding the Little Bow ASP project, please refer to our updated corporate presentation, which is available at www.zargon.ca.

Other Field Activities

In addition to the \$11.4 million of ASP capital expenditures, Zargon executed a \$7.3 million capital program in the 2013 third quarter on conventional oil exploitation assets that included the drilling of 3.0 net Taber, Alberta horizontal exploitation wells, taking Zargon's Q1-Q3 2013 well count to 8.1 net wells. In the 2013 fourth quarter, Zargon is planning on drilling an additional 8.5 net high-graded oil exploitation wells at Bellshill Lake, Williston Basin and Little Bow properties.

In aggregate, Zargon has identified more than 75 high-graded horizontal locations in five conventional (non-ASP) oil exploitation projects, which provide a high quality drilling inventory for several years. Each of these five oil exploitation projects are (or will be) pressure supported by water injections or natural reservoir aquifers and consequently provide long-life low-decline oil volumes that will support future dividends. For further information regarding Zargon's conventional oil exploitation projects, please refer to our updated corporate presentation, which is available at www.zargon.ca.

Property Dispositions Update

During the 2013 third quarter, property dispositions of \$1.4 million were concluded, which primarily related to the sale of 14 barrels of oil per day from Harmattan, Alberta properties. Subsequent to quarter end, Zargon sold an additional 120 barrels of oil per day and 0.18 million cubic feet of natural gas per day of minor Alberta Plains North properties (Twining, Provost and Wayne) for a total consideration of \$7.5 million (cash proceeds of \$6.8 million). With this disposition included, Zargon's 2013 property dispositions total \$23.0 million (cash) and exceeds the \$20 million of property dispositions that were budgeted for 2013. In aggregate, these disposition properties had been producing approximately 265 barrels of oil per day and 0.22 million cubic feet of natural gas per day.

For the foreseeable future, Zargon will continue to actively pursue property dispositions that reduce our property footprint by selling (or trading away) our non-strategic property inventory. Over time, we anticipate that these dispositions will enable Zargon to realize a lower cost structure through a disciplined focus on our growing tertiary ASP oil recovery business and the stable production volumes coming from the measured exploitation of our five conventional long-life low-decline core oil properties.

Updated 2013 Outlook and First Look 2014 Capital Budgets

Zargon's 2013 non-ASP field capital budget continues to be set at \$40 million (before dispositions) of which \$28.2 million has been spent in the first nine months of the year. The 2013 non-ASP capital program provides for oil exploitation facility expenditures, 16.6 net oil exploitation wells and consistent with prior years, reflects essentially no natural gas related expenditures.

ASP capital expenditures in the fourth quarter of 2013 are estimated to be \$14 million, taking the 2013 total ASP cost to \$38 million and the total 2013 capital expenditures to \$78 million. The remaining \$4 million of phase 1 ASP capital costs are forecast to be spent in the first quarter of 2014 and an additional \$10 million of ASP chemical costs are forecast to be spent in 2014.

Zargon's 2014 capital budget has been set at \$35 million for conventional projects with the drilling of 15 net oil exploitation wells, plus the aforementioned \$14 million for ASP capital and chemical expenditures. The \$49 million capital program is forecasted to be funded by cash flows, long term bank debt and the sale of \$15 million of non-strategic oil properties. Based on this 2014 capital program, we expect oil production to steadily grow from first quarter levels throughout 2014 as stable conventional oil production volumes are augmented by growing Little Bow ASP oil production volumes.

Also, Zargon has entered into an oil hedging program to provide a measure of stability and predictability to cash flows during the ASP construction and early production phase. For the remainder of 2013, Zargon has hedged 3,000 barrels per day at \$97.06 US/bbl WTI, while for 2014 an average of 2,600 barrels per day is hedged at \$91.90 US/bbl WTI and for the first quarter of 2015 an average of 400 barrels per day is hedged at \$91.73 US/bbl WTI.

Production Guidance

In the August 8, 2013 second quarter results press release, guidance for third quarter 2013 oil production was provided at 4,650 barrels of oil and liquids per day. Actual third quarter volumes were 4,816 barrels of oil and liquids per day and exceeded guidance levels by four percent due in part to Bellshill Lake facility and pumping optimizations. Reflecting natural declines, the effect of a muted summer drilling program and 120 barrels of oil per day of fourth quarter property dispositions, we are anticipating fourth quarter production volumes to average 4,550 barrels of oil per day.

The August press release also set Zargon's third quarter 2013 natural gas production guidance of 14.70 million cubic feet per day. Third quarter actual volumes were 16.46 million cubic feet per day or about 12 percent above guidance. The majority of the better than expected volumes came from field optimizations and flush production relating to summer well reactivations. Fourth quarter natural gas volumes are anticipated to average 15.00 million cubic feet per day.

Looking forward, we expect that first quarter 2014 production volumes will represent both an oil production

low and a turning point for Zargon, as in subsequent quarters, significant production volumes will begin to materialize from the ASP project which will augment stable production volumes from conventional oil exploitation properties. At this time, we are forecasting a first quarter 2014 oil production rate of 4,500 barrels of oil per day, although this estimate will depend on the magnitude and timing of our 2014 property disposition program.

Forward-Looking Statements

This press release offers our assessment of Zargon's future plans and operations as at November 13, 2013, and contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof) are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this news release contains forward-looking information and statements pertaining to the following: guidance as to our 2013 and 2014 capital budgets, including the allocation thereof and the sources of funding and various plans, forecasts and estimates as to drilling cost reduction initiatives, and other operational forecasts and plans and results therefrom under the heading "Little Bow Alkaline Surfactant Polymer ("ASP") Project", "Other Field Activities", "Property Dispositions Update" and "Updated 2013 Outlook and First Look 2014 Capital Budgets"; our plans with respect to our Little Bow ASP project and the results therefrom referred to under the heading "Little Bow Alkaline Surfactant Polymer ("ASP") Project"; our plans for our hedges under the heading "Updated 2013 Outlook and First Look 2014 Capital Budgets"; and all matters, including guidance as to our estimated 2013 and 2014 production and production mix, and anticipated decline rates, under the heading "Production Guidance".

The forward-looking information and statements included in this news release are not guarantees of future performance and should not be unduly relied upon. Such information and 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 information or statements including, without limitation: those relating to results of operations and financial condition; general economic conditions; industry conditions; changes in regulatory and taxation regimes; volatility of commodity prices; escalation of operating and capital costs; currency fluctuations; the availability of services; imprecision of reserve estimates; geological, technical, drilling and processing problems; environmental risks; weather; the lack of availability of qualified personnel or management; stock market volatility; the ability to access sufficient capital from internal and external sources; and competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel. Risks are described in more detail in our Annual Information Form, which is available on www.zargon.ca and on www.sedar.com. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions used in the preparation of such information and statements, including, among other things: future oil and natural gas prices; future capital expenditure levels; future production levels; future exchange rates; the cost of developing and expanding our assets; our ability to obtain equipment in a timely manner to carry out development activities; our ability to market our oil and natural gas successfully to current and new customers; the impact of increasing competition; the availability of adequate and acceptable debt and equity financing and funds from operations to fund our planned expenditures; and our ability to add production and reserves through our development and acquisition activities, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information and statements contained in this document is expressly qualified by this cautionary statement. Our policy for updating forward-looking statements is that Zargon disclaims, except as required by law, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Additional GAAP and Non-GAAP Financial Measures

Zargon uses the following terms for measurement within this press release that do not have a standardized prescribed meaning under Canadian generally accepted accounting principles ("GAAP") and these measurements may not be comparable with the calculation of similar measurements of other entities.

The terms "funds flow from operating activities" and "operating netback per boe" in this press release are not

recognized measures under GAAP. Management of Zargon believes that in addition to net earnings and cash flows from operating activities as defined by GAAP, these terms are useful supplemental measures to evaluate operating performance and assess leverage. Users are cautioned; however, that these measures should not be construed as an alternative to net earnings or cash flows from operating activities determined in accordance with GAAP as an indication of Zargon's performance.

Zargon considers funds flow from operating activities to be an important measure of Zargon's ability to generate the funds necessary to finance capital expenditures, pay dividends and repay debt. All references to funds flow from operating activities throughout this press release are based on cash provided by operating activities before the change in non-cash working capital since Zargon believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and, as such, may not be useful for evaluating Zargon's operating performance. Zargon's method of calculating funds flow from operating activities may differ from that of other companies and, accordingly, may not be comparable to measures used by other companies. Funds flow from operating activities per basic share is calculated using the same weighted average basic shares outstanding as is used in calculating earnings per basic share. See Zargon's Management's Discussion and Analysis ("MD&A") as filed on www.zargon.ca and on www.sedar.com for the periods ended September 30, 2013 and 2012 for a discussion of cash flows from operating activities and funds flow from operating activities.

51-101 Advisory

In conformity with National Instrument 51-101, Standards for Disclosure of Oil and Gas Activities ("NI 51-101"), natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. In certain circumstances, natural gas liquid volumes have been converted to a thousand cubic feet equivalent ("mcf") on the basis of one barrel of natural gas liquids to six thousand cubic feet of gas. Boes and mcfes may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio on a 6:1 basis may be misleading as an indication of value.

Filings

Zargon has filed with Canadian securities regulatory authorities its unaudited financial statements for the three and nine months ended September 30, 2013 and the accompanying MD&A. These filings are available on www.zargon.ca and under Zargon's SEDAR profile on www.sedar.com.

About Zargon

Based in Calgary, Alberta, Zargon's securities trade on the Toronto Stock Exchange and there are currently approximately 30.087 million common shares outstanding.

Zargon Oil & Gas Ltd. is a Calgary based oil and natural gas company working in the Western Canadian and Williston sedimentary basins that has delivered a long history of returns and dividends (distributions). Zargon's business is focused on oil exploitation projects that profitably increase oil production and recovery factors from existing oil reservoirs.

In order to learn more about Zargon, we encourage you to visit Zargon's website at www.zargon.ca where you will find a current shareholder presentation, financial reports and historical news releases.

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