

# Zargon Oil & Gas Ltd. Announces 2014 Year End Reserves and Provides a Little Bow ASP Project Update

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CALGARY, ALBERTA--(Marketwired - Feb 19, 2015) - Zargon Oil & Gas Ltd. (the "Company" or "Zargon") (TSX:ZAR)(TSX:ZAR.DB) announces 2014 year end reserves and provides a Little Bow Alkaline Surfactant Polymer ("ASP") tertiary oil recovery project update. Zargon intends to release its 2014 audited financial results on March 10, 2015, after market close.

## 2014 YEAR END RESERVES:

- Reflecting a transition year of property sales and refocus, Zargon's 2014 year end proved and probable total reserves decreased 20 percent to 22.29 million barrels of oil equivalent. These reserves were appraised by Zargon's independent reserves evaluator McDaniel & Associates Consultants Ltd. ("McDaniel") and are effective as of December 31, 2014. On a 6:1 equivalency basis, oil and liquids comprised 88 percent of Zargon's total proved and probable reserves at year end 2014, up from a 76 percent weighting at the end of 2013.
- Zargon's 2014 year end proved and probable oil and liquids reserves decreased six percent to total 19.67 million barrels. Zargon's 2014 year end total proved oil and liquids reserves decreased four percent from 12.91 million barrels to total 12.40 million barrels.
- Zargon's 2014 year end proved and probable natural gas reserves decreased 61 percent to total 15.69 billion cubic feet and Zargon's year end total proved natural gas reserves decreased 61 percent to total 9.85 billion cubic feet. The decreases were primarily due to property sales.
- Zargon completed a very successful property disposition program in calendar 2014 that removed over 350 net wells from our business and enabled Zargon to focus its property portfolio on higher margin producing oil properties and the Little Bow ASP tertiary recovery project. In aggregate the 2014 net disposition program comprised of 13 property transactions that realized \$33.7 million of cash proceeds (unaudited) for properties producing 9.5 million cubic feet per day and 220 barrels of oil and liquids per day. These properties (net of acquisitions) had been assigned 21.2 billion cubic feet and 824 thousand barrels of oil and liquids in the McDaniel 2013 year end report.
- Excluding dispositions and acquisitions, Zargon incurred net capital expenditures of \$59.8 million (unaudited) in 2014 (2013: \$76.2 million), of which \$38.0 million (2013: \$40.9 million) was spent on conventional exploration and development properties which included the drilling of 18 net wells, primarily in the Williston Basin, Taber South and Bellshill Lake oil exploitation properties. For 2014, expenditures on the Little Bow ASP project totaled \$21.8 million and were allocated \$10.2 million for project construction and commissioning and \$11.6 million for the purchase of injected chemicals. In 2013, Zargon spent \$35.3 million for design and construction of the Little Bow ASP project.
- Zargon's high-graded remaining oil properties are characterized by pressure supported reservoirs (waterflood or natural aquifers) that provide long-life, low-decline oil production. Consequently, Zargon's proved developed producing oil and liquids reserve life index is 6.6 years and Zargon's proved and probable producing oil and liquids reserve life index is 8.8 years. Finally, Zargon's total proved and probable oil and liquids reserve life index is 13.0 years. The relatively large developed producing reserve life indices are indicative of low decline oil production that supports Zargon's dividend paying business model.

- The McDaniel 2014 year end report assigns the Little Bow ASP project (phase 1 and 2 only) 4.48 million barrels of proved and probable (non-producing and undeveloped) oil and liquids reserves and an incremental discounted cash flow (PVBT 10%) of \$101.6 million. This analysis incorporates \$72.8 million of future capital costs of which \$61.2 million reflects phase 1 and 2 chemicals that are scheduled to be injected over the six year chemical injection period from 2015 to 2020. At this time, the McDaniel analysis does not recognize any reserves for the development of phases 3 and 4 of the Little Bow ASP project.
- Zargon's year end 2014 "produce-out" net asset value is calculated to be \$10.11 per basic share. This reflects McDaniel's estimate of the Zargon properties' proved and probable future cash flow using a before tax 10 percent discount rate and forecast prices and costs plus an independent appraisal of Zargon's undeveloped land less an allowance for the year end bank debt, the full future face value of the \$57.5 million convertible debenture and working capital deficiencies.

## DETAILED RESERVE INFORMATION:

Reserves included herein are stated on a gross company working interest basis unless otherwise noted. All reserves information has been prepared in accordance with National Instrument 51-101 Standards of Disclosure ("NI 51-101"). In addition to the detailed information disclosed in this press release, more detailed information will be included in Zargon's 2014 Annual Information Form to be filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and posted on our website ([www.zargon.ca](http://www.zargon.ca)) in March 2015.

Based on the independent reserves evaluation conducted by McDaniel effective December 31, 2014, and prepared in accordance with NI 51-101, Zargon had proved and probable reserves of 22.29 million barrels of oil equivalent.

### Company Reserves<sup>(1)</sup>

At December 31, 2014	Oil and Liquids (mmbbl)	Natural Gas (bcf)	Equivalents <sup>(2)</sup> (mmboe)
Proved producing	10.05	8.71	11.50
Proved non-producing	1.56	0.85	1.70
Proved undeveloped	0.79	0.29	0.85
<b>Total proved</b>	<b>12.40</b>	<b>9.85</b>	<b>14.05</b>
Probable additional producing	3.33	2.80	3.79
Probable non-producing and undeveloped	3.94	3.04	4.45
<b>Total probable additional</b>	<b>7.27</b>	<b>5.84</b>	<b>8.24</b>
<b>Total proved and probable producing</b>	<b>13.38</b>	<b>11.51</b>	<b>15.29</b>
<b>Total proved and probable</b>	<b>19.67</b>	<b>15.69</b>	<b>22.29</b>
Proved producing reserve life index, years <sup>(3)</sup>	6.6	3.7	6.0
Proved reserve life index, years <sup>(3)</sup>	8.2	4.2	7.4
Proved and probable producing reserve life index, years <sup>(3)</sup>	8.8	4.9	8.0
Proved and probable reserve life index, years <sup>(3)</sup>	13.0	6.7	11.7

1. Company working interest reserves are gross reserves before deduction of royalties, boe (6:1).
2. 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.
3. Reserve life is calculated using annualized fourth quarter 2014 production.

A reconciliation summary of the 2014 year end reserve assignments with the reserves reported in the 2013 year end report based on McDaniel's forecast prices and costs is presented below:

## Reserve Reconciliation (All Categories)

	Oil and Liquids (mmbbl)			Natural Gas (bcf)			Equivalents (mmboe)		
	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.
December 31, 2013	12.91	8.06	20.97	25.48	14.78	40.26	17.16	10.53	27.69

Discoveries and extensions	0.77	0.38	1.15	0.22	0.12	0.34	0.81	0.40	1.21
Revisions	0.73	(0.83 )	(0.10 )	1.43	(0.90 )	0.53	0.97	(0.99 )	(0.02 )
Acquisitions and dispositions	(0.48 )	(0.34 )	(0.82 )	(13.05 )	(8.16 )	(21.21 )	(2.66 )	(1.70 )	(4.36 )
Production	(1.53 )	-	(1.53 )	(4.23 )	-	(4.23 )	(2.23 )	-	(2.23 )
December 31, 2014	12.40	7.27	19.67	9.85	5.84	15.69	14.05	8.24	22.29

On a total proved basis, Zargon added 1.50 million barrels of oil and liquids from revisions and field activities. This gain was partially offset by 0.48 million barrels of property dispositions and the net result was an increase of 1.02 million barrels of oil and liquids reserves. For total proved natural gas reserves, Zargon added 1.65 billion cubic feet from revisions and field activities. This gain was entirely offset by 13.05 billion cubic feet of property sales. On a total proved combined basis Zargon's 2014 net reserve additions declined by 0.88 million barrels of oil equivalent as a result of 2014 property disposition program. The McDaniel year over year change in the future proved development capital was a \$9.8 million reduction (\$45.4 million at December 31, 2014, compared with \$55.2 million at December 31, 2013).

On a total proved and probable basis, Zargon added 1.05 million barrels of oil and liquids from revisions and field activities. This gain was partially offset by 0.82 million barrels of property dispositions and the net result was a small increase of 0.23 million barrels of oil and liquids reserves. For total proved and probable natural gas reserves, Zargon added 0.87 billion cubic feet from revisions and field activities. This gain was more than offset by 21.21 billion cubic feet of property sales. On a total proved and probable combined basis Zargon's 2014 net reserve additions (after dispositions) resulted in a decrease of 3.17 million barrels of oil equivalent. The McDaniel year over year changes in the future proved and probable development capital was a \$17.7 million reduction (\$103.6 million at December 31, 2014, compared with \$121.3 million at December 31, 2013).

### Reserve Reconciliation (Developed Producing)

	Oil and Liquids (mmbbl)			Natural Gas (bcf)			Equivalents (mmboe)		
	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.	Proved	Probable	Proved & Prob.
December 31, 2013	10.55	3.66	14.21	21.74	6.99	28.73	14.18	4.83	19.01
Discoveries and extensions	0.26	0.12	0.38	0.21	0.08	0.29	0.29	0.13	0.42
Revisions	1.10	(0.30 )	0.80	1.84	(0.21 )	1.63	1.40	(0.34 )	1.06
Acquisitions and dispositions	(0.33 )	(0.15 )	(0.48 )	(10.85 )	(4.06 )	(14.91 )	(2.14 )	(0.83 )	(2.97 )
Production	(1.53 )	-	(1.53 )	(4.23 )	-	(4.23 )	(2.23 )	-	(2.23 )
December 31, 2014	10.05	3.33	13.38	8.71	2.80	11.51	11.50	3.79	15.29

Zargon's reserves are characterized by a high developed producing component and a corresponding high confidence level. Proved developed producing reserves represent 82 percent of total proved reserves and 52 percent of the total proved and probable reserves. The Little Bow ASP project reserves of 4.77 million barrels of oil equivalent represents 68 percent of Zargon's total proved and probable undeveloped and non-producing reserves of 7.00 million barrels of oil equivalent.

### NET ASSET VALUE:

Zargon's oil, liquids and natural gas reserves were evaluated using McDaniel's price forecasts effective January 1, 2015, prior to provisions for income taxes, interest, debt service charges, transaction costs and general and administrative expenses. The estimated values of future net revenue disclosed do not represent the fair market value of the reserves.

Before Tax Present Value of Future Net Revenue  
(Forecast Prices and Costs)

(\$ millions)	Discount Factor			
	0%	5%	10%	15%
Proved producing	354.6	269.6	217.3	182.6
Proved non-producing	66.8	52.1	41.1	32.6
Proved undeveloped	22.9	14.9	9.7	6.1
Total proved	444.3	336.6	268.1	221.3
Probable additional producing	157.6	88.5	57.3	40.8
Probable additional non-producing and undeveloped	176.7	118.0	81.3	57.3

Total probable additional	334.3	206.5	138.6	98.1
Total proved and probable producing	512.2	358.1	274.6	223.4
Total proved and probable	778.6	543.1	406.7	319.4

The following net asset value table shows what is customarily referred to as a "produce-out" net asset value calculation under which the current value of Zargon's reserves would be produced at McDaniel's forecast future prices and costs. The value is a snapshot in time as at December 31, 2014, and is based on various assumptions including commodity prices and foreign exchange rates that vary over time. In this analysis, the present value of the proved and probable reserves is calculated at a before tax 10 percent discount rate. In the net asset value calculation, Zargon's 90 thousand net acres of land is valued at \$11.9 million based on the independent firm of Seaton-Jordan & Associates Ltd. valuation as at December 31, 2014.

## Net Asset Value

As at December 31 (\$ millions)	2014
Proved and probable reserves (PVBT 10%) <sup>(1)</sup>	406.7
Undeveloped land	11.9
Working capital (excluding unrealized derivative assets/liabilities) - unaudited	(13.1 )
Bank debt - unaudited	(42.8 )
Convertible debenture - unaudited	(57.5 )
Net asset value	305.2
Net asset value per share (\$/basic share) <sup>(2)</sup>	10.11

1. *McDaniel's estimate of future before tax cash flow discounted at PV 10 percent.*
2. *Calculated using basic total shares outstanding at December 31, 2014 of 30.179 million shares.*

The following table provides net asset value estimates at December 31, 2014 for all four reserve categories.

Reserves Category	McDaniel PVBT 10% (\$ million) <sup>(1)</sup>	Net Asset Value (\$ million) <sup>(2)</sup>	Net Asset Value (\$/basic share) <sup>(3)</sup>
Proved, developed, producing reserves	217.3	115.8	3.84
Total proved reserves	268.1	166.6	5.52
Proved and probable, developed producing reserves	274.6	173.1	5.74
Proved and probable reserves	406.7	305.2	10.11

1. *McDaniel's estimate of future before tax cash flow discounted at PV 10 percent.*
2. *McDaniel's estimated value, adjusted for the following unaudited items at December 31, 2014:*
  - *Undeveloped land value as assessed by Seaton-Jordan of \$11.9 million; and*
  - *Net debt of \$113.4 million, which includes full value of the convertible debenture of \$57.5 million.*
3. *Calculating using basic total shares outstanding at December 31, 2014 of 30.179 million shares.*

**LITTLE BOW ASP PROJECT UPDATE:**

- In March 2014, Zargon commenced injection of large volumes of dilute chemical solution into the partially depleted Little Bow Mannville I pool to recover substantial incremental oil reserves. To date, 3.3 million barrels of ASP solution has been injected into the first phase of the project. This injection volume is equal to about 10 percent of the targeted reservoir pore volume, and represents 15 percent of the total chemical bank (ASP and polymer only) scheduled to be injected in the phase 1 operations.
- We are encouraged by the flood's early production data, which shows improving oil cuts in 10 of the 16 producers and provides definitive evidence of oil banking within the reservoir. Furthermore, there has been no indications of excessive polymer break through, which would suggest reduced conformance and reduced oil recovery. Our analysis continues to point to a 12 percent (or better) incremental oil recovery.
- Recently in January and early February, total fluid (oil and water) production volumes have been reduced due to a combination of ASP Plant retrofits/maintenance and both producer and injector workovers (refer to table below).

Month	Oil (bbl/d)	Fluid Production (thousand bbl/d)	Oil Cut (%)
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Oct. 2014	209	15.7	1.33
Nov. 2014	223	15.3	1.45
Dec. 2014	244	16.1	1.52
Jan. 2015	259	13.7	1.90

- The ASP Plant retrofit/maintenance related to construction and design considerations have now been remedied. The ongoing producer and injector workovers relate to our ongoing efforts to balance injection and fluid withdrawals within the pool and optimize each of the reservoir patterns. As the flood continues to form more viscous oil banks within the reservoir, further reductions in injection and fluid production volumes may be observed. We will monitor these injection/production developments and may choose to improve our injection/production volumes through well stimulations, additional injector conversions and/or additional wells. For further information regarding the Little Bow ASP production, reserves and ultimate potential, please refer to the updated corporate presentation available on the Company's website.

**Forward-Looking Statements** - This press release contains forward-looking statements relating to our plans and operations as at February 19, 2015. Forward-looking statements typically use words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof). In particular, this press release contains forward-looking statements relating, but not limited to: our business strategy, plans and management focus; the timing of release of our 2014 financial results and 2014 Annual Information Form, plans with respect to our Little Bow ASP project, other costs associated with the ASP project and the anticipated results from this project, and sources of funding for our conventional and ASP project capital expenditure program. In addition, all statements relating to reserves, including ASP reserves, in this press release are deemed to be forward-looking as they involve an implied assessment, based on certain assumptions and estimates, that the reserves described, can be properly produced in the future.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, such as 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 will be available on [sedar](#) and our website. Forward-looking statements are provided to allow investors to have a greater understanding of our business.

You are cautioned that the assumptions, 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; our ability to obtain financing on acceptable terms; and our ability to add production and reserves through our development and acquisition activities used in the preparation of such information, 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 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.

**Other Advisories** - Boe's 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. In addition, 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. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

## **FURTHER INFORMATION:**

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](http://www.zargon.ca) where you will find a current shareholder presentation, financial reports and historical news releases.

## **Contact**

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