

# BlackPearl Announces Third Quarter 2017 Financial and Operating Results

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CALGARY, ALBERTA--(Marketwired - Nov. 7, 2017) - BlackPearl Resources Inc. ("BlackPearl" or the "Company") (TSX:PXX)(OMX:PXXS) is pleased to announce its financial and operating results for the three and nine months ended September 30, 2017.

## Q3 Highlights:

- At Onion Lake, excellent progress was made during the quarter on the construction of the 6,000 barrel per day (bbl/d) thermal expansion. Construction is currently ahead of schedule and costs are in line with our original estimates of \$200 million. Fabrication of the modules for the central processing facilities and well pads were approximately 85% complete at the end of the quarter and the modules continue to be shipped out to site for assembly and tie-in. All 14 horizontal production wells have been drilled as well as 29 of 39 planned steam injection wells. Drilling should be complete by the end of November. We now anticipate construction to be completed and initial steam injection to occur as early as the end of 2017, with first oil expected in Q3 2018. We anticipate reaching peak production approximately 12 months after initial steam injection, a similar timeline achieved for phase 1.
- We successfully completed a planned turnaround on the phase 1 thermal facilities at Onion Lake in Q3 2017. The production from Onion Lake was temporarily impacted by the turnaround as well as the temporary shut-in of phase 2 wells to allow for offset drilling of the phase 2 wells. The thermal facilities and wells were successfully restarted and current production is back up to design capacity of 6,000 bbl/d.
- At Blackrod, we continued to successfully operate and produce the SAGD pilot. The pilot produced 500 bbl/d in Q3 2017. Cumulatively the well pair has produced 600,000 barrels of oil. We continue to operate the pilot to fully understand the characteristics for an extended period. Additional core hole drilling is planned this winter at Blackrod to further define development plans for the area.
- Production for the quarter averaged 9,072 bbls/d, 13% lower than Q2 2017 volumes. Lower volumes were mainly due to the planned maintenance work on the Onion Lake thermal facilities; current production is back over 10,000 bbl/d.
- Total capital investment for the quarter was \$58.6 million, almost all of which related to the Onion Lake thermal expansion project.
- Oil and gas sales during the first nine months of 2017 increased 46% to \$108 million and adjusted funds flow (a non-GAAP measure) increased 40% to \$41 million. For the nine months ended September 30, 2017, the Company recognized a net income of \$11 million.
- The Company maintained a strong liquidity position with net debt of \$81 million, while its \$120 million bank credit facility remained undrawn.
- Initial 2018 guidance demonstrates the significant impact the Onion Lake thermal expansion is expected to have on operations as we expect to exit 2018 at about 14,000 bbl/d, approximately 40% higher than our current production.

John Festival, President of BlackPearl commenting on Q3 activities emphasized that "Construction of the Onion Lake thermal expansion is going very well. We are ahead of schedule and if we continue to get favourable weather conditions we should be able to beat our target start-up date of mid 2018. Additionally, with the financing we put in place in Q2 the project is fully funded, a significant step for us to add 6,000 barrels of oil per day of low cost production to our existing 10,000 barrel per day production and dilution to our shareholders. The Onion Lake thermal assets will have low sustaining capital requirements and will generate significant free cash flow which will allow for debt repayment and continued expansion at Onion Lake and other areas. We are going to see the full effect of phase 2 in 2019 when our production should be in the range of 15,000 to 16,000 boe/d with 10,000 boe/d coming from Onion thermal. In addition, we will start working on a further expansion of Onion thermal in 2019. We have enough reserves and resource to keep the expanded project at full design capacity for more than 20 years."

## Financial and Operating Highlights

Three months ended September 30,		Nine months ended September 30,	
2017	2016	2017	2016

Daily sales volumes

Oil (bbl/d)	8,486	10,251	9,472	9,236
Bitumen (bbl/d) <sup>(1)</sup>	500	565	493	567
	8,986	10,816	9,965	9,803
Natural gas (mcf/d)	516	815	595	836
Combined (boe/d) <sup>(2)</sup>	9,072	10,951	10,064	9,942
Product pricing (\$) (before the effects of hedging transactions)				
Crude oil - per bbl	42.05	34.15	41.55	28.97
Natural gas - per mcf	1.31	2.10	2.18	1.72
Combined - per boe	41.71	33.87	41.26	28.69
Netback (\$/boe)				
Oil and gas sales	41.71	33.87	41.26	28.69
Realized gain on risk management contracts	1.84	2.24	0.67	3.98
Royalties	(5.69)	(4.30)	(5.83)	(3.61)
Transportation	(2.33)	(2.11)	(2.55)	(2.08)
Operating costs	(16.46)	(12.13)	(15.43)	(12.55)
Netback <sup>(5)</sup>	19.07	17.57	18.12	14.43
(\$000's, except per share amounts)				
Revenue				
Oil and gas revenue - gross	32,894	32,367	107,800	73,706
Net income (loss) for the period				
Per share, basic and diluted	(0.02)	0.00	0.03	(0.05)
Adjusted funds flow <sup>(3)</sup>	13,412	14,202	40,515	28,977
Cash flow from operating activities <sup>(4)</sup>	10,775	16,441	40,641	27,412
Capital expenditures	58,592	1,753	121,961	4,775
Working capital deficiency (surplus), end of period	8,445	(3,384)	8,445	(3,384)
Long term debt	72,738	67,000	72,738	67,000
Net debt <sup>(6)</sup>	81,183	63,616	81,183	63,616
Shares outstanding, end of period	336,267,235	335,646,559	336,267,235	335,646,559

(1) Includes production from the Blackrod SAGD pilot. All sales and expenses from the Blackrod SAGD pilot are being an adjustment to the capitalized costs of the project until the technical feasibility and commercial viability of the project established.

(2) Boe amounts are based on a conversion ratio of 6 mcf of gas to 1 barrel of oil. Boe's may be misleading, particularly isolation. A boe conversion ratio of 6 mcf:1 barrel is based on an energy equivalency conversion method primarily appl burner tip and does not represent a value equivalency at the wellhead.

(3) Adjusted funds flow is a non-GAAP measure that represents cash flow from operating activities before changes in n working capital related to operations and decommissioning costs. Adjusted funds flow does not have a standardized m prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. S non-GAAP measures.

(4) Cash flow from operating activities is a GAAP measure and has a standardized meaning prescribed by Canadian G

(5) *Netback is a non-GAAP measure that does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. See non-GAAP measures.*

(6) *Net debt is a non-GAAP measure that does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. See non-GAAP measures.*

## Production

Oil and gas production averaged 9,072 barrels of oil equivalent per day (boe/day) in the third quarter of 2017, a 17% decrease compared with the third quarter of 2016. The decrease reflects the shutdown of the Onion Lake thermal facilities for three days during the quarter for planned maintenance and inspection work as well as the temporary shut-in of existing producing wells to allow for offset drilling of the phase 2 wells.

### Average Daily Sales Volume

	Three months ended September 30,		Nine months ended September 30,	
(boe/day)	2017	2016	2017	2016
Onion Lake - thermal	4,553	6,472	5,511	5,319
Onion Lake - conventional	1,942	2,162	2,058	2,177
Mooney	1,157	665	1,068	807
John Lake	774	885	794	872
Blackrod	500	565	493	567
Other	146	202	140	200
	9,072	10,951	10,064	9,942

## Financial Results

Oil and natural gas sales were \$32.9 million in the third quarter of 2017, comparable to the \$32.4 million in the same period in 2016. A 23% increase in our average realized sale price was offset by a 17% decrease in production volumes (on a boe basis). Q3 2017 compared to the same period in 2016. Oil and natural gas sales for the nine months ended September 30, 2017, increased 46% to \$107.8 million compared to the same period in 2016 and was mainly attributable to a 44% increase in our average realized price.

Our realized oil price (before the effects of risk management activities) in Q3 2017 was \$42.05 per barrel compared to \$38.45 per barrel for the same period in 2016. The increase in our realized wellhead price reflects higher WTI reference oil prices in Q3 2017 compared with Q3 2016 (US\$48.21/bbl vs US\$44.94/bbl) and tighter heavy oil differentials (US\$9.96/bbl vs US\$13.51/bbl) by a stronger Canadian dollar relative to the US dollar (\$0.799 vs \$0.766).

Operating costs in Q3 2017 were \$13 million, down 4% from Q2 2017 but 12% higher than Q3 2016. The increase from Q3 2016 was mainly attributable to higher conventional production costs related to the restart of the ASP flood at Mooney in 2017. Thermal production costs decreased in Q3 2017 compared to Q2 2017, which is primarily attributable to lower gas consumption and to lower natural gas prices (AECO gas prices were \$1.38/GJ in Q3 2017 vs \$2.64/GJ in Q2 2017), partially offset by thermal production costs related to the Onion Lake thermal facility.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
<b>Conventional Production</b>				
Production costs (\$000s)	7,681	6,359	24,480	18,309
Per boe (\$)	20.78	17.66	22.09	16.48

### *Thermal Production*

Production costs (\$000s)	5,297	5,231	15,833	13,937
Per boe (\$)	12.65	8.79	10.52	9.56
Energy costs	3.59	3.15	4.04	3.37
Non-energy costs	9.06	5.64	6.48	6.19

### *Total Production*

Production costs (\$000s)	12,978	11,590	40,313	32,246
Per boe (\$)	16.46	12.13	15.43	12.55

Stronger crude oil prices offset by reduced production volumes in Q3 2017 resulted in adjusted funds flow of \$13.4 million compared to \$14.2 million in Q3 2016.

Capital spending was \$59 million in Q3 2017 with the majority of spending on the Onion Lake thermal expansion project.

At September 30, 2017, the Company had net debt of \$81 million, made up primarily of the \$75 million second lien notes issued in the second quarter. At September 30, 2017, the Company had not drawn on its \$120 million of available bank facilities.

### *Guidance*

Our plan for the remainder of 2017 is unchanged from our previous guidance update. We are still planning to spend between \$150 and \$200 million on capital projects with the focus being the expansion of the Onion Lake thermal project.

The capital program will be funded from a combination of our anticipated adjusted funds flow, proceeds from the issuance of \$75 million senior secured second lien notes and our undrawn senior credit facilities. Adjusted funds flow is expected to be between \$55 and \$60 million, up from our previous guidance of \$52 to \$57 million. The increase in adjusted funds flow is attributable to higher forecast oil prices than what we used in previous guidance updates. For the remainder of the year, we assumed a WTI oil price of US\$51.00, heavy oil differential of US\$12.00 and a US\$ to Cdn\$ exchange rate of \$0.81. Year-end 2017 debt levels are anticipated to be between \$135 and \$140 million, down from our previous guidance of \$140 and \$145 million. The decrease in year-end debt levels reflects an increase in forecasted adjusted funds flow for the remainder of the year.

We anticipate oil and gas production to average approximately 10,100 boe/d in 2017, which is within the range from our previous guidance.

### *2018 Initial Guidance*

Capital spending in 2018 is expected to be between \$60 and \$65 million. The focus at the beginning of 2018 will be on the construction of phase 2 of the Onion Lake thermal project. We expect to complete construction and initiate steam injection in Q1 2018. For the remainder of 2018, we plan to resume drilling on some of our conventional heavy oil projects (approximately 10,000 boe/d), commence drilling a sustaining well pad for the Onion Lake thermal project and undertaking additional delineation on our Blackrod lands.

We are planning to fund a significant portion of these capital costs with our anticipated adjusted funds flow, which we are budgeting to be between \$50 and \$55 million, supplemented with advances from our existing senior credit facilities. Year-end debt levels are anticipated to be between \$145 and \$155 million. Oil and gas production is expected to average between 10,000 and 12,000 boe/d in 2018. Exit production levels are expected to be approximately 14,000 boe/d.

Our 2018 guidance is based on a WTI oil price of US\$52, a heavy oil differential of US\$14.50, AECO natural gas price of US\$3.50 and foreign exchange of US\$1 = C\$0.80. Currently, the WTI oil price is over US\$57 and the heavy oil differential is approximately US\$14 per barrel.

### *Long-Term Strategic Plan*

The Company has reviewed its long-term strategic plan beyond 2018. Due to the prolonged period of low crude oil prices, the Company is planning to accelerate the expansion of the Onion Lake thermal project and defer the first phase of commercial development of the Blackrod SAGD project. In addition to crude oil prices, timing of the development of Blackrod is also dependent on anticipated capital and operating costs and the Company's ability to finance construction of the project. The Company's previous long-range plan had commercial development at Blackrod commencing within the next five years. Now, development of Blackrod will likely not begin until 2023 unless crude oil prices sufficiently improve or the Company finds a partner to participate in the development before then.

There are numerous uncertainties inherent in estimating quantities of proved and probable reserves and quantities of resources, including many factors beyond the control of the Company. The process of estimating reserves is complex and requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. See "Factors - Operational Risks - Uncertainty of Reserve and Contingent Resource Estimates" and "Statement of Reserves - Other Oil and Gas Information - Significant Factors or Uncertainties" in the Company's Annual Information Form for the year ended December 31, 2016. Recognition of oil and gas reserves in Canada is based on definitions from the Canadian Oil and Gas Evaluation Handbook (COGE Handbook). In order to be classified as reserves the COGE Handbook requires, among other things, significant spending on development of a project to commence within three years for proved reserves to be recognized and five years for probable reserves to be recognized.

As at December 31, 2016 the Company's independent reserves evaluator, Sproule Unconventional Limited (Sproule) evaluated approximately 180 million barrels of probable undeveloped reserves (the Company's working interest, before royalties) with a present value, discounted at 10%, of approximately \$610 million to the Blackrod SAGD project. Due to the delay in the development of Blackrod and the COGE Handbook guidelines on the recognition of reserves, this will result in the reclassification of these probable undeveloped reserves to contingent resources. Because the Company is accelerating the expansion of the Onion Lake the Company may be in a position to recognize additional reserves at Onion Lake that are currently classified as contingent resources. Any changes to the Company's reserves will be reflected in the 2017 reserves evaluation prepared by Sproule, which is expected to be released in February 2018.

The 2017 third quarter report to shareholders, including the financial statements, management's discussion and analysis and the financial statements are available on the Company's website ([www.blackpearlresources.ca](http://www.blackpearlresources.ca)) or SEDAR ([www.sedar.com](http://www.sedar.com)).

#### Non-GAAP Measures

Throughout this release, the Company uses terms "adjusted funds flow", "operating netback" and "net debt". These terms do not have any standardized meaning as prescribed by GAAP and, therefore, may not be comparable with the calculation of similar measures presented by other issuers.

Adjusted funds flow is a non-GAAP measure commonly used in the oil and gas industry to assist in measuring a company's ability to finance its capital programs, decommissioning costs, debt repayments and other financial obligations. Adjusted funds flow is defined as cash flow from operating activities before decommissioning costs incurred and changes in non-cash working capital related to operations. Adjusted funds flow is not intended to represent cash flow from operating activities or other measures of financial performance in accordance with GAAP. The Company previously referred to "adjusted funds flow" as "funds flow from operations".

The following table reconciles non-GAAP measure adjusted funds flow to cash flow from operating activities, the nearest GAAP measure:

	Three months ended September 30,		Nine months ended September 30,	
(\$000s)	2017	2016	2017	2016
Cash flow from operating activities	10,775	16,441	40,641	27,412
Changes in non-cash working capital related to operations	2,197	(2,277)	(691)	1,011
Decommissioning costs	440	38	565	554
Adjusted funds flow	13,412	14,202	40,515	28,977

Operating netback is calculated as oil and gas revenues less royalties, production costs and transportation costs on a per barrel basis.

and divided by total production for the period on a barrel of oil equivalent basis. Operating netback is a non-GAAP measure commonly used in the oil and gas industry to assist in measuring operating performance against prior periods on a comparable basis. Our operating netback calculation is consistent with the definition found in the Canadian Oil and Gas Evaluation Handbook.

Net debt is calculated as long-term debt plus working capital for the period ended. Working capital consists of cash and equivalents, trade and other receivables, inventory, prepaid expenses and deposits, fair value of risk management assets, accounts payable and accrued liabilities, current portion of decommissioning liabilities, and fair value of risk management liabilities. Management utilizes net debt as a key measure to assess the liquidity of the Company.

## Forward-looking Statements

This release contains certain forward-looking statements and forward-looking information (collectively referred to as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of historic fact are forward-looking statements. Forward-looking statements are typically identified by such words as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "potential", "targeting", "intend", "could", "might", "should", "believe" or similar words suggesting future events or future performance.

In particular, this release contains forward-looking statements pertaining to the estimated capital costs of \$185 million for the phase 2 expansion of the Onion Lake thermal project and the estimated late Q1 2018 completion date and the estimate to reach peak production rates, the estimated 2018 exit production guidance of 14,000 barrels of oil per day, production of 15,000 to 16,000 boe/d for 2019, the expectation that the Onion Lake project will generate significant free cash flows and information under *Guidance*.

The forward-looking information is based on, among other things, expectations and assumptions by management regarding future growth, future production levels, future oil and natural gas prices, continuation of existing tax, royalty and regulatory regimes, foreign exchange rates, estimates of future operating costs, timing and amount of capital expenditures, performance of existing and future wells, recoverability of the Company's reserves and contingent resources, the ability to obtain financing on acceptable terms, availability of skilled labour and drilling and related equipment on a timely and cost efficient basis, general economic and financial market conditions, environment matters and the ability to market oil and natural gas successfully to current and future customers. Although management considers these assumptions to be reasonable based on information currently available, they may prove to be incorrect.

By their nature, forward-looking statements involve numerous known and unknown risks and uncertainties that contribute to the possibility that actual results will differ from those anticipated in the forward-looking statements. Further information regarding these risk factors may be found under "Risk Factors" in the Annual Information Form, which can be accessed on SEDAR at [www.sedar.com](http://www.sedar.com).

## Contact

Undue reliance should not be placed on these forward-looking statements. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders. Furthermore, the forward-looking statements contained herein are made as of the date hereof, and the Company does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this statement.

**Dan Cook**  
Chief Financial Officer

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This is information that [BlackPearl Resources Inc.](http://BlackPearlResourcesInc.com) is obliged to make public pursuant to the EU Market Abuse Regulation and the EU Securities Markets Act. The information was submitted for publication at 3:00 p.m. Mountain Time on November 15, 2017.

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