

Zargon Oil & Gas Ltd. Announces Q4 2019 Production Volumes, Abandonment Activities in 2019 and Year End Reserves

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CALGARY, Jan. 29, 2020 - [Zargon Oil & Gas Ltd.](#) (the "Company" or "Zargon") announces fourth quarter 2019 production volumes, 2019 abandonment activities and 2019 year end reserves. Zargon intends to release its 2019 audited financial results on March 12, 2020, after market close.

2019 FOURTH QUARTER PRODUCTION VOLUMES:

Fourth quarter 2019 production averaged 1,746 barrels of oil equivalent per day, a two percent improvement from the third quarter 2019 rate of 1,715 barrels of oil equivalent per day and a two percent decline from the fourth quarter rate of 1,786 barrels of oil equivalent per day. The year over year slightly reduced volumes were primarily due to the suspension of discretionary oil exploitation capital programs and natural declines.

Fourth quarter 2019 oil and liquids production averaged 1,518 barrels per day, a two percent improvement from the third quarter 2019 rate of 1,489 barrels of oil and liquids per day and a four percent decline from the fourth quarter 2018 rate of 1,575 barrels of oil and liquids per day. Fourth quarter 2019 natural gas production averaged 1.37 million cubic feet per day, and compares to rates of 1.36 million cubic feet per day in the preceding quarter and 1.27 million cubic feet per day in the fourth quarter of 2018.

For calendar 2019, Zargon's production averaged 1,764 barrels of oil equivalent per day, and was comprised of 1,530 barrels of oil and liquids per day and 1.41 million cubic feet per day of natural gas. Additional details regarding oil exploitation opportunities, reserves and corporate strategy are provided in our updated presentation and previous press releases that are located on our website at www.zargon.ca.

ABANDONMENT ACTIVITIES

Zargon was very active in reducing its asset retirement obligations in 2019, spending \$2.78 million on abandonments and reclamations. With this program Zargon reduced its Canadian suspended well count by 16 percent during the year by effectively converting 52.1 net suspended wells into an abandoned or ultimately fully reclaimed category.

	2018 Year End			2019 Year End			Well Count Changes – 2019 YE vs. 2018 YE		
	Total	Canada	USA	Total	Canada	USA	Total	Canada	USA
Producing	272.5	190.3	82.2	261.1	184.5	76.6	(11.4)	(5.8)	(5.6)
Suspended	341.2	332.3	8.9	294.7	280.2	14.5	(46.5)	(52.1)	5.6
AB downhole	42.3	42.3	-	52.9	52.9	-	10.6	10.6	-
AB surface	216.5	204.6	11.9	250.9	239.0	11.9	34.4	34.4	-
Total	872.5	769.5	103.0	859.6	756.6	103.0	(12.9)	(12.9)	-

NEW AND REVISED RESERVES EVALUATION PRACTICES

For Zargon's 2019 year-end reserves report, Zargon has included all abandonment, decommissioning and reclamation costs ("ADR") for inactive wells and has also included inactive well operating costs ("IWC") in order to provide greater transparency and accuracy of current values and future cash flows. This is a significant change to the prior years' practices, when such ADR and IWC

costs on inactive wells were not included in the reserves evaluation, a practice that had been consistent with many other companies in the industry. Including these future costs in the reserve report greatly improves the completeness of the valuation of Zargon's oil and gas assets.

2019 YEAR END RESERVES:

- Zargon's reserves have been appraised by our independent reserves evaluator McDaniel & Associates Consultants Ltd. ("McDaniel") and are effective as of December 31, 2019. Zargon's 2019 year end proved and probable total reserves totalled 8.28 million barrels of oil equivalent, a nine percent decrease from the 2018 year end reserves of 9.19 million barrels of oil equivalent. Total proved and probable oil and liquid reserves are 7.58 million barrels and represent 92 percent of Zargon's total reserves.
- Zargon's 2019 year end proved developed producing reserves decreased seven percent to 5.43 million barrels of oil equivalent and included 4.97 million barrels of oil and liquids. Zargon's proved developed producing reserve totals represent 66 percent of the Zargon's total proved and probable reserves.
- Zargon's 2019 year end proved and probable developed producing reserves decreased nine percent to 6.72 million barrels of oil equivalent and included 6.14 million barrels of oil and liquids. Zargon's proved and probable developed producing reserve totals represent 81 percent of the Zargon's total proved and probable reserves.
- Zargon's oil properties are characterized by pressure supported reservoirs (waterflood, tertiary schemes or natural aquifers) that provide long-life, low-decline oil production. Consequently, Zargon's proved developed producing oil and liquids reserve life index is 8.5 years and Zargon's proved and probable producing oil and liquids reserve life index is 10.5 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 from relatively mature properties.
- Zargon's year end 2019 "produce-out" proved and probable net asset value is calculated to be \$2.37 per basic share. On a proved developed producing basis the "produce out" net asset value is calculated to be \$1.10 per basic share. These calculations reflect McDaniel's estimate of the Zargon properties' future cash flow using a before tax 10 percent discount rate and forecast prices and costs less an allowance for the full face value of the \$3.2 million (USD) year end term debt and working capital. These net asset value estimates include ongoing operating costs and site reclamation and abandonment costs for wells that are not assigned reserves.

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 2019 Annual Information Form to be filed on SEDAR (www.sedar.com) and posted on our website (www.zargon.ca) in March 2020.

Based on the independent reserves evaluation conducted by McDaniel effective December 31, 2019, and prepared in accordance with NI 51-101, Zargon had proved and probable reserves of 8.28 million barrels of oil equivalent.

COMPANY TOTAL Reserves ⁽¹⁾	Barrels of Oil		
At December 31, 2019	Oil and Liquids (mmbbl)	Natural Gas (bcf)	Equivalent ⁽²⁾ (mmboe)
Proved producing	4.97	2.76	5.43
Proved non-producing	0.24	0.35	0.30
Proved undeveloped	0.29	-	0.29
Total proved	5.50	3.12	6.02
Probable additional producing	1.17	0.69	1.29

Probable non-producing and undeveloped	0.91	0.39	0.97
Total probable additional	2.08	1.08	2.26
Total proved and probable producing	6.14	3.46	6.72
Total proved and probable	7.58	4.20	8.28
Proved producing reserve life index, years ⁽³⁾	8.97	5.54	8.52
Proved reserve life index, years ⁽³⁾	9.93	6.25	9.45
Proved and probable producing reserve life index, years ⁽³⁾	11.08	6.92	10.54
Proved and probable reserve life index, years ⁽³⁾	13.68	8.42	12.99

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 2019 production.

CANADA Reserves ⁽¹⁾ Barrels of Oil

	Oil and Liquids (mmbbl)	Natural Gas (bcf)	Equivalent ⁽²⁾ (mmboe)
At December 31, 2019			
Proved producing	3.18	2.76	3.64
Proved non-producing	0.23	0.35	0.29
Proved undeveloped	0.10	-	0.10
Total proved	3.51	3.12	4.03
Probable additional producing	0.81	0.69	0.92
Probable non-producing and undeveloped	0.53	0.39	0.59
Total probable additional	1.33	1.08	1.51
Total proved and probable producing	3.98	3.46	4.56
Total proved and probable	4.84	4.20	5.54
Proved producing reserve life index, years ⁽³⁾	7.53	5.54	7.20
Proved reserve life index, years ⁽³⁾	8.32	6.25	7.98
Proved and probable producing reserve life index, years ⁽³⁾	9.44	6.92	9.03
Proved and probable reserve life index, years ⁽³⁾	11.48	8.42	10.98

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3. Reserve life is calculated using annualized fourth quarter 2019 Canadian production.

UNITED STATES Reserves ⁽¹⁾ Barrels of Oil

	Oil and Liquids (mmbbl)	Natural Gas (bcf)	Equivalent ⁽²⁾ (mmboe)
At December 31, 2019			
Proved producing	1.79	-	1.79
Proved non-producing	0.01	-	0.01
Proved undeveloped	0.19	-	0.19
Total proved	1.99	-	1.99
Probable additional producing	0.37	-	0.37
Probable non-producing and undeveloped	0.38	-	0.38
Total probable additional	0.75	-	0.75
Total proved and probable producing	2.16	-	2.16
Total proved and probable	2.73	-	2.73

Proved producing reserve life index, years ⁽³⁾	13.54	-	13.54
Proved reserve life index, years ⁽³⁾	15.05	-	15.05
Proved and probable producing reserve life index, years ⁽³⁾	16.34	-	16.34
Proved and probable reserve life index, years ⁽³⁾	20.71	-	20.71

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3. Reserve life is calculated using annualized fourth quarter 2019 United States production.

Zargon's reserves are characterized by long-life, low-decline oil production with a high producing developed component that generally provide a corresponding high confidence level. In 2019, reserves revisions (barrels of oil equivalent) of positive 0.19 million barrels proved developed producing and negative 0.05 million barrels of proved plus probable developed producing were recorded in the reserves report. These minor revisions were +3.3% of the total proved developed producing reserves and -0.7% of the total proved plus probable developed producing reserves. The changes resulted from the reactivation of wells in Little Bow and Bellshill Lake, previously classified as proved non-producing, which offset negative revisions relating to production performance decreases in the same areas. Positive revisions related to performance were also realized for oil properties in North Dakota and Taber, which were offset by negative revisions for uneconomic natural gas properties in Alberta.

In 2019, reserves revisions (barrels of oil equivalent) of negative 0.04 million barrels total proved and negative 0.26 million barrels total proved plus probable were recorded in the reserves report. These small revisions were -0.6% of the total proved reserves and -2.8% of total proved plus probable reserves. The changes resulted from production performance decreases in various areas as well as reductions for uneconomic natural gas properties in Alberta.

NET ASSET VALUE:

Zargon's oil, liquids and natural gas reserves were evaluated using the three consultant price forecasts effective January 1, 2020, 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. Zargon has included all abandonment, decommissioning and reclamation costs and inactive well costs, including the costs to abandon suspended wells, into Zargon's 2019 year-end reserves report in order to provide greater transparency and accuracy of current values and future cash flows.

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

(\$ millions)	Discount Factor		
	6%	10%	15%
Proved producing	252.3	28.0	26.8
Proved non-producing	6.2	3.8	3.1
Proved undeveloped	5.4	2.3	1.5
Total proved	33.6	34.1	31.4
Probable additional producing	20.9	12.4	8.7
Probable additional non-producing and undeveloped	22.2	10.7	7.7
Total probable additional	66.2	23.2	16.4
Total proved and probable producing	45.3	40.4	35.4
Total proved and probable	78.8	57.3	47.7

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

	Discount Factor		
(\$ millions)	0%	10%	15%
Proved producing	20.6	11.1	12.8
Proved non-producing	6.4	3.8	3.2
Proved undeveloped	2.1	1.4	1.0
Total proved	29.1	16.3	17.0
Probable additional producing	5.2	9.4	6.7
Probable additional non-producing and undeveloped	19.5	7.2	5.5
Total probable additional	32.4	16.5	12.2
Total proved and probable producing	51.0	20.5	19.4
Total proved and probable	26.7	32.8	29.1

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

	Discount Factor		
(\$ millions)	0%	10%	15%
Proved producing	20.3	16.8	14.0
Proved non-producing	-	-	-
Proved undeveloped	2.6	0.9	0.4
Total proved	22.9	17.8	14.4
Probable additional producing	5.5	3.1	2.0
Probable additional non-producing and undeveloped	9.7	3.6	2.2
Total probable additional	21.2	6.7	4.2
Total proved and probable producing	26.2	19.9	16.0
Total proved and probable	33.0	24.4	18.6

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 the three consultant forecast future prices and costs. The value is a snapshot in time as at December 31, 2019, 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. Net asset values shown include all future ADR costs of \$88.6 million on proved developed producing reserves and \$90.1 million on proved plus probable reserves, discounted at 10% to \$23.3 million on proved developed producing reserves and to \$23.5 million on proved plus probable reserves.

Net Asset Value	Proved	Developed Producing Reserves	Proved and Probable Reserves
As at December 31, 2019 (\$ millions)			
Reserves (PVB T 10%) ⁽¹⁾	28		57
Term debt and working capital - unaudited ⁽³⁾	(3)		(3)
Net asset value	25		54
Net asset value per share (\$/basic share) ⁽²⁾	1.09		2.35

1. McDaniel's estimate of future before tax cash flow discounted at PV 10 percent.
2. Calculated using basic total shares outstanding at January 20, 2019 of 22.994 million shares.

Three Consultant (average of McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants and Sproule) Price Forecast (effective January 1, 2020)

	WTI Crude Oil \$US/bbl	Edmonton Light Crude Oil \$C/bbl	Alberta Bow River Hardisty Crude Oil \$C/bbl	Western Canadian Select Crude Oil \$C/bbl
2020	61.00	72.64	58.43	57.57
2021	63.75	76.06	63.00	62.35
2022	66.18	78.35	64.99	64.33
2023	67.91	80.71	66.91	66.23
2024	69.48	82.64	68.65	67.97
2025	71.07	84.60	70.41	69.72
2026	72.68	86.57	72.20	71.49
2027	74.24	88.49	73.91	73.20
2028	75.73	90.31	75.53	74.80
2029	77.24	92.17	77.18	76.43
2030	78.79	94.01	78.72	77.96
2031	80.36	95.89	80.29	79.52
2032	81.97	97.81	81.90	81.11
2033	83.61	99.76	83.54	82.73
2034	85.28	101.76	85.21	84.39
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr

Forward-Looking Statements - This press release contains forward-looking statements relating to our plans and operations as at January 29, 2020. 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 2019 financial results and 2019 Annual Information Form, 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 (including ASP); 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:

Based in Calgary, Alberta, Zargon's securities trade on the Toronto Stock Exchange and there are currently approximately 22.994 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 and is focused on oil exploitation projects (waterfloods and tertiary ASP) 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.

For further information please contact:

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