

# Zargon Oil & Gas Ltd. Provides 2019 Fourth Quarter And Full Year Financial Results

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CALGARY, March 13, 2020 - [Zargon Oil & Gas Ltd.](#) ("Zargon" or the "Company") (TSX:ZAR) has released its 2019 fourth quarter and full year financial results. Highlights from the fourth quarter and year ended Dec. 31, 2019 are provided below:

## HIGHLIGHTS FROM THE FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 2019

- For calendar 2019, funds flow was \$6.15 million (\$0.28 per basic share) compared to funds flow from operating activities of a negative \$0.54 million (a negative \$0.35 per basic share) recorded in the prior year.
- Oil and liquids production averaged 1,530 barrels of oil and liquids per day in 2019, a 13 percent decrease from the preceding year. Natural gas production averaged 1.41 million cubic feet per day in 2019, a 26 percent decrease from 2018. The reduction in production volumes was primarily due to natural production declines, the suspension of discretionary oil exploitation capital programs, the deferral of routine maintenance operations due to cash constraints and the shut-in of uneconomic natural gas properties. Total 2019 production averaged 1,764 barrels of oil equivalent per day, a 15 percent decrease from the prior year.
- Zargon was successful in reducing general administrative costs (inclusive of transaction, exploration and evaluation costs) through further staff adjustments and realignments to \$3.03 million in 2019, compared to \$3.91 million in 2018.
- Zargon's 2019 net earnings was \$22.54 million, which compares to a net loss of \$35.37 million in 2018 and a net loss of \$9.31 million in 2017. The net earnings/loss track the funds flow from operating activities for the respective periods modified by non-cash charges, which in 2019 were primarily related to a gain on convertible debentures, depletion and depreciation expense, accretion expense, and impairment losses. On a per basic share basis, the 2019 net earnings was \$1.01 compared to a net loss of \$22.91 in 2018 and a net loss of \$6.06 in 2017.
- 2019 net capital expenditures for the year totalled \$3.40 million. These expenditures consisted of \$3.37 million of exploitation, development and facility expenditures, nil million of net property dispositions, and \$0.03 million of administrative assets. The \$3.37 million of exploitation, development and facility programs include \$1.00 million of chemical costs for the Alkaline Surfactant Polymer ("ASP") Little Bow project. Zargon's 2019 capital program was primarily allocated to oil exploitation programs (waterfloods), Little Bow Polymer costs, well reactivations, and pipeline construction projects. Recent well recompletions and stimulations at the Little Bow non-ASP property have delivered good results. Consistent with the last few years, Zargon did not drill any of its proven undeveloped locations (Taber, Bellshill Lake and North Dakota) in 2019, as Zargon conserved its cash to retire debt and retire abandonment liabilities.
- 2019 abandonment and reclamation costs totaled \$2.78 million, a \$0.84 million increase from the \$1.94 million recorded in the prior year. 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. In Alberta, Zargon has voluntarily participated in the Alberta Energy Regulator's ("AER") Area Based Closure ("ABC") program which enables significant cost savings by encouraging large scale area based abandonment programs. For 2019, Zargon's abandonment expenditure commitment for the ABC program was \$1.16 million.
- On January 11, 2019, Zargon announced the completion of a transaction to settle its \$41.94 million principal amount of outstanding 8% Convertible Debentures due December 31, 2019 in exchange for common shares of Zargon. Immediately before the transaction, 30.93 million common shares were issued and outstanding. Following the completion of the transaction, 459.81 million common shares were issued and outstanding. Following closing, the Company has reduced its overall debt by \$41.94 million and its annual interest burden by \$3.36 million, resulting in a simplified capital structure with only \$3.50 million (USD) of term debt outstanding.

- Effective May 30, 2019, the Company consolidated its issued and outstanding common shares (the "Pre-Consolidation Shares") on the basis of one new common share (the "Post-Consolidation Shares") for every twenty pre-consolidation shares held (the "Share Consolidation"). As a result of the Share Consolidation, the 459.81 million Pre-Consolidation Shares were consolidated to 22.99 million Post-Consolidation Shares.

#### FOURTH QUARTER 2019

- During the fourth quarter of 2019, Zargon's petroleum and natural gas sales of \$7.91 million were three percent lower than the previous quarter's sales. Production for the 2019 fourth quarter of 1,746 barrels of oil equivalent per day was two percent higher than the 2019 third quarter's production of 1,715 barrels of oil equivalent per day. Compared to the previous quarter, oil production was two percent higher at 1,518 barrels per day. The fourth quarter natural gas production increased one percent from the previous quarter to 1.37 million cubic feet per day. Average field prices received during the fourth quarter were \$54.57 per barrel for oil and liquids, an eight percent decrease compared to the 2019 third quarter and \$2.34 per thousand cubic feet for natural gas, a 208 percent increase from the prior quarter.
- Net capital expenditures were \$0.65 million during the fourth quarter of 2019, compared to a prior quarter spend amount of \$1.21 million. Fourth quarter conventional expenditures were \$0.64 million while ASP expenditures were \$0.24 million (including \$0.13 million of chemical costs). In addition, Zargon acquired \$0.01 million of administrative assets in the quarter. During the fourth quarter, Zargon drilled nil net wells.
- Asset retirement expenditures reflect the actual amounts incurred to abandon and reclaim wells. These asset retirement expenditures totalled \$1.13 million in the 2019 fourth quarter and increased 19 percent from the prior quarter amount of \$0.95 million. Zargon was very active in reducing its asset retirement obligations in the fourth quarter of 2019. In Alberta, Zargon has voluntarily participated in the Alberta Energy Regulator's ("AER") Area Based Closure ("ABC") program which enables significant cost savings by encouraging large scale area based abandonment programs.

Funds flow was \$1.35 million in the fourth quarter, a decrease of \$0.06 million from the prior quarter. A comparative analysis of the primary factors that caused this quarter-over-quarter decrease is as follows:

- Fourth quarter 2019 petroleum and natural gas sales of \$7.91 million were three percent lower than the 2019 third quarter sales of \$8.19 million. This sales decrease was a result of an eight percent decrease in oil and liquids pricing, which was partially offset by a two percent increase in production and a 208 percent increase in natural gas pricing over the third quarter.
- Royalties for the fourth quarter were \$1.03 million, a decrease of \$0.10 million from the prior quarter as the average royalty rate for the quarter decreased to a 13.0 percent from the 2019 third quarter rate of 13.7 percent.
- Operating expenses were \$4.69 million for the quarter, two percent higher than the third quarter of 2019. Transportation expenses were \$0.11 million, a 16 percent decrease over the prior quarter. The quarterly increase in operating expenses was due to an increase in well repair and maintenance costs. On a per barrel of oil equivalent basis, operating expenses were essentially unchanged at \$29.21 in the fourth quarter of 2019 compared to \$29.27 in the prior quarter and transportation expenses decreased 17 percent to \$0.67 from \$0.81 in the prior quarter.
- General and administrative expenses of \$0.58 million for the quarter, were eight percent lower than the third quarter of 2019. General and administrative expenses on a per barrel of oil equivalent basis were \$3.59 compared to \$3.95 in the prior quarter.
- Transaction costs incurred in the fourth quarter were \$0.01 million compared to \$0.03 million in the prior quarter. The transaction costs relate to Zargon's ongoing strategic alternatives review.
- Interest and financing charges on debt were \$0.13 million and was consistent with the prior quarter expense of \$0.14 million, and relate to the \$3.50 million (USD) term debt obtained in November 2018.
- The current tax expense was \$0.02 million, compared to \$0.06 million of the expense in the 2019 third quarter.

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Percent Change	2019	2018	Percent Change
<b>Financial Highlights</b>						
<b>Income and Investments (\$ millions)</b>						
Gross petroleum and natural gas sales	7.91	4.76	66	33.59	35.49	(5)
Funds flow from operating activities	1.35	(2.74)	149	6.15	(0.54)	1239

Cash flows from operating activities	(0.24	) (2.41	) 90	2.22	1.22	82
Free cash flow	(0.44	) (4.27	) (90	) (0.03	) (6.78	) (100
Net earnings/(loss)	(1.05	) (28.68	) 96	22.54	(35.37	) 164
Field capital and administrative asset expenditures	0.65	0.66	(2	) 3.40	4.70	(28
Net property acquisitions/(dispositions)	&ndash;	0.02	(100	) &ndash;	(0.40	) 100
Net capital expenditures/(dispositions)	0.65	0.68	(4	) 3.40	4.30	(21
Abandonment and reclamation costs	1.14	0.85	34	2.78	1.94	43
Per Share, Basic						
Funds flow from operating activities (\$/share)	0.06	(1.77	) 103	0.28	(0.35	) 180
Net loss (\$/share)	(0.05	) (18.56	) 100	1.01	(22.91	) 104
Balance Sheet at Period End (\$ millions)						
Property and equipment (D&P)				94.16	100.65	(6
Exploration and evaluation assets (E&E)				&ndash;	&ndash;	&ndash;
Total assets				101.44	108.41	(6
Working capital				1.56	1.75	(11
Convertible debentures at maturity				&ndash;	41.94	100
Shareholders' equity				26.60	(11.34	) 335
Weighted Average Shares Outstanding for the Period (millions) &ndash; Basic	22.99	1.55	1383	22.35	1.54	1351
Weighted Average Shares Outstanding for the Period (millions) &ndash; Diluted	22.99	1.55	1383	22.35	1.54	1351
Total Common Shares Outstanding at Period End (millions)				22.99	1.55	1383

*Funds flow from operating activities is an additional GAAP term that represents net earnings/loss except for non-cash items.*

*Working capital excludes derivative assets/liabilities and short term debt.*

	Three Months Ended December 31,			
	2019	2018	Percent Change	
Operating Highlights				
Average Daily Production				
Oil and liquids (bbl/d)	1,518	1,575	(4	)
Natural gas (mmcf/d)	1.37	1.27	8	
Equivalent (boe/d)	1,746	1,786	(2	)
Average Selling Price (before the impact of financial risk management contracts)				
Oil and liquids (\$/bbl)	54.57	31.74	72	
Natural gas (\$/mcf)	2.34	1.42	65	
Netback (\$/boe)				
Gross petroleum and natural gas sales	49.28	28.99	70	
Royalties	(6.39	) (4.35	) 47	
Realized gain/(loss) on derivatives	&ndash;	&ndash;	&ndash;	
Operating expenses	(29.21	) (27.87	) 5	
Transportation expenses	(0.67	) (0.61	) 10	
Operating netback	13.01	(3.84	) 439	
Wells Drilled, Net	&ndash;	&ndash;	&ndash;	
Undeveloped Land at Period End (thousand net acres)				

*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.*

For further information regarding Zargon's properties, reserves and net asset values, please refer to the Company's corporate presentation, which is available at [www.zargon.ca](http://www.zargon.ca).

#### Forward-Looking Statements

This press release offers our assessment of Zargon's future plans and operations as at March 13, 2020, 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 our strategic alternatives process under the heading "Strategic Alternatives Process". 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.

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](http://www.zargon.ca) and on [www.sedar.com](http://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 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](http://www.zargon.ca) and on [www.sedar.com](http://www.sedar.com) for the periods ended December 31, 2019 and 2018 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 twelve months ended December 31, 2019 and the accompanying MD&A. These filings are available on [www.zargon.ca](http://www.zargon.ca) and under Zargon's SEDAR profile on [www.sedar.com](http://www.sedar.com).

#### About Zargon

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

For further information please contact:

C.H. Hansen  
President and Chief Executive Officer

[Zargon Oil & Gas Ltd.](http://www.zargon.ca)  
Telephone: 403-264-9992  
E-mail: [zargon@zargon.ca](mailto:zargon@zargon.ca)  
Website: [www.zargon.ca](http://www.zargon.ca)

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