Compass Petroleum Ltd. Announces Year End Fiscal 2011 Financial and Operating Results

06.10.2011 | Marketwired

CALGARY, ALBERTA -- (Marketwire - Oct. 6, 2011) - Compass Petroleum Ltd. (TSX VENTURE: CPO) ("Compass" or the "Company") announced today its financial and operating results for fiscal 2011 (July 1, 2010 to June 30, 2011). The Company has filed its audited consolidated financial statements and related Management's Discussion and Analysis for the year ended June 30, 2011 with various securities regulatory authorities in Canada. The Company has also filed an Annual Information Form, as at June 30, 2011, which includes the disclosure and reports relating to reserves data and other oil and gas information required by National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. Copies of these documents may be obtained through the SEDAR website at www.sedar.com (under the Company's profile) and on the Compass website at www.compasspetroleum.com.

Highlights

Fiscal 2011 was an exciting year for Compass as its corporate profile changed significantly despite ongoing weakness in the overall economy and volatile financial markets in Canada and elsewhere. Highlights of the Company's activities for the year ended June 30, 2011 are as follows:

- Continued to refocus the Company's activities and operational emphasis on the emerging Viking light oil resource play in the greater Dodsland area of west central Saskatchewan.

- Participated in the drilling of 26 Viking horizontal wells (net 24.1) and three (net 3.0) vertical Viking wells in the Lucky Hills area of greater Dodsland and one well (net 1.0) in Alberta with an overall 100% success rate.

- Acquired 27,946 (net) acres of land in the greater Dodsland area, including Lucky Hills, which the Company has been evaluating for Viking light oil potential.

- Increased the number of identified Viking light oil horizontal drilling locations to over 150 in the Lucky Hills area, based on eight wells per section, of which 27 were drilled and completed at June 30, 2011 and a further 50 were booked as proved undeveloped locations in the independent reserve report (the "Sproule Report") prepared for the Company by Sproule Associates Limited ("Sproule") as at June 30, 2011.

- Average production increased by 11% to 945 boe/day in fiscal 2011 from 852 boe/day in the prior fiscal year. More significant was the fourteen-fold increase in average daily light oil production – from 23 bbls/day in fiscal 2010 to 332 bbls/day in fiscal 2011. The increase in light oil production was the result of successful horizontal Viking oil wells drilled at Lucky Hills.

- At the end of June 2011, Viking light oil sales volumes from Saskatchewan properties were approximately 555 boe/day, including 439 bbls/day of oil and 700 mcf/day of solution gas.

- Funds from operations increased by 118% to $7.2 million (or $0.17 per share) in fiscal 2011, compared to $3.3 million (or $0.13 per share) in fiscal 2010.

- Total proved reserves, as reported by Sproule, increased by 78%, from 3.0 million barrels of oil equivalent (MMboe) to 5.4 MMboe (67% oil). Total proved plus probable reserves, as set out in the Sproule Report, increased by 76%, from 4.6 MMboe to 8.0 MMboe (63% oil). (Additional information concerning the Company's estimated reserves as at June 30, 2011 was set out in the July 26, 2011 news release disseminated by the Compass and in the Company's August 3, 2011 material change report.)

- As set out in the Sproule Report, Viking light oil Proved plus Probable reserves increased dramatically from 68 Mbbl to 3,143 Mbbl year over year. Viking reserves at June 30, 2011, represented 51% (or 4.1 MMboe) of the Company's Proved plus Probable reserves. (Additional information concerning theCompany's estimated reserves of Viking light oil as at June 30, 2011 was set out in the July 26, 2011 news release disseminated by Compass and in the Company's August 3, 2011 material change report.)

- Based on the reserve estimates set out in the Sproule Report, the Company replaced 1,208% of production on a proved plus probable basis and 868% of production on a proved basis.

- Completed two separate public offerings of common shares (from treasury) for aggregate gross proceeds of $17.3 million and $13.8 million in January 2011 and May 2011, respectively. The January 2011 offering involved the issuance of 11,896,552 common shares, at a price of $1.45 per share, and the May 2011 offering involved the issuance of 5,635,000 common shares at a price of $2.10 per share, together with 800,000 flow-through shares at a price of $2.50 per share.

- Converted $10,920,000 aggregate principal amount of convertible notes and accrued interest into 8,366,986 common shares.

- Started and ended the fiscal year with no bank debt and was, at June 30, 2011, financially well positioned to undertake an active drilling program in fiscal 2012.

Fiscal 2012 Operational Activity to Date

The Company has remained active since the end of fiscal 2011. Highlights of the Company's activities since June 30, 2011 are as follows.

- In September 2011, Compass Petroleum Partnership sold all of its Alberta oil and natural gas assets to an arm's length third party and an affiliate of that third-party for aggregate cash consideration of $29.3 million, after giving effect to various closing adjustments. The effective date of the sale transaction was July 1, 2011. (Additional information concerning the Company's estimated reserves of its Alberta oil and natural gas assets as at June 30, 2011 were set out in the September 7, 2011 news release disseminated by Compass and in the Company's August 3, 2011 material change report.)

- Drilled and cased 13 (net 11.9) horizontal Viking oil wells at Lucky Hills. Eight (net 7.6) of these wells have been completed and have been placed on production.

- Drilled and cased two horizontal Viking wells (net 2.0) at Elrose (in west central Saskatchewan), which are currently awaiting completion and multi-stage fracking operations.

- Construction of a pipeline at Lucky Hills is ongoing – to tie-in Viking light oil wells to two central oil batteries for emulsion treating and solution gas conservation.

- Further expansion activity on the two central batteries at Lucky Hills is ongoing –with each battery capable of treating 2,500 bbls/day.

- Estimated field sales volumes on October 1 were 762 boe/day, consisting of 578 bbls/day of Viking light oil, 29 bbls/day of heavy oil, 932 mcf/day of Viking solution gas and 171 mcf/day of other gas.

- As at October 4, 2011, after giving effect to the sale of the Alberta assets, the Company had no bank debt and a net cash position of approximately $15.8 million.

Summary of Financial and Operational Information

The following table sets out certain consolidated financial information of the Company for the 2011 and 2010 financial years, respectively.

(Thousands except per share amounts) Years Ended June 30
2011 2010
Financial
Revenue $ 18,482 $ 13,238
Funds from operations 7,180 3,287
per share, (basic and diluted) 0.17 0.13
Loss for the period (1,704) (4,567)
per share, (basic and diluted) (0.04) (0.18)

Capital additions 41,490 7,485
Dispositions 260 -
Net capital additions 41,230 7,485

Adjusted working capital/(net debt) 1,665 3,331
Convertible notes - 10,920

Total assets 97,356 61,648
Total shares outstanding at year end 59,018,724 32,023,519

Operations
Production
Gas (mcf/day) 1,800 2,790
Oil (bbl/day) 645 387
boe/day (6mcf = 1bbl) 945 852
Product Prices
Gas ($/mcf) $ 3.69 $ 3.97
Oil ($/bbl) $ 78.86 $ 65.81

Undeveloped land holdings (net acres) 89,725 87,948

Financial

Revenue increased to $18.5 million for fiscal 2011 compared with $13.2 million for the prior year. The increase was principally attributable to higher crude oil sales volumes and increased average crude oil prices in fiscal 2011.

Funds from operations increased to $7.2 million (or $0.17 per share) in fiscal 2011, compared with $3.3 million (or $0.13 per share) in fiscal 2010.

Compass reported a loss of $1.7 million in fiscal 2011 or ($0.04) per share compared with a loss of $4.6 million or ($0.18) per share in fiscal 2010. In fiscal 2010, in connection with the Company's “going public“ transaction (completed in May 2010), Compass renegotiated the terms of its outstanding convertible notes, which created a one-time charge of $2.1 million, which negatively affected consolidated earnings in fiscal 2010.

The Company incurred approximately $41.2 million of capital expenditures (net of dispositions) in fiscal 2011 compared to net capital expenditures of $7.5 million in fiscal 2010.

During the course of fiscal 2011, the Company completed two equity financings for aggregate gross proceeds of $31.1 million. The funds were used to reduce outstanding indebtedness under the Company's credit facility, to fund the exploration and development of the Company's west central Saskatchewan core area and for general corporate purposes. In connection with the May 2011 offering of common shares on a “flow-through“ basis, the Company agreed that it would incur and renounce to purchasers of “flow-through“ shares Canadian Exploration Expense (“CEE“) in an amount equal to the issue price of those shares ($2 million, in the aggregate) and would renounce such CEE effective December 31, 2011.

Production

The Company's average daily production for fiscal 2011 increased by 11% to 945 boe/day from 852 boe/day for the prior fiscal year. Crude oil production increased due to successful horizontal Viking oil wells drilled at Lucky Hills. Gas production declined as no drilling occurred on any of the Company`s gas properties in fiscal 2011.

Net Asset Value Per Share (Unaudited)

The following table sets out information concerning the Company's calculation of its net asset value per share as at June 30, 2011 and June 30, 2010. The June 30, 2011 information is presented before giving effect to the sale of the Compass Petroleum Partnership's Alberta oil and natural gas assets as described above.

June 30, 2011 June 30, 2010
(thousands except per share amounts)
Present value of proved plus probable reserves before taxes and discounted at 10%[1] $ 128,014 $ 54,561
Undeveloped acreage[2] 11,467 8,455
Adjusted working capital (1,665) 3,331
Proceeds from exercise of warrants and in the money stock options 8,927 3,299
Estimated net asset value 146,743 69,646
Fully diluted shares outstanding3 64,753 42,377
Net asset value per share $ 2.27 $ 1.64

(1) Based upon independent evaluations of the Company's reserves, as at June 30, 2011 and June 30,

2010, prepared by Sproule.

(2) Based upon independent land evaluations as at June 30, 2011 and at June 30, 2010.

(3) Based upon 64,752,724 fully diluted shares outstanding as at June 30, 2011 and 42,957,408 fully diluted shares outstanding as at June 30, 2010. Does not include 580,000 common shares issuable upon the exercise of outstanding options that were not "in the money" as at June 30, 2010.

Reserves Replacement

In fiscal 2011, based on reserves estimates set out in the Sproule Report, the Company replaced 1,208% of production on a proved plus probable basis and 868% of production on a proved basis. The reserve additions reflected in the Sproule report are principally the result of successful drilling activities at Lucky Hills. The following table sets out additional information relating to reserves replacement for fiscal 2011 before giving effect to the sale of the Compass Petroleum Partnership's Alberta oil and natural gas assets as described above.

Production (Mboe) 344.9
Proved plus probable reserve additions (Mboe) 4,166.1
Proved plus probable reserve replacement 1,208 %

Proved reserve additions (Mboe) 2,995.0
Proved reserve replacement 868 %

Outlook

With the sale (in September 2011) of the Alberta oil and natural gas assets formerly held by Compass Petroleum Partnership, the Company has successfully transitioned from a natural gas weighted producer to a Viking light oil resource company, exclusively focused in west central Saskatchewan. The refocusing of Compass commenced in the last quarter of fiscal 2010 with the drilling of two Viking horizontal oil wells in west central Saskatchewan. A total of 29 (27.1 net) successful Viking wells were drilled in the Lucky Hills/greater Dodsland area in fiscal 2011, of which 26 (24.1 net) were horizontal Viking wells and three (3.0 net) were vertical wells. The Company's oil weighting increased from 48% in the last quarter of fiscal 2010 to 75% in the last quarter of fiscal 2011. The increase was principally attributable to additional Viking light oil production in west central Saskatchewan. In addition, the Company has more than doubled its undeveloped land inventory in the greater Dodsland area to over 75 net sections.

The Company's $50.7 million capital budget for fiscal 2012 (July 1, 2011 to June 30, 2012) contemplates the drilling of 38 wells. The 2012 capital budget principally focuses on the further development of proven lands at Lucky Hills and targets a number of locations that are considered by management to be low risk. The objective of those wells is to increase the Company's production of Viking light oil. The fiscal 2012 capital program also contemplates the drilling of several wells to evaluate new areas in the greater Dodsland area, which, if successful, could provide the Company with additional drilling locations.

Management believes that the Company is well positioned to execute its fiscal 2012 capital budget, with a strong balance sheet, a significant drilling inventory at Lucky Hills and a significant undeveloped land base in the greater Dodsland area. The capital program is expected to be financed through a combination of working capital, bank debt and cash flow, without the need for new equity. If successful, the fiscal 2012 capital program is expected to result in fiscal 2012 exit production in the range of 1,300 – 1,400 boe/day (87% oil), all from west central Saskatchewan (and essentially all Viking light oil production), and average production for fiscal 2012 in the range of 1,100 – 1,200 boe/day (87% oil).

NON-GAAP FINANCIAL MEASUREMENTS

This news release includes a reference to "funds from operations". Funds from operations is a non-GAAP measure that is commonly used in the oil and natural gas industry. It represents cash provided by operating activities before changes in non-cash working capital and asset retirement expenditures. The Company considers funds from operations to be a key measure as it demonstrates the ability of the business to generate the cash flow necessary to fund future growth through capital investment and to repay debt. Funds from operations should not be considered as an alternative to, or more meaningful than, cash flow provided by operating activities as determined in accordance with GAAP as an indicator of the Company's performance. Compass' determination of funds from operations may not be comparable to that reported by other issuers.

The Company calculated “funds from operations“ as follows for the years noted:

Year ended Year ended
June 30, 2011 June 30, 2010
Cash provided by operating activities $ 7,106,774 $ 1,933,022
Changes in non-cash working capital (505,213) 974,518
Actual retirement obligation settled 578,874 30,459
Transaction costs relating to
acquisition of “Sun Red“ - 348,552
Funds from operations $ 7,180,435 $ 3,286,551

This news release also includes a reference to “adjusted working capital“ and “net debt“, which is defined as current liabilities (excluding future income taxes) plus outstanding bank debt less current assets (excluding financial instruments), as a measure of short term liquidity. The Company calculated “adjusted working capital and net debt“ as follows as at the dates noted:

June 30, June 30,
2011 2010
Current assets
(excluding financial instruments and future income taxes) $ 9,503,460 $ 7,861,490
Banks indebtedness (0) (0)
Accounts payable and accrued liabilities
(excluding future income taxes and financial instruments) (11,168,104) (4,530,332)
Adjusted working capital / (net debt) $ (1,664,644) $ 3,331,158

Where “net debt“ is positive the Company uses the term “adjusted working capital“.

Also included in this news release is reference to “net asset value per share“. Net asset value per share is a measure commonly used in the oil and natural gas industry to provide a per share value that reflects the net present value of the issuer's estimated oil and natural gas reserves, its undeveloped acreage and its adjusted working capital. For additional information concerning the Company's calculation of its net asset value per share, please refer to the heading “Net Asset Value Per Share (Unaudited)“ in this news release.

OTHER MEASUREMENTS

Reported production represents the Company's consolidated ownership share of sales before the deduction of royalties. Where amounts are expressed on a barrel of oil equivalent (“boe“) basis, natural gas has been converted at a ratio of six thousand cubic feet to one boe. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boe's may be misleading, particularly if used in isolation. References to natural gas liquids include condensate, propane, butane and ethane and one barrel of natural gas liquids is considered to be equivalent to one boe.

Compass is a junior oil and natural gas company that is indirectly engaged in the exploration for, and development and production of, oil and natural gas in western Canada. The Company's current main focus is on the exploitation and development of its Viking light oil resource lands in the Dodsland area of west central Saskatchewan.

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

This news release contains certain forward-looking information (referred to herein as “forward-looking statements“) within the meaning of applicable Canadian securities laws. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate“, “plan“, “intend“, “estimate“, “scheduled“, “expect“, “may“, “will“, “should“, or similar words suggesting future activities or outcomes. In particular, this news release contains forward-looking statements relating to: (i) the Company's 2012 capital budget (including the sources of financing for capital expenditures contemplated by that budget); and (ii) expectations with respect to average and exit production for fiscal 2012 (including expectations with respect to the weighting of the Company's overall production, as between oil and natural gas, by the end of fiscal 2012).

Forward-looking statements are subject to certain risks and uncertainties that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. Those risks and uncertainties include, but are not limited to, changes in general economic conditions in Canada, the United States and elsewhere, changes in operating conditions (including as a result of weather patterns), the volatility of prices for oil and natural gas and other commodities, commodity supply and demand, fluctuations in currency and interest rates, inherent risks associated with the exploration, development and production of oil and natural gas (including mechanical problems), timing, results and costs of exploration and development activities, availability of financial resources, availability of equipment, materials and personnel in a timely manner and on commercial terms acceptable to the Company, and new laws and regulations (domestic and foreign). Accordingly, readers should not place undue reliance upon the forward-looking statements contained in this news release and such forward-looking statements should not be interpreted or regarded as guarantees of future outcomes.

Forward-looking statements respecting the fiscal 2012 capital budget of the Company, including the financing of the expenditures contemplated by such capital budget, are based upon various assumptions and factors, including: (i) the continued ability of the Company to generate internal cash flow, (ii) the absence of material changes in economic and operating conditions, including, but not limited to, commodity prices, (iii) the Company will continue to be able to market oil and natural gas to current and new customers, (iv) that materials, services, equipment and personnel will continue to be available to the Company in a timely manner and on commercial terms acceptable to the Company, (v) that the Company will continue to be able to add production and reserves through acquisition, development and exploration activities, (vi) continued access to credit facilities, (vii) that there will be no material changes in currency exchange rates, interest rates, the regulatory framework regarding oil and natural gas royalties or environmental legislation; and (viii) that the Company's operations will not be unduly disrupted by unfavorable weather conditions.

Forward-looking statements concerning average and exit forecast production for the 2012 fiscal year are based upon various assumptions and factors including the Company's current production from its various properties in west central Saskatchewan, existing plans for the drilling and completion of wells for the balance of fiscal 2012, the Company's historical success rate with wells drilled on its properties in west central Saskatchewan, the results of wells drilled by third parties in the vicinity of the Company's oil and natural gas properties in west central Saskatchewan (including production from those wells), that new wells drilled by Compass are productive and will produce oil and solution gas at rates substantially consistent with wells drilled by Compass and others in the vicinity of such new wells, prices for oil and natural gas remaining at current levels or increasing above current levels, no adverse changes in royalties payable on oil and natural gas production, the Company's ability to economically produce oil and natural gas from its properties and the timing and costs of such production, the accuracy of geological and geophysical data and the Company's interpretation of that data, that materials, services, equipment and personnel will continue to be available to the Company in a timely manner and on commercial terms acceptable to the Company, that the Company's operations will not be unduly disrupted by unfavorable weather conditions, the ability of the Company to obtain all required regulatory approvals in a timely manner and on satisfactory terms and the ability of the Company to generate internal cash flow.

Forward-looking statements respecting the anticipated weighting of the Company's overall production, as between oil and natural gas, by the end of fiscal 2012 are based upon various assumptions and factors including continued emphasis by the Company on oil development in accordance with the Company's 2012 capital budget (which budget is subject to change), the results of horizontal wells to be drilled in fiscal 2012 being substantially consistent with horizontal wells drilled to date by the Company in west central Saskatchewan, the time required to drill and complete existing wells and the assumption that future wells can be completed in similar time frames, the Company's experience with the drilling of other oil and natural gas wells, that materials, equipment and personnel will continue to be available to the Company in a timely manner and on commercial terms acceptable to the Company, the ability to obtain all required regulatory approvals on a timely basis and on satisfactory terms, that the wells to be drilled in connection with the fiscal 2012 drilling program will be capable of commercial production of oil, and no new laws and regulations being enacted that would materially affect operations.

The forward-looking statements contained in this news release are made as of the date hereof and Compass does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, except as required by applicable Canadian securities law. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Contact Information

Compass Petroleum Ltd.
Yook L. Mah
President and CEO
(403) 261-1911

Compass Petroleum Ltd.
Graham Barnes
CFO
(403) 261-1911
info@compasspetroleum.com
www.compasspetroleum.com