Artek Exploration Ltd. Reports Significant 2013 Reserves Growth

06.03.2014 | Marketwired

CALGARY, ALBERTA--(Marketwired - Mar 5, 2014) - Artek Exploration Ltd. (TSX:RTK) of Calgary, Alberta ("**Artek**" or the "**Company**") is pleased to provide an operational update and announce the results of its independent reserve evaluation for the year ended December 31, 2013 (the "**Sproule Report**") as prepared by Sproule Associates Limited ("**Sproule**").

2013 HIGHLIGHTS

- Increased Proved plus Probable reserves year over year by 43% to 42.5 million boe from 29.6 million boe and also increased Proved reserves by 25% to 21.4 million boe from 17.1 million boe.
- Increased Proved plus Probable Oil and NGLs reserves year over year by 48% to 10.8 million boe from 7.3 million boe and also increased Proved Oil and NGLs reserves by 24% to 5.6 million boe from 4.5 million boe. Oil and condensate comprise 60% of the oil and NGLs proved plus probable reserves.
- Achieved all in finding, development and acquisition (″FD&A″) costs of $14.84 per boe on Proved plus Probable reserves. Finding and development (″F&D″) costs including FDC but excluding acquisitions and dispositions were $15.68 per boe on a Proved plus Probable basis. Approximately $14.2 million or 14% of 2013 capital expenditures were invested in facility expansions or additions, undeveloped land and seismic.
- Increased Proved plus Probable reserve value year over year by 52% to $392.3 million from $257.4 million using a 10% discount factor before tax.
- Replaced 2013 production of 1,349.5 mboe by 10.6 times with Proved plus Probable reserve additions and 4.2 times with Proved reserve additions.
- Achieved a recycle ratio of 1.4 times based on Proved and Probable FD&A of $14.84 and Artek's estimated fourth quarter 2013 operating netback of $20.47 per boe but using the Company's estimated January and February 2014 operating netback of $30.70 per boe the recycle ratio would be 2.1 times.
- Specifically at Inga and Fireweed, proved plus probable reserves increased by 73% to 26.6 million boe as compared to the previous year and proved plus probable reserve value also increased 79% to $270.8 million using a 10% discount factor before tax.
- Estimated capital expenditures for the year ended December 31, 2013 were approximately $98.7 million, including $14.3 million for the Fireweed acquisition and approximately $4.4 million on undeveloped land acquisitions for new exploration plays in the Inga and Peace River Arch areas.
- Net asset value at December 31, 2013 increased 20% year over year to $5.43 per diluted share.

The following are reserves and operational highlights, details of which are provided later in the press release.

Gross Reserves at December 31	2013	2012	% change
Proved Developed Producing (mboe)	5,084	4,321	18
Proved Reserves (mboe)	21,394	17,053	25
Proved Plus Probable Reserves (mboe)	42,528	29,639	43
Proved FD&A including change in FDC ($/boe) (1)(2)	27.39	13.39	
Proved Plus Probable FD&A including change in FDC ($/boe) (1)(2)	14.84	10.96	
Proved FD&A excluding change in FDC ($/boe) (1)(2)	17.36	7.77	
Proved Plus Probable FD&A excluding change in FDC ($/boe) (1)(2)	6.94	5.21	
Fourth quarter Operating Netback ($/boe) (1)	20.47	25.47	
Proved Plus Probable Recycle Ratio (1)	1.4	2.3	
2013 Wells Drilled	Gross	Net	% Total
Crude Oil	4	2.2	22
Natural gas	12	7.6	78
Total	16	9.8	100

1. Certain financial and operating information included in this press release for the quarter and year ended December 31, 2013, such as finding and development costs, production information, operating netbacks, recycle ratios and net asset value calculations are based on unaudited financial results for the year ended December 31, 2013 and are subject to the same limitations as discussed under forward-looking statements outlined at the end of this release. These estimate amounts may change upon completion of the audited financial statements for the year ended December 31, 2013 and those changes may be material.
2. Artek calculates finding, development and acquisition costs which incorporate the costs and associated reserve additions and changes in future development costs related to acquisitions and dispositions. Since acquisitions and divestitures have had a significant impact on Artek's annual reserve replacement costs, Artek believes that FD&A costs provide a meaningful portrayal of Artek's cost structure.

AREA UPDATE

At Inga/Fireweed, the Company increased proved plus probable reserves by 73% to 26.6 million boe as compared to the previous year and value on a NPV10 BT basis increased 79% to $270.8 million. The Company continues to add to its undeveloped land holdings at Inga/Fireweed investing approximately $3.5 million in 2013. Artek now holds approximately 88,750 (52,400 net) acres or approximately 133 (79 net) sections of Montney mineral rights in the Inga/Fireweed area, up from approximately 46,000 (27,600 net) acres or 81 sections (49 net). Industry activity for the Montney formation in the area remains strong on all fronts with recent industry acquisition metrics range of up to $4,000 per acre reinforcing the Company's belief in the long term value of its holding along the main transportation corridor in NE British Columbia.

The Company has begun its 2014 Inga/Fireweed horizontal well program that will see it drill up to 10 (5.9 net) wells targeting condensate with associated natural gas. Up to 7 (4.1 net) of the wells planned will focus on Artek's condensate rich Doig play and up to 3 (1.8 net) horizontal wells will be targeting the Montney formation which the Company believes is liquids rich. The Company's first Doig horizontal of the year was recently completed in the liquids rich Inga South area using a slickwater hybrid frac treatment and tested at the highest rate of liquids realized to date on the play. After a 204 hour clean up and flow period, the well was flowing at a restricted rate that averaged 2.9 mmcf/d and 1,539 bbls of condensate per day or 2,015 boe/d over the last 24 hours at a flowing pressure of 631 PSI and realized an average free liquids ratio in excess of 500 bbls/mmcf. In January, Artek completed its first slickwater hybrid fraced Montney well in the Inga area that was previously reported as testing at an average rate of 794 boe/d including 503 bbls/d of free condensate over a 102 hour production test period. This well is currently shut in along with other producers as they are being backed out by the most recent Doig well but it is expected to be back on production in due course.

In the Peace River Arch (PRA) area, the Sproule Report assigned proved plus probable reserves of 3.1 million boe with a NPV10 BT value of approximately $32.8 million. Three 100% W.I. horizontal wells targeting Charlie Lake oil are planned at Mulligan in the PRA area of Alberta. Artek has approximately 20,320 gross acres or 32 (30 net) sections of land in the immediate Mulligan area that the Company believes is highly prospective for the Charlie Lake zone and approximately 46,720 gross acres or 73 sections (63 net) in the Greater Peace River Arch fairway. The Company has recently drilled and completed its first 2014 horizontal well in the Charlie Lake at Mulligan and after a 75 hour cleanup period, the well was turned over to production and is currently producing with artificial lift at rates of approximately 600 to 700 boe/d (50% to 65% liquids) with very low drawdown based on field estimates. In January, the Company drilled and completed a 100% water disposal well in the area which should cause the Mulligan operating netbacks to increase from approximately $30/boe to over $40/boe beginning in March of 2014. The Company plans to drill 2 (2.0 net) more Charlie Lake horizontal wells in 2014.

At the Company's producing oil property at Leduc Woodbend, the Sproule Report assigned proved plus probable reserves of approximately 1.2 million boe and a NPV10 BT value of approximately $33.5 million. Artek plans to drill 2 (0.8 net) vertical development wells targeting Glauconitic oil during 2014.

In the Deep Basin area, the Sproule Report assigned proved plus probable reserves of approximately 11.6 million boe and a NPV10 BT value of $54.8 million.

For 2014, Artek is planning capital expenditures of $61 million to $66 million based upon the drilling of approximately 14 to 15 gross (5.3 to 5.9 net) wells. The capital program will be weighted 100% to projects targeting oil and condensate with associated natural gas. The Company forecasts 2014 production to average 4,700 to 4,900 boe/d.

RESERVES

The reserves data set forth below is based upon an independent reserves assessment and evaluation prepared by Sproule with an effective date of December 31, 2013 (the "**Sproule Report**"). The following presentation summarizes the Company's crude oil, natural gas liquids and natural gas reserves and the net present values before income tax, of future net revenue for the Company's reserves using forecast prices and costs based on the Sproule Report. The Sproule Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101.

All evaluations and reviews of future net cash flows are stated prior to any provisions for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of our crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.

See "Information Regarding Disclosure on Oil and Gas Reserves and Operational Information" for additional cautionary language, explanations and discussions and "Forward Looking Information and Statements" for a statement of principal assumptions and risks that may apply.

Reserves Summary

The Company's total gross proved reserves increased by 25% in 2013 to 21.4 million boe and proved plus probable reserves increased by 43% to 42.5 million boe.

The following table provides summary reserve information based upon the Sproule Report and using the published Sproule (2013-12-31) price forecast.

	Oil (1)		Natural gas liquids		Natural gas		Barrels of oil equivalent	
	Gross (2) (Mbbl)	Net (3) (Mbbl)	Gross (2) (Mbbl)	Net (3) (Mbbl)	Gross (2) (Mmcf)	Net (3) (Mmcf)	Gross (2) (Mboe)	Net (3) (Mboe)
Proved								
Producing	997	803	588	468	20,997	16,355	5,084	3,998
Non-producing	56	46	16	13	1,857	1,596	382	325
Undeveloped	2,280	1,841	1,631	1,306	72,098	58,833	15,928	12,952
Total proved	3,333	2,691	2,235	1,787	94,952	76,785	21,394	17,275
Probable	3,121	2,470	2,150	1,701	95,181	74,076	21,134	16,517
Total proved plus probable	6,454	5,161	4,385	3,488	190,133	150,861	42,528	33,792

Notes:

1. Reflects light and medium crude oil, other than 61 mbbl of proved and 220 mbbl of proved plus probable gross heavy oil reserves.
2. "Gross" reserves means Artek's working interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of the Company.
3. "Net" reserves means Artek's working interest (operated and non-operated) share after deduction of royalty obligations, plus Artek's royalty interest in reserves.
4. Oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil.
5. May not add due to rounding.

Reserves Values

The estimated before tax future net revenues associated with Artek's reserves effective December 31, 2013 and based on the published Sproule (2013-12-31) future price forecast are summarized in the following table:

		Discounted at:		
($ Thousands)	Undiscounted	10%	15%	20%
Proved				
Producing	68,553	67,031	62,671	58,532
Non-producing	5,941	3,846	3,183	2,677
Undeveloped	233,742	112,274	81,960	61,067
Total proved	308,236	183,151	147,814	122,277

Probable	416,561	209,194	160,014	126,528
Total proved plus probable	724,797	392,345	307,828	248,805

Notes:

1. The estimated future net revenues are stated before deducting future estimated site restoration costs and are reduced for estimated future abandonment costs and estimated capital for future development associated with the reserves.
2. Prior to provision of income taxes, interest, debt service charges and general and administrative expenses. It should not be assumed that the undiscounted and discounted future net revenues estimated by Sproule represent the fair market value of the reserves.
3. Net present value after income taxes for total proved reserves is $170.6 million and for total proved plus probable reserves is $323.4 million based on a discount factor of 10%.
4. May not add due to rounding.

Reserves Reconciliation

- The following summary reconciliation of Artek's gross reserves compares changes in the Company's reserves as at December 31, 2013 to the reserves as at December 31, 2012 based on the Sproule (2013-12-31) future price forecast. Proved plus Probable reserves increased year over year by 43% to 42.5 million boe from 29.6 million boe. Proved reserves increased by 25% to 21.4 million boe from 17.1 million boe.

	Total Proved	Probable	Total Proved plus Probable
	(Mboe)	(Mboe)	(Mboe)
Balance December 31, 2012	17,053	12,586	29,639
Extensions and improved recoveries	4,342	8,331	12,673
Infill	1,625	620	2,245
Technical revisions	(1,280)	(992)	(2,272)
Discoveries	-	-	-
Acquisitions	1,081	599	1,680
Dispositions	-	-	-
Economic factors	(78)	(10)	(88)
Production	(1,349.5)	-	(1,349.5)
Balance December 31, 2013	21,394	21,134	42,528

Notes:

1. "Gross" reserves means Artek's working interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of the Company.
2. May not add due to rounding.

Capital Efficiency Highlights - 2013

The efficiency of the Company's capital program for the year ended December 31, 2013 is summarized below. NI 51-101 specifies how finding and development ("**F&D**") costs should be calculated if they are reported. Essentially NI 51-101 requires that the exploration and development costs incurred in the year along with the change in estimated future development costs be aggregated and then divided by the applicable reserve additions. The calculations specifically exclude the effects of acquisitions and dispositions on both reserves and costs. By excluding the effects of acquisitions and dispositions, Artek believes that F&D costs do not fully reflect Artek's ongoing reserve replacement costs. Since acquisitions and dispositions can have a significant impact on Artek's annual reserve replacement costs, Artek believes that finding, development and acquisition ("**FD&A**") costs provide a meaningful portrayal of Artek's cost structure.

Artek invested approximately $14.2 million or 14% of its total 2013 capital expenditures expanding its facilities and pipelines at Inga and Mulligan and also increased its exploration land holdings at Inga by approximately 60%. In addition, the Company invested aggressively in drilling three exploration horizontal wells in the Inga Montney and Mulligan exploration plays. Including these strategic investments for long term growth, Artek achieved all in FD&A costs of $14.91 (2012 - $10.96) per boe on Proved plus Probable reserves and $27.18 (2012 - $13.39) per boe on Proved reserves including future development costs (″FDC″). FD&A costs for the last three years averaged $14.14 per boe on a Proved and Probable basis and $19.89 per boe on Proved reserves including FDC. F&D costs including FDC but excluding acquisitions and dispositions were $15.77 (2012 - $12.37) per boe on a Proved plus Probable basis and $30.45 (2012 - $15.84) per boe on a Proved basis. F&D costs including FDC but excluding acquisitions and dispositions for the last three years averaged $14.88 per boe on a Proved and Probable basis and $21.14 on Proved reserves including FDC.

	Proved	Proved plus Probable

Exploration and Development expenditures ($000's) (note 2)	84,428	84,428
Acquisitions, net of dispositions ($000's) (note 2)	14,320	14,320
Change in future development capital ($000's)		
- Exploration and Development	57,118	112,560
- Acquisitions, net of dispositions	-	-
	155,866	211,308
Reserve additions after revisions (Mboe)		
- Exploration and Development	4,609	12,558
- Acquisitions, net of dispositions	1,081	1,680
	5,690	14,238
Finding & Development Costs ($/boe) (note 1)	30.71	15.68
Finding, Development & Acquisition Costs ($/boe) (note 2)		
Exploration and development	30.71	15.68
Acquisitions, net of dispositions	13.25	8.52
Total FD&A ($/boe)	27.39	14.84
Reserves Replacement Ratio (note 3)	4.2	10.6

Notes:

1. The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.
2. 2013 figures include information based on estimated unaudited financial results that may change on the completion of the audited financial statements.
3. Calculated by dividing the 2013 reserve additions by the 2013 total production.

NET ASSET VALUE

The following table provides management's calculation of Artek's estimated net asset value at December 31, 2013 based on the estimated future net revenues associated with Artek's proved plus probable reserves before income tax and discounted at 10% as presented in the Sproule Report and an independent third party evaluation of Artek's undeveloped land.

	($ thousands)
Proved plus probable reserves - discounted at 10%	392,345
Undeveloped Land (note 1)	55,619
Estimated working capital deficiency as at December 31, 2013 (notes 2 & 3)	(68,451)
Proceeds from dilutive stock options	10,322
Net asset value	389,835
Diluted Common shares outstanding (thousands)	71,810
Net asset value per share	5.43

Notes:

1. Based on an independent land evaluation. See ″Land Holdings″.
2. Figures include information based on unaudited financial results that may change.
3. Working capital deficiency includes an estimate of the Company's accounts receivable and prepaid expenditures less accounts payable and accrued liabilities and bank debt as at December 31, 2013.

LAND HOLDINGS

The Company retained an independent third party to assess the fair market value of the Company's undeveloped land holdings as at December 31, 2013. The evaluation was completed by Seaton-Jordan & Associates Ltd. using industry activity levels, third party transactions and land acquisitions that occurred in proximity to Artek's undeveloped lands during the past year. The independent land evaluation report indicates a value of $55.6 million. Artek increased its net undeveloped land holdings by approximately 36% in 2013.

A summary of the Company's land holdings at December 31, 2013 is outlined below:

(acres)	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	33,369	23,523	83,103	74,546	116,472	98,069

British Columbia	42,794	22,093	153,212	90,152	196,006	112,245
Total	76,163	45,616	236,315	164,698	312,478	210,314

CORPORATE DEVELOPMENTS

Consistent with the Company's long term growth plans and as part of its long term strategy to realize greater operating efficiencies around its core properties, Artek's Board of Directors has promoted Mr. Bruce Nociar from Vice President of Production to Chief Operating Officer. Mr. Nociar has been with the Company for approximately 6 years and has taken on increasingly greater roles in capital planning, forecasting, and the management of all aspects of operations with the Company over the past several years. He brings 22 years of experience with various senior and junior oil and gas companies and a broad base of facility, operations, and reservoir engineering experience to Artek and is well deserving of his expanded role with the Company.

Artek anticipates releasing its 2013 year end audited financial statements on March 19, 2014.

CAUTIONARY STATEMENTS

Unaudited financial information

Certain financial and operating information included in this press release for the quarter and year ended December 31, 2013, such as finding and development costs, production information and net asset value, are based on estimated unaudited financial results for the quarter and year then ended, and are subject to the same limitations as discussed under Forward Looking Information set out below. These estimated amounts may change upon the completion of audited financial statements for the year ended December 31, 2013 and changes could be material.

Information Regarding Disclosure on Oil and Gas Reserves and Operational Information

Our oil and gas reserves statement for the year ended December 31, 2013, which will include complete disclosure of our oil and gas reserves and other oil and gas information in accordance with NI 51-101, will be contained within our Annual Information Form which will be available on our SEDAR profile by March 31, 2014 at www.sedar.com. In relation to the disclosure of estimates of reserves and reserve values relating to individual properties that represent less than all of the Company's reserves, such estimates may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

*In relation to the disclosure of net asset value ("**NAV**"), the NAV table shows what is normally referred to as a "produce-out" NAV calculation under which the current value of the Company's reserves would be produced at forecast future prices and costs and do not necessarily represent a "going concern" value of the Company. The value is a snapshot in time and is based on various assumptions including commodity prices and foreign exchange rates that vary over time. It should not be assumed that the future net revenues estimated by Sproule represent the fair market value of the reserves, nor should it be assumed that Artek's estimated value of its undeveloped land holdings represent the fair market value of the lands.*

Forward-looking information and statements

This news release contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the forgoing, this news release contains forward-looking information and statements pertaining to the following: the recognition of significant additional reserves under the heading "Reserves"; the volumes and estimated value of Artek's oil and gas reserves; the life of Artek's reserves; the volume and product mix of Artek's oil and gas production; future oil and natural gas prices and Artek's commodity risk management programs; future liquidity and financial capacity; the Company's 2014 capital expenditure plans; management's assessment of future plans and results from operations and operating metrics; future costs, expenses and royalty rates; future interest costs; the exchange rate between the $US and $Cdn; future hedging activities; future development, exploration, *acquisition and development activities and related capital expenditures; the number of wells to be drilled and completed and related production expectations including 2014 average production forecast; the amount and timing of drills, completions and capital projects; and the ability to adequately finance the same; operating costs; management's belief in the prospectivity of exploratory lands at Inga and in the PRA; and the total future capital associated with development of reserves and resources.*

The recovery and reserve estimates of Artek's reserves and resources provided herein are estimates only and there is no guarantee that the estimated reserves or resources will be recovered. In addition, forward-looking statements or information are based on a number of material factors, expectations or assumptions of Artek which have been used to develop such statements and information but which may prove to be incorrect. Although Artek believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because Artek can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified herein, assumptions have been made regarding, among other things: results from drilling and development activities consistent with past operations and offsetting wells; the continued and timely development of infrastructure in areas of new production; continued availability of debt and equity financing and cash flow to fund Artek's current and future plans and expenditures; the impact of increasing competition; the general stability of the economic and political environment in which Artek operates; the timely receipt of any required regulatory approvals; the ability of Artek to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects in which Artek has an interest in to operate the field in a safe, efficient and effective manner; the ability of Artek to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and exploration; the timing and cost of pipeline, storage and facility construction and expansion and the ability of Artek to secure adequate product transportation; future commodity prices; currency, exchange and interest rates; regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Artek operates; and the ability of Artek to successfully market its oil and natural gas products.

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 statement, including the assumptions made in respect thereof, involve known and unknown risks, uncertainties and other factors that may cause actual results or events to defer materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Artek's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Artek or by third party operators of Artek's properties, increased debt levels or debt service requirements; inaccurate estimation of Artek's oil and gas reserve and resource volumes; limited, unfavourable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time-to-time in Artek's public disclosure documents, (including, without limitation, those risks identified in this news release and Artek's Annual Information Form).

The forward-looking information and statements contained in this news release speak only as of the date of this news release, and Artek does not assume any obligation to publicly update or revise any of the included forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

BOE Conversions: *Barrel of oil equivalents or BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel. This conversion ratio of six thousand cubic feet of natural gas to one barrel is based on an energy equivalent 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.*

Test results and initial production rates: *the pressure transient analysis or well test interpretation has not been carried out and thus certain of the test results provided herein should be considered to be preliminary until such analysis or interpretation has been completed. Test results and initial production rates disclosed herein may not necessarily be indicative of long-term performance or of ultimate recovery.*

Artek is a Calgary, Alberta based oil and gas exploration, development and production company

whose shares are traded on The Toronto Stock Exchange under the trading symbol "RTK".

Contact

Artek Exploration Ltd.
Darryl Metcalfe
President and Chief Executive Officer
403.296.4799
Artek Exploration Ltd.
Darcy Anderson
Vice President, Finance and Chief Financial Officer
403.296.4775