

# Rock Energy Inc. Announces 2013 Results, Increases Capital Spending and Guidance for 2014, and Updates First Quarter Operations

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CALGARY, ALBERTA--(Marketwired - Mar 21, 2014) - [Rock Energy Inc.](#) (TSX: RE) ("Rock" or the "Company") is pleased to report its financial and operating results for the year and three months ended December 31, 2013.

Rock has filed its Annual Information Form (AIF), which includes Rock's reserves data and other oil and natural gas information for the year ended December 31, 2013. The AIF includes annual disclosure regarding reserves data and other oil and gas information as mandated by National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators. Copies of Rock's audited financial statements and related management's discussion and analysis and AIF for the year ended December 31, 2013 have been filed on the SEDAR website at [www.sedar.com](http://www.sedar.com) and may be obtained on Rock's website at [www.rockenergy.ca](http://www.rockenergy.ca).

Rock is a Calgary-based crude oil exploration, development and production company.

## CORPORATE SUMMARY

FINANCIAL			
Year Ended December 31,	2013		2012
Crude oil and natural gas revenue (\$000)	\$	81,717	\$ 46,567
Funds from operations (\$000) <sup>(1)</sup>	\$	30,571	\$ 13,592
Per share			
- basic	\$	0.78	\$ 0.35
- diluted	\$	0.76	\$ 0.35
Net loss (\$000)	\$	(1,806)	\$ (12,210)
Per share			
- basic	\$	(0.05)	\$ (0.31)
- diluted	\$	(0.05)	\$ (0.31)
Capital expenditures (divestitures), net (\$000)	\$	46,726	\$ (14,337)
As at December 31,	2013		2012
Net debt <sup>(2)</sup> (\$000)	\$	18,135	\$ 3,072
Common shares outstanding (000)		39,423,913	39,101,582
Options outstanding (000)		3,123,106	2,738,437
OPERATIONS			
Year ended December 31,	2013		2012
Average daily production			
Crude oil and natural gas liquids (bbls/d)		3,195	1,836
Natural gas (mcf/d)		2,183	3,246
Total (boe/d)		3,559	2,377
Average product prices			
Crude oil and natural gas liquids (Cdn\$/bbl)	\$	68.03	\$ 64.81
Natural gas (Cdn\$/mcf)	\$	3.45	\$ 2.54
Combined average (Cdn\$/boe)	\$	62.91	\$ 53.53
Field netback (Cdn\$/boe) <sup>(1)</sup>	\$	27.37	\$ 18.33

- (1) Funds from operations, funds from operations per share and field netback are not terms prescribed by International Financial Reporting Standards (IFRS), and so are considered non-GAAP measures. Funds from operations represents cash generated from operating activities before changes in non-cash working capital and decommissioning expenditures. Rock considers funds from operations a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future growth through capital investment. Funds from operations per share is calculated using the same share basis which is used in the determination of net income (loss) per share. Field netback is calculated as crude oil and natural gas revenues after deducting royalties, operating costs and transportation costs, resulting in an approximation of initial cash margin in the field on crude oil and natural gas production. Rock's use of these non-GAAP measurements may not be comparable with the calculation of similar measures for other companies.
- (2) Net debt excludes commodity price contracts.

## LETTER TO THE SHAREHOLDERS

### Introduction

The last year has been a remarkable year of transformation for Rock. Our total corporate production grew from approximately 3,200 boepd in the first quarter of last year to currently exceeding 4,800 boepd, an increase of 50%.

During 2013, our operational focus started with the development of a strong production base at Mantario through the drilling of 27 (27.0 net) wells and the delineation of the pool. We then moved to design the water/chemical flood to maximize the recovery factor and arrest declines. In the meantime, the company was successful in discovering a new extension to the Viking light oil play at Onward. The activity in these core areas dominated our spending for the year and produced not only a significant increase in production, but an increase in operating cash flow as we grew production of higher netback, low cost oil.

While we were focusing our growth in Mantario and Onward, we were also able to divest of our heritage heavy oil assets in the Lloydminster area. We have spent a limited amount of capital here in the past few years, and have decided to sell these high operating cost properties so that we can re-deploy the proceeds into our development plans at Mantario and Onward. In 2013, our average cash flow netback was approximately \$24/boe; in 2014 with the new production mix yielding higher prices and lower operating costs, we are forecasting an average cash flow net back of over \$35/boe.

Rock has made a strategic shift in focus during the last year to assets that have higher product prices and lower operating costs yielding higher netbacks. However, we also remained focused on developing a suite of assets with the highest possible recovery factors so that we can achieve the lowest possible decline rates to provide a sustainable foundation of production and cash flow.

### Rock's 2013 Operating Accomplishments

During 2013, the Company expanded its total proved reserves by 17% to 6.8 million boe from 5.8 million boe at year-end 2012. Our total proved plus probable reserves at year-end 2013 increased 22% to 10.9 million boe from 8.9 million boe at the end of 2012. The proved plus probable reserve additions replaced 254% of production during the year. In 2013, Rock delivered average daily production of 3,559 boepd, and during the fourth quarter production averaged 4,023 boepd. Currently, the Company is producing over 4,800 boe per day with a 95% oil weighting.

Rock spent a total of \$23.0 million at Mantario in 2013 (\$21.9 million drilling, \$1.1 million land and seismic). The Company drilled a total of 22 (22.0 net) vertical step-out oil wells, and 2 (2.0 net) horizontal infill producers into the main pool. This development drilling was able to expand the size of the pool; however, the Company believes it may extend further to the south east. In addition to the oil wells, Rock also drilled 2 dry and abandoned exploration wells in Mantario, and 1 water source/service well (for the planned water/chemical flood). The exploration wells were testing new leads, but with refinement to our seismic/geological model we have identified another 4 - 8 exploration leads in the area. These new exploration leads and the pool extension will be tested in the next 12 months. Mantario at year end had 36 producing oil wells yielding over 3,000 bopd and is currently producing over 3,300 bopd from 40 wells.

At Onward, we continued to advance the development of our water flood in the Mannville (Lloydminster) Formation by acquiring interests in offset lands from competitors and crown land sales, and drilling two net oil wells. Production from the water flood project is currently 325 bopd. In the fourth quarter we drilled 2 (2.0 net) additional Mannville exploration wells in the area, of which one was dry and abandoned, and one which

discovered a new Lloydminster pool near our existing facilities. The new discovery well is currently producing over 100 bopd and the company plans to follow up this discovery with 4 - 6 drilling locations in the second half of 2014. During the year Rock invested \$7.6 million at Onward developing the Mannville Formation.

In addition to the Mannville development at Onward, during 2013 Rock discovered and began to develop a Viking light oil resource play by investing \$14.0 million (\$1.7 million land, \$12.3 million drilling and completions). The original play concept was tested by recompleting three vertical wells on our existing land base to determine if the Viking Formation was oil charged on our lands. With these successful tests, Rock assembled over 38 net sections of land over the area that we believed to be prospective. By September we were in a position to drill our first 2 (2.0 net) horizontal wells. These wells were successful, producing at average (IP 30) rates of 40 bopd. Rock then proceeded to drill another 8 (8.0 net) wells before the end of the year. The next set of wells came on at average rates (IP 30) of approximately 50 bopd. Of the 10 (10.0 net) wells drilled into the Viking play only 7 were completed by year-end. Production from the Viking at year end was less than 200 bopd, however, the Viking is currently producing approximately 450 bopd (from 14 of 18 wells drilled to date).

## 2013 Drilling Results

For the year ended December 31, 2013, the Company drilled a total of 46 (45.0 net) wells made up of 10 (10.0 net) Viking light oil wells, 31 (30.0 net) heavy oil wells, 1 (1.0 net) service well and 4 (4.0 net) dry and abandoned wells, for an overall net casing success rate of 91%.

## Reserves

Rock's total Company proved plus probable reserves increased by 22% year-over-year to 10.9 million boe at year-end 2013 (from 8.9 million boe at year end 2012) generating an RLI of 7.4 years (using 2013 fourth quarter average production rates). All-in finding, development and acquisition costs (including changes in future development capital and revisions) averaged \$31.42 per proved plus probable boe, and \$32.75 per total proved boe.

At Mantario, the Company anticipates that the eventual finding costs will trend lower as the additional resource potential for the main Rex pool related to successful secondary (water flood) and tertiary (chemical flood) oil recovery should be recognized as reserves over time, with limited (if any) additional future development capital.

At Onward, the year-end reserves report assigns reserves and value to less than 10% of the potential that the Company has identified.

Further information respecting Rock's year-end reserves is contained in its AIF, which has been filed on the SEDAR website at [www.sedar.com](http://www.sedar.com) and may also be obtained on Rock's website at [www.rockenergy.ca](http://www.rockenergy.ca).

## Financial Results

Rock generated funds from operations of \$30.6 million (\$0.78 per basic share, 0.76 per fully diluted share) in 2013, compared to \$13.6 million (\$0.35 per basic share) in 2012. For the fourth quarter of 2013, the Company generated funds from operations of \$9.4 million (\$0.24 per basic share) compared to \$11.5 million (\$0.29 per basic share) in the third quarter of 2013. Funds from operations for the fourth quarter were adversely impacted by increased price differentials (WTI vs. Western Canada Select). Realized prices averaged \$59.87/boe during the quarter compared to \$62.91/boe during the year. Operating costs continue to trend downward as lower cost production from Mantario continued to grow (averaging \$19.33 per boe in 2013 compared to \$24.21 per boe in 2012).

The Company had a net loss of \$1.8 million (\$0.05 per basic and fully diluted share) in 2013 compared to a net loss of \$12.2 million (\$0.31 per basic share) in 2012. Rock incurred net capital expenditures of \$46.7 million in 2013 of which \$23.0 million was focused on Mantario, and \$14.0 million was spent on the emerging Viking play at Onward. Total year-end net debt was \$18.1 million against available bank lines of \$45.0 million resulting in a debt to fourth quarter annualized cash flow ratio of 0.5. The Company recently received an

increase to its combined credit facility to \$70.0 million from its lending institution.

## **2014 Area Activity Update**

To date in 2014, Rock has drilled 14 (14.0 net) oil wells with 100% casing success including 4 (4.0 net) Mantario vertical step out locations in the main pool, 8 (8.0 net) horizontal Viking oil wells at Onward and 2 (2.0 net) successful Mannville oil wells (Onward, Neilburg).

### ***Mantario***

The 4 vertical step out locations drilled in the first quarter have confirmed that the main pool continues to the south east with pay thicknesses ranging from 4 - 6 meters. Rock is now planning to drill an additional 6 vertical wells (on 40 acre spacing) to continue to extend the eastern limit of the main pool plus 9 horizontal infill locations. Production from the pool is currently averaging approximately 3,300 bopd from 40 producing wells including the contribution from the two horizontal wells (175 - 200 bopd each). Subsequent to year end, Rock was able to acquire the working interest in the lands from one of the offset owners on the West side of our main pool at Mantario for \$3.9 million.

Rock is proceeding with the implementation of a water/chemical flood at Mantario to arrest the decline and maximize the recovery factor of this pool. The Company has completed the application with Saskatchewan Government and expects to receive the preferred royalty treatment applicable to Enhanced Oil Recovery ("EOR") projects. This royalty program allows the Company to recover the capital costs incurred to implement the EOR project (chemical/polymer flood) through a reduction in royalties. Rock expects to receive further clarification from the Government in the coming weeks, but it is anticipated that we will receive a royalty credit of approximately \$20 - \$30 million over the next 2 - 3 years (starting in 2015). The engineering and design work for this project is completed and we expect to commence water injection into the reservoir for pressure maintenance by the end of the third quarter of this year.

### ***Onward Viking***

During the first quarter of 2014, the Company drilled an additional 8 (8.0 net) horizontal oil wells in to the Viking Formation at Onward. Production rates (IP30) for these wells continue to average approximately 50 bopd and total production from the Viking net to Rock is approximately 450 bopd from 14 of the 18 wells drilled to date. With a total of 18 (18.0 net) wells drilled in to the play, Rock believes the Company has successfully demonstrated an economically viable light oil Viking resource play on 15.5 sections. Under full development at 16 wells per section this would generate 230 remaining development drilling locations. In light of this success, the Board of Directors have approved an expansion to Rock's capital program for 2014 to allow for the continued development of this Viking play. Rock expects to drill an additional 17 wells by the end of the year to more fully evaluate the lands in this area.

### ***Onward Mannville***

During the fourth quarter of 2013, Rock drilled a discovery well at 11-16-34-24W3 into a new Lloydminster pool (West Onward). This discovery well has been producing at rates exceeding 100 bopd for the last two months. With this success we have mapped a potential new pool that indicates potentially 10 - 15 development locations, and we plan to drill the first 4 follow up wells in third quarter of this year.

### ***Asset Rationalization***

During the first quarter of 2014, Rock completed the acquisition of 130 bopd from one of the offset owners on the West side of our main pool at Mantario for \$3.9 million. This transaction was closed on February 20, 2014 with an effective date of February 1, 2014.

In addition to the Mantario acquisition, Rock has agreed to the sale of substantially all of its heritage heavy oil assets in the Lloydminster region (Alberta and Saskatchewan). With the successful completion of the transaction, the Company will have divested of 450 bopd of heavy oil, including the associated infrastructure

and related abandonment liabilities, for \$7.0 million effective February 1, 2014 to a private oil and gas Company. The transaction is anticipated to close by March 31, 2014.

These transactions are significant steps in the transformation of Rock into a higher net back, lower operating cost producer.

## **Commodity Prices**

During November and December of 2013, the Company experienced a widening of heavy oil differentials as refinery start-up delays and pipeline bottlenecks persisted. Today the differential has narrowed considerably and is expected to narrow further as the BP Whiting refinery ramps up the consumption of heavy crude oil (160,000 bopd growing to 350,000 bopd in the next few months). It is our view that these increases in refinery demand coupled with additional pipeline projects (such as the recently announced Enbridge Line 9 reversal) will continue to act to reduce the discount Canadian crude receives from world prices. In addition to the crude oil pricing we are also benefiting from a lower Canadian dollar exchange rate. For every \$0.01 change in exchange rate, the Company's cash flow changes by approximately \$1 million for the year. For the remainder of 2014, Rock is assuming that WTI averages \$90.00 US/bbl, WTI - WCS differential averages \$20.00 US/bbl, AECO gas price averages \$3.50CDN/mcf and the exchange rate averages \$0.92 CDN/US.

In order to minimize risk due to price fluctuations, Rock is actively hedging a portion of our production. We currently have between 1,250 and 1,500 bbls/d hedged quarterly at average WCS \$81.42CDN/bbl until September 30, 2014. We also transport up to 1,500 bbls per day by rail. Rock has been shipping its heavy oil by rail for over two years in order to bypass pipeline bottlenecks and achieve premium pricing.

## **Outlook and 2014 Guidance**

The strong performance from the first quarter's activities has prompted the Company to expand its capital program to \$85 million (from \$62 million) and revise its guidance for the year. The additional capital is largely focused on continued drilling and de-risking of the Viking play at Onward, coupled with an acceleration of the Mantario polymer flood, and the development of the Onward West Lloydminster pool.

Rock's 2014 capital budget of \$85 million is expected to provide 29% growth in average daily oil production from 2013 (including the effect of the asset rationalization activity). During the year the Company plans to drill up to 61 wells with 25 horizontal wells to be drilled into the Onward Viking play, 10 vertical wells at Mantario to extend the pool boundaries, 9 horizontal infill wells in Mantario to develop the pool and replace vertical wells being converted to injectors, 8 Mannville development wells and 9 exploration wells.

The Company is forecasting this activity to generate average production of 4,500 - 4,700 bopd (95% oil). Given the price assumptions mentioned above and an average operating cost of \$16.50/boe the Company is forecasting cash flow of \$59 - \$61 million (\$1.50 - \$1.55/share). With this cash flow and capital spending plan, the debt at the end of the year is forecasted to be \$43 - \$45 million (0.7 times forecasted fourth quarter cash flow annualized) against its combined credit facility of \$70 million.

As Rock approaches the second quarter of 2014, the Company is excited about the team we have assembled, the assets we have discovered and developed, and the prospects that will allow us to continue to develop a significant growth profile. We are focused on building a suite of assets that will continue to provide our shareholders with a solid, long-life, predictable base of sustainable cash flow.

## **Advisory Regarding Forward-Looking Information and Statements**

This press release contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "will", "expects", "believe", "plans", "potential" and similar expressions are intended to identify forward-looking statements or information. More particularly and without limitation, this press release contains forward looking statements and information concerning: 2012 average production; anticipated production rates from the Onward waterflood program; and Rock's drilling plans on its crude oil properties.

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

The forward-looking statements and information in this press release are based on certain key expectations and assumptions made by Rock, including prevailing commodity prices and exchange rates; applicable royalty rates and tax laws; future well production rates; reserve and resource volumes; the performance of existing wells; the success obtained in drilling new wells; the sufficiency of budgeted capital expenditures in carrying out planned activities; the availability and cost of labour and services; and the receipt, in a timely manner, of regulatory and other required approvals. Although Rock believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because Rock can give no assurance that they will prove to be correct. There is no certainty that Rock will achieve commercially viable production from its undeveloped lands and prospects.

Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and natural gas industry in general, such as: operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to reserves, production, costs and expenses; health, safety and environmental risks; commodity price and exchange rate fluctuations; marketing and transportation of petroleum and natural gas and loss of markets; environmental risks; competition; incorrect assessment of the value of acquisitions; failure to realize the anticipated benefits of acquisitions; ability to access sufficient capital from internal and external sources; stock market volatility; and changes in legislation, including but not limited to tax laws, royalty rates and environmental regulations.

Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the operations or financial results of Rock are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)). The forward-looking statements and information contained in this press release are made as of the date hereof and Rock undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

For further information please visit Rock's website at [www.rockenergy.ca](http://www.rockenergy.ca).

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