BlackPearl Announces First Quarter 2014 Financial and Operating Results

07.05.2014 | Marketwired

CALGARY, ALBERTA--(Marketwired - May 7, 2014) - **BlackPearl Resources Inc.** ("BlackPearl" or the "Company") (TSX:PXX)(OMX:PXXS) is pleased to announce its financial and operating results for the three months ended March 31, 2014.

Highlights include:

- The Board of Directors sanctioned development of the Onion Lake thermal project in Saskatchewan and construction began on the first 6,000 barrel per day phase of the project; target date for completion of construction and first steam is mid-2015. Initial oil production from the project is expected within three months of steam injection and peak production rates are expected 9 to 12 months thereafter;
- At Blackrod, the second SAGD pilot well pair was converted to SAGD operation (production phase) in March and we expect to reach peak production rates in 12 to 15 months; we continue to expect approval of our 80,000 barrel per day commercial development application later in 2014;
- At Mooney, development drilling continued on phase two lands and our ASP flood will be expanded to this area later in 2014 or early 2015; initial development of phase 3 lands was initiated in the quarter;
- Strong heavy oil prices resulted in revenues increasing 46% to $59.6 million, funds flow from operations increased 129% to $23 million compared to Q1 2013;
- Funding for our 2014 capital projects was secured with $88 million of equity financings and an expansion of our credit facilities to $150 million;
- Production averaged 9,363 barrels of oil equivalent (boe) per day, a 3% increase over Q1 2013 volumes.

John Festival, President of BlackPearl, commenting on Q1 2014 activities, indicated that "the most significant events in the first quarter was securing financing for our projects and initiating construction of our thermal project at Onion Lake. It has been a very challenging market to secure financing for oil sands and thermal projects over the last 18 months and we are pleased to have been able to complete a combination of debt and equity financings to fully fund the first phase of our Onion Lake thermal project. Once we secured the financing we moved quickly into the construction phase of this project, which will likely take 12 to 15 months to complete. Initiation of construction of this project is an important milestone for our Company. Our long term growth and value creation is directly linked to development of our thermal assets. Thermal projects in Saskatchewan provide very attractive economics with lower capital costs and quicker production ramp-up times compared to Alberta oil sands projects, and we are pleased and excited to begin this development."

Property Review

Onion Lake

At Onion Lake, construction of the initial phase of thermal development began in the first quarter. Capital spending on the thermal project during the quarter was near $30 million. Major equipment packages have been ordered and fabrication of the facility modules is underway. Field construction and assembly of the equipment modules is expected to commence in the third quarter. Three water source wells will be drilled and construction of the water pipeline infrastructure is expected to begin during the third quarter.

Thermal development of the Onion Lake area will utilize a combination of the traditional SAGD process (two horizontal wells drilled approximately 5 metres apart) and a modified SAGD process (using existing and new vertical wells as steam injectors and horizontal producers). The initial 6,000 barrel phase of the project will utilize the modified SAGD process. The advantage of using vertical injectors is that it utilizes existing wellbores and provides us with the flexibility to steam upper hole zones at a later date. The wells are expected to be drilled during the third and fourth quarters this year.

The Company's target for initial steam injection for the commercial facility is mid-2015. Peak oil production rates are expected 12 to 15 months after commencement of steam injection. Capital costs for the first phase of the project are still estimated to be between $200 and $210 million.

We have also begun to assemble our thermal operations team for the project. When we are in full operation next year we expect to have up to 20 staff allocated to thermal operations.

No conventional development drilling occurred at Onion Lake during the first quarter; however, we are planning to begin a 20 well drilling program at Onion Lake after spring-break-up.

Blackrod SAGD Project

At Blackrod, after four months of steam circulation, we converted the second well pair to SAGD operation (production phase) in late March. The second well pair is currently producing approximately 150 barrels of oil per day and is expected to ramp-up and reach peak rates in 12 to 15 months. The initial pilot well pair has recovered in excess of 225,000 barrels of oil and continues to produce in excess of 200 barrels of oil per day. Due to limited steam capacity with our pilot facilities more of our steam is being directed to the second well pair and the lower steam injection rates in the first well pair will impact production rates going forward.

The AER is continuing to review our 80,000 barrel per day commercial SAGD application which we filed in May 2012. No significant issues or opposition to the proposed development have been raised to date in the review process. The initial phase of the project is expected to be designed for 20,000 barrels of oil per day. We continue to expect to receive regulatory approval for the project in 2014. Once we receive development approvals for the project and we obtain more production history from the second well pair we will actively pursue joint venture opportunities to accelerate development of the project.

Mooney

At Mooney, during the first quarter we drilled seven horizontal wells, including two wells on the phase two lands and five wells on phase three lands. We are planning to expand our ASP flood to these lands later this year.

In addition, during the first quarter we expanded our pipeline, facility and road infrastructure to accommodate development of the phase three lands. The wells drilled during the first quarter will be placed on production during the second quarter when the infrastructure expansion is completed. We are planning additional drilling on phase three lands later this year.

We continue to see a favourable response from the ASP flood on the phase one lands at Mooney. Current production from the phase one lands is approximately 2,200 barrels of oil equivalent per day. The response to the ASP flood has been slower in the southern portion of the pool where the oil and reservoir quality is lower than the other areas of the pool. When these southern areas of the pool begin to respond to the flood we expect to reach peak production rates of 2,500 to 3,000 barrels of oil per day later this year.

Production

Oil and gas production averaged 9,363 barrels of oil equivalent per day in the first quarter of 2014, a 3% increase compared with the first quarter of 2013. The increase in oil production in Q1 2014 compared to Q1 2013 is primarily attributable to successful drilling programs at Onion Lake and John Lake in 2013 and a continued positive re-pressurization response form the first phase of the ASP flood at Mooney.

Production volumes in Q1 2014 were 10% lower than Q4 2013 production volumes. The decrease in production is attributable to natural production declines at Onion Lake, as well as, selectively shutting-in some of our wells in the area to prepare for thermal activities in certain portions of the field. The production declines at Onion Lake were not unexpected. The Onion Lake field is a maturing area and many of the wells drilled over the last seven years have reached or are near the end of their productive life. We intend to continue conventional drilling at Onion Lake after spring break-up to flatten the field's primary production profile until we transition to thermal production. The decrease in Q1 2014 production volumes is also partially due to lower volumes at Mooney caused by cold weather issues and the need to temporarily take certain wells off production to facilitate drilling and pipeline work during the first quarter of 2014.

Average Daily Sales Volume

	Three months ended March 31	
(boe/day)	2014	2013
Onion Lake	4,274	4,322
Mooney	3,696	3,892
John Lake	1,069	781
Other	113	19
	9,014	9,014
Blackrod SAGD pilot	211	73
	9,363	9,087

Financial Results

Oil and gas revenues increased 46% in the first quarter of 2014 to $59.6 million compared with $40.7 million in Q1 2013. The increase in revenues is attributable to the 3% increase in production volumes as well as higher realized oil prices in 2014. Our realized oil price (before the effects of risk management activities) in Q1 2014 was $73.23 per barrel compared to $50.64 per barrel in 2013. The increase in realized wellhead price reflects higher WTI reference oil prices in Q1 2014 compared with Q1 2013 (US$98.68/bbl vs US$94.34/bbl), significantly tighter heavy oil differentials (US$23.11/bbl vs US$31.95/bbl) and a weaker Canadian dollar relative to the US dollar ($0.906 vs $0.991).

Operating costs were $19.7 million or $23.88 per boe in Q1 2014 compared to $18.7 million or $23.05 per boe in Q1 2013. In 2014 we began to expense all operating costs associated with the first phase of the ASP flood at Mooney. During the initial re-pressurization of the reservoir these costs were being capitalized.

The increase in production and higher wellhead prices partially offset by higher operating costs resulted in a 129% increase in funds flow from operations in Q1 2014 to $23.0 million compared to $10.0 million for the same period in 2013.

On March 18, 2014, the Company completed a bought deal equity offering of 26,500,000 common shares at a price of $2.65 per common share for gross proceeds of $70.2 million. Subsequent to March 31, 2014, the Company completed a private placement of 3,773,585 common shares at a price of $2.65 per share for gross proceeds of $10.0 million and the underwriters of the bought deal equity offering exercised their over-allotment option on 3,100,000 common shares at a price of $2.65 per share, for additional gross proceeds of $8.2 million. Upon completion of these share issuances, the Company's lending syndicate increased the Company's existing credit facilities from $115 million to $150 million. The increase in debt and equity funding is intended to finance the Company's capital expenditure program in 2014.

Financial and Operating Highlights

	Three months ended March 31	
	2014	2013
Daily production / sales volumes(1)		
Oil (bbl/d)	9,122	8,941
Natural gas (mcf/d)	1,448	879
Combined (boe/d)	9,363	9,087
Product pricing ($) (before the effects of hedging transactions)		
Crude oil - per bbl	73.23	50.64
Natural gas - per mcf	5.41	3.18
Combined - per boe	72.30	50.13
($000's, except per share and boe amounts)		
Revenue		
Oil and gas revenue - gross	59,555	40,671

Royalties ($/boe)	14.00	7.80
Transportation costs ($/boe)	1.87	3.60
Operating costs ($/boe)	23.88	23.05
Loss for the period	(1,126)	(5,644)
Per share, basic and diluted	(0.00)	(0.02)
Funds flow from operations(2)	23,037	10,039
Capital expenditures	49,360	19,101
Working Capital, end of period	28,192	(4,624)
Long term debt	-	11,915
Shares outstanding, end of period	328,398,308	296,108,308

(1) Boe amounts are based on a conversion ratio of 6 mcf of gas to 1 barrel of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

(2) Funds flow from operations is a non-GAAP measure that represents cash flow from operating activities before decommissioning costs incurred and changes in non-cash working capital related to operations. Funds flow from operations does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies.

OUTLOOK

2014 Guidance	Initial Guidance	Q1 Update
Production (boe/d)		
Annual average	10,000 - 10,500	9,000 - 9,500
Funds flow from operations ($millions)	80 - 85	75 - 80
Capital expenditures ($millions)	260 - 270	280 - 300
Year-end debt ($millions)	95 - 105	135 - 140
Pricing Assumptions (annual average)		
Crude oil - WTI	US $92.00	US $95.50
Light/heavy differential	US $21.00	US $20.50
Foreign Exchange (Cdn$ to US$)	0.94	0.92

We have increased our planned capital spending for 2014 from $260 - $270 million to $280 - $300 million. The increase is primarily attributable to timing of expenditures on the Onion Lake thermal project. Delivery of certain equipment modules originally planned for the first half of 2015 is now expected to be accelerated and delivered in 2014. The total capital costs for the first phase of the project continue to be in the range of $200 to $210 million. The increase in planned capital spending has resulted in an increase in our anticipated year-end debt levels to $135 to $140 million.

Due to strong first quarter oil prices we have increased our average pricing assumptions for the year. In our Q1 2014 update we have used an average 2014 WTI price of US$95.50 per barrel and a heavy oil differential of US$20.50 per barrel.

We have lowered our average oil production from 10,000 - 10,500 boe/d to 9,000 - 9,500 boe/d due to weather related issues at Mooney. We were not able to complete our Q1 infrastructure plans (roads and pipelines); this work will get pushed out into Q3 when the ground is drier. As a result, the wells drilled in phase 3 in Q1 and implementation of our ASP flood on our phase 2 lands will be delayed, causing our full year corporate guidance to be lowered.

The 2014 first quarter report to shareholders, including the financial statements, management's discussion and analysis and notes to the financial statements are available on the Company's website (www.blackpearlresources.ca) or SEDAR (www.sedar.com).

This news release includes terms commonly used in the oil and natural gas industry, such as funds flow and funds flow from operations which represent cash flow from operating activities expressed before changes in non-cash working capital. These terms are used by the Company to analyze operating performance, leverage and liquidity and to provide shareholders and investors with additional information to measure the Company's performance and efficiency and its ability to fund a portion of its future activities and to service any long-term debt if incurred in the future. These terms do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by other entities. Consequently, these are referred to as non-GAAP measures.

FORWARD-LOOKING STATEMENTS

This release contains certain forward-looking statements and forward-looking information (collectively referred to as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as "anticipate", "anticipated", "planning", "planned", "potential", "could", "continue", "continued", "continuing", "estimate", "estimates", "estimated", "forecast", "likely", "expect", "expected", "may", "intend", "intends", "intended", "intention", "deferred", "successful", "will", "project", "timing", "in the event", "move toward", "should", "scheduled", "outlook" or similar words suggesting future outcomes.

In addition, statements relating to "reserves", "resources" or "contingent resources" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resource described exist in the quantities predicted or estimated and can be profitably produced in the future.

In particular, but without limiting the foregoing, this report contains forward-looking statements pertaining to our business plans and strategies; capital expenditure and drilling programs including the target date of mid-2015 for completion of construction and first steam at Onion Lake and anticipated timing of initial and peak oil production rates at the Onion Lake EOR project, anticipated lower capital costs and quicker production ramp-up times for Saskatchewan thermal projects, reaching peak production rates 12 to 15 months after steam injection at Onion Lake, estimated capital costs of $200 and $210 million for the first phase of thermal development at Onion Lake, estimated timing to begin a 20 well conventional drilling program at Onion Lake after spring break-up, timing and expected ramp-up time to reach peak production rates of the second pilot well pair at Blackrod, expected timing to receive regulatory approval for our commercial development application at Blackrod, anticipated expansion of the ASP flood to phase two lands at Mooney in 2014, and timing and expected peak production rates of 2,500 to 3,000 barrels of oil from the first phase of the ASP flood at Mooney as well as all the information contained in the Outlook section.

The forward-looking information is based on expectations and assumptions by management regarding future production levels, future oil and natural gas prices, continuation of existing tax, royalty and regulatory regimes, foreign exchange rates, estimates of future operating costs, timing and amount of capital expenditures, performance of existing and future wells, the ability to obtain financing on acceptable terms, availability of skilled labour and drilling and related equipment, general economic and financial market conditions and the ability to market oil and natural gas successfully to current and new customers. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Undue reliance should not be placed on forward-looking statements. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will be realized. Actual results will differ, and the differences may be material and adverse to the Company and its shareholders.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that the goals or figures contained in forward-looking statements will not be achieved. These factors include, but are not limited to, risks associated with fluctuations in market prices for crude oil, natural gas and diluent, general economic, market and business conditions, volatility of commodity inputs, substantial capital requirements, customary conditions including receipt of necessary regulatory and stock exchange approvals on the issuance of common shares, uncertainties inherent in estimating quantities of reserves and resources, extent of, and cost of compliance with, government laws and regulations and the effect of changes in such laws and regulations from time to time, the need to obtain regulatory approvals on projects before development commences, environmental risks and hazards and the cost of compliance with environmental regulations, aboriginal claims, inherent risks and hazards with operations such as fire, explosion, blowouts, mechanical or pipe failure, cratering, oil spills, vandalism and other dangerous conditions, financial loss associated with derivative risk management contracts, potential cost overruns, variations in foreign exchange rates, variations in interest rates, diluent and water supply shortages, competition for capital, equipment, new leases, pipeline capacity and skilled personnel, uncertainties inherent in the SAGD bitumen and ASP recovery process, credit risks associated with counterparties, the failure of the Company or the holder of licences, leases and permits to meet requirements of such licences, leases and permits, reliance on third parties for pipelines and other infrastructure, changes in royalty regimes, failure to accurately estimate abandonment and reclamation costs, inaccurate estimates and assumptions by management, effectiveness of internal controls, the potential lack of available drilling equipment and other restrictions, failure to obtain or keep key personnel, title deficiencies with the Company's assets, geo-political risks, risks that the Company does not have adequate insurance coverage, risk of litigation and risks arising from future acquisition activities. Further information regarding these risk factors may be found under "Risk Factors" in the Annual Information Form.

Readers are cautioned that these factors and risks are difficult to predict and that the assumptions used in the preparation of such information, although considered reasonably accurate at the time of preparation, may prove to be incorrect. Readers are also cautioned that the foregoing list of factors is not exhaustive. Consequently, there is no representation by the Corporation that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained in this report are made as of the date hereof, and the Corporation does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

Contact

BlackPearl Resources Inc.
John Festival
President and Chief Executive Officer
(403) 215-8313
BlackPearl Resources Inc.
Don Cook
Chief Financial Officer
(403) 215-8313
(403) 265-8324
www.blackpearlresources.ca