

Zargon Oil & Gas Ltd. Discusses Alberta Energy's Enhanced Oil Recovery Royalty Changes and Provides a Little Bow ASP Flood Project Update

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CALGARY, ALBERTA--(Marketwired - Jul 28, 2014) - Zargon Oil & Gas Ltd. (TSX:ZAR)(TSX:ZAR.DB) ("Zargon") reports that the revisions to the Enhanced Oil Recovery ("EOR") royalty program announced last week by Alberta Energy will have a positive impact on the economics of Zargon's Alkaline Surfactant Polymer ("ASP") enhanced oil recovery project at Little Bow in Southern Alberta.

Zargon is currently reviewing the details of Alberta's modified EOR Crown royalty program (see announcement at www.qp.alberta.ca/documents/orders/orders_in_council/2014/714/2014_335.html for further details), which effectively bring the Alberta conventional oil EOR royalties more in line with existing Alberta oil sands (in-situ) and Saskatchewan conventional oil EOR royalty programs.

Zargon's initial estimates indicate the terms of the revised EOR program could increase Zargon's full cycle rate of return of the first two phases of the Little Bow ASP project by up to 5 percent (to 22 percent) and increase the discounted cash flow (PVBT 10 percent) of phases 1 and 2 of the Little Bow project by up to \$30 million. In Zargon's most recent year end 2013 reserve report, Zargon's independent reserves evaluator McDaniel & Associates Consultants Ltd., assigned 4.48 million barrels of proved and probable oil and liquids reserves and an incremental discounted cash flow (PVBT 10 percent) of \$66.3 million to phases 1 and 2 of the Little Bow project. Subsequent to the effective date of the McDaniel report, Zargon has spent more than \$12 million of McDaniel future development capital for project construction, commissioning and more than three months of injection.

Since initial ASP injection commenced in late March, Zargon has injected approximately 1 million barrels of ASP solution into the phase 1 area of the Little Bow Mannville I Pool, at an average injection rate of 102 percent of design capacity. Encouragingly, pattern injection rates are balanced and are meeting or exceeding reservoir models, and we have observed no evidence of premature breakthrough.

ASP injection to date constitutes nearly 4 percent of the reservoir hydrocarbon pore volume ("HCPV"). We are targeting an ASP injection volume of 30 percent of the HCPV followed by a polymer only injection volume of 40 percent of the HCPV. Our analysis predicts a 12 percent ASP incremental oil recovery factor and peak incremental oil rates of 1,700 barrels of oil per day in 2017 for the Little Bow phases 1 and 2 project area. Phase 2 ASP injection is scheduled to begin in the summer of 2016.

The early project data pertaining to injection rates, voidage replacement and the lack of breakthrough (and related early oil production volumes) imply encouraging reservoir conformance and support our estimates of incremental oil recovery and peak production rates. However, with no sign of early breakthrough, the timing of first oil volumes is delayed. We are now predicting negligible Little Bow phase 1 volumes in 2014 with a year end 2014 rate of 150 barrels of oil per day (previously 350 barrels of oil per day). Incremental production is expected to average 700 barrels of oil per day in 2015 (previously 900 barrels of oil per day) and then increase to an unchanged 1,550 barrels of oil per day in 2016, once phase 2 production begins. Follow up phases 3 and 4 will commence after phase 1 and 2 injections are completed. Without further plant debottlenecking or expansions, Zargon's combined Little Bow project (phases 1 through 4) total production is expected to stabilize at more than 2,200 barrels of oil per day in the 2021 through 2023 period. The long-life stable production profile of the ASP project is well suited for Zargon's dividend-paying business model. For further information regarding the Little Bow ASP project, please refer to the company's corporate presentation, which is available at the www.zargon.ca.

Based in Calgary, Alberta, Zargon's securities trade on the Toronto Stock Exchange and there are currently

30.134 million common shares outstanding.

FORWARD-LOOKING STATEMENTS

This press release offers our assessment of Zargon's future plans and operations as at July 28, 2014, and contains forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. Such statements are generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof). In particular, this press release contains forward-looking statements pertaining to the following:

- our interpretation of the revised Alberta EOR royalty scheme;
- our estimates of economics, reserves, production and timing thereof, and costs for the Little Bow ASP project;
- our plans for our Little Bow ASP project and the results therefrom; and
- our business plans and strategy.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including such as those relating to results of operations and financial condition, general economic conditions, industry conditions, changes in regulatory and taxation regimes, volatility of commodity prices, escalation of operating and capital costs, currency fluctuations, the availability of services, imprecision of reserve estimates, geological, technical, drilling and processing problems, environmental risks, weather, the lack of availability of qualified personnel or management, stock market volatility, the ability to access sufficient capital from internal and external sources and competition from other industry participants for, among other things, capital, services, acquisitions of reserves, undeveloped lands and skilled personnel. Risks are described in more detail in our Annual Information Form, which is available on our website and at www.sedar.com.

Forward-looking statements are provided to allow investors to have a greater understanding of our business. You are cautioned that the assumptions, including among other things, future oil and natural gas prices; future capital expenditure levels; future production levels; future exchange rates; the cost of developing and expanding our assets; our ability to obtain equipment in a timely manner to carry out development activities; our ability to market our oil and natural gas successfully to current and new customers; the impact of increasing competition, our ability to obtain financing on acceptable terms; and our ability to add production and reserves through our development and acquisition activities used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained in this document is expressly qualified by this cautionary statement. Our policy for updating forward-looking statements is that Zargon disclaims, except as required by law, any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

FURTHER INFORMATION

Zargon Oil & Gas Ltd. is a Calgary based oil and natural gas company working in the Western Canadian and Williston sedimentary basins that has delivered a long history of returns and dividends (distributions). Zargon's business is focused on oil exploitation projects that profitably increase oil production and recovery factors from existing oil reservoirs.

In order to learn more about Zargon, we encourage you to visit Zargon's website at www.zargon.ca where you will find a current shareholder presentation, financial reports and historical news releases.

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