

Bonavista Energy Corporation Announces 2014 Second Quarter Results

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CALGARY, ALBERTA--(Marketwired - Jul 31, 2014) - [Bonavista Energy Corp.](#) ("Bonavista") (TSX:BNP) is pleased to report to shareholders its condensed consolidated interim financial and operating results for the three and six months ended June 30, 2014. The unaudited financial statements and notes, as well as management's discussion and analysis, are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](#) and on Bonavista's website at [www.bonavistaenergy.com](#).

Highlights	Three months ended June 30,			Six months ended June 30,		
	2014	2013	% Change	2014	2013	% Change
Financial						
(\$ thousands, except per share)						
Production revenues	287,529	244,940	17 %	602,562	472,433	28 %
Funds from operations ⁽¹⁾	135,392	123,074	10 %	296,186	233,082	27 %
Per share ^{(1) (2)}	0.67	0.63	6 %	1.47	1.19	24 %
Dividends declared ⁽³⁾	39,813	38,015	5 %	79,388	75,685	5 %
Per share	0.21	0.21	- %	0.42	0.42	- %
Net income	86,576	23,107	275 %	41,639	19,888	109 %
Per share ⁽⁴⁾	0.43	0.12	258 %	0.21	0.10	110 %
Adjusted net income ⁽⁵⁾	55,706	9,032	517 %	76,485	25,646	198 %
Per share ⁽⁴⁾	0.28	0.05	460 %	0.38	0.13	192 %
Total assets				4,192,020	4,192,157	- %
Long-term debt, net of working capital				1,126,873	1,081,191	4 %
Long-term debt, net of adjusted working capital ⁽⁶⁾				1,050,140	1,073,180	(2) %
Shareholders' equity				2,274,594	2,275,326	- %
Capital expenditures:						
Exploration and development	121,866	103,493	18 %	298,501	219,295	36 %
Acquisitions, net of dispositions	(51,701)	(8,633)	499 %	(151,169)	27,335	(653) %
Weighted average outstanding equivalent shares: (thousands)⁽⁴⁾						
Basic	202,329	195,995	3 %	201,710	195,451	3 %
Diluted	205,443	198,295	4 %	204,598	197,588	4 %
Operating						
(boe conversion - 6:1 basis)						
Production:						
Natural gas (mmcf/day)	300	271	11 %	293	272	8 %
Natural gas liquids (bbls/day)	15,349	15,212	1 %	15,207	14,980	2 %
Oil (bbls/day) ⁽⁷⁾	8,960	12,257	(27) %	10,033	12,171	(18) %
Total oil equivalent (boe/day)	74,273	72,554	2 %	74,105	72,444	2 %
Product prices:⁽⁸⁾						
Natural gas (\$/mcf)	4.29	3.64	18 %	4.67	3.45	35 %
Natural gas liquids (\$/bbl)	52.85	43.91	20 %	56.67	46.23	23 %
Oil (\$/bbl) ⁽⁷⁾	79.34	80.42	(1) %	79.53	77.77	2 %
Operating expenses (\$/boe)	8.31	8.92	(7) %	8.78	9.04	(3) %
General and administrative expenses (\$/boe)	1.19	1.15	3 %	1.18	1.13	4 %
Cash costs (\$/boe) ⁽⁹⁾	12.38	12.98	(5) %	12.88	13.11	(2) %
Operating netback (\$/boe) ⁽¹⁰⁾	22.83	21.40	7 %	24.90	20.45	22 %

NOTES:

(1) Management uses funds from operations to analyze operating performance, dividend coverage and leverage. Funds from operations as presented do not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculations of similar measures for other entities. Funds from operations as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS. All references to funds from operations throughout this report are based on cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures and interest expense. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income per share.

(2) Basic funds from operations per share calculations include exchangeable shares which are convertible into common shares on certain terms and conditions.

(3) Dividends declared include both cash dividends and common shares issued pursuant to Bonavista's dividend reinvestment plan ("DRIP") and Bonavista's stock dividend program ("SDP"). For the three months ended June 30, 2014 approximately 647,000 (June 30, 2013 - 894,000) common shares were issued under the DRIP and SDP with an approximate value of \$10.3 million (June 30, 2013 - \$13.0 million). For the six months ended June 30, 2014, approximately 1.7 million (June 30, 2013 - 2.2 million) common shares were issued under the DRIP and SDP with an approximate value of \$26.1 million (June 30, 2013 - \$30.3 million).

(4) Basic net income per share calculations include exchangeable shares which are convertible into common shares on certain terms and conditions.

(5) Amounts have been adjusted to exclude unrealized gains and losses on financial instrument commodity contracts, net of tax.

(6) Amounts have been adjusted to exclude associated assets or liabilities from financial instrument commodity contracts and decommissioning liabilities.

(7) Oil includes light, medium and heavy oil.

(8) Product prices include realized gains and losses on financial instrument commodity contracts.

(9) Cash costs equal the total of operating, transportation, general and administrative, and financing expenses.

(10) Operating netback equals production revenues including realized gains and losses on financial instrument commodity contracts, less royalties, operating and transportation expenses, calculated on a boe basis.

Share Trading Statistics	Three months ended			
	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
(\$ per share, except volume)				
High	17.85	16.22	14.04	14.37
Low	15.79	13.46	11.25	12.70
Close	16.37	16.17	13.92	12.93
Average Daily Volume - Shares	545,585	566,650	1,000,966	620,864

MESSAGE TO SHAREHOLDERS

Bonavista has completed another successful quarter in repositioning the business for efficient growth and maximizing total shareholder return. We remain committed to progressing as one of the most efficient energy operators in western Canada as we strive to find better ways to deliver value to our shareholders, while adapting to an ever-changing commodity price environment.

In the second quarter of 2014, we completed the disposition of our mature heavy oil assets, producing approximately 2,350 boe per day for \$83 million, while acquiring approximately 1,000 boe per day of low cost liquids-rich natural gas production in the heart of our Hoadley Glauconite trend for \$23 million. Additionally, we announced the intention to acquire our partner's interest in the prolific Wilrich play at Ansell in the Deep Basin Core Area, which closed on July 7, 2014. Concentrating our asset portfolio through acquisition and divestiture activities has been a key element of our strategy over the past few years.

Our exploration and development ("E&D") program during the second quarter has been purposefully focused in our core areas spending \$121.9 million, drilling 25 (22.5 net) wells and producing 74,273 boe per day for the quarter. Our strategy to concentrate operations has delivered significant improvements in operational efficiencies, evidenced by a ten percent reduction in operating costs and a seven percent reduction in cash costs when compared to the previous quarter. Current production is approximately 76,500 boe per day, which is consistent with our 2014 budget, and precisely aligned with our five year forecast.

Operational and financial accomplishments in the second quarter of 2014 include:

- Increased production to 74,273 boe per day, representing a 2% increase from second quarter 2013 levels of 72,554 boe per day, despite net dispositions of 2,700 boe per day due to divestiture and acquisition activity over the past 12 months;
- Invested \$121.9 million in E&D activities, drilling 25 (22.5 net) wells with an overall success rate of 100%. Consistent with our strategy to concentrate our asset portfolio, 23 (20.6 net) of the wells were drilled within our West Central and Deep Basin Core Areas;
- Generated production revenues of \$287.5 million, representing a 17% increase when compared to the second quarter of 2013;
- Realized funds from operations of \$135.4 million (\$0.67 per share) representing a 10% increase from the second quarter of 2013 and a 6% increase on a per share basis;

- Achieved a 7% reduction in operating costs to \$8.31 per boe and a 5% reduction in cash costs to \$12.38 per boe when compared to the second quarter of 2013, resulting in operating netbacks of \$22.83 per boe representing a 7% improvement from the second quarter of 2013;
- Added approximately 90 mmcf per day of compression capacity in our key development plays in the first half of 2014 to accommodate our forecasted growth over the next 18 months;
- Managed our exposure to fluctuating commodity prices resulting in approximately 70% of our forecasted natural gas revenues (net of royalties) hedged at an average floor price of \$3.41 per gj at AECO for 2014 and approximately 48% at an average floor price of \$3.63 per gj for 2015; and
- Delivered cumulative dividends of over \$2.6 billion or \$27.45 per common share since 2003, when Bonavista introduced a dividend component to our shareholder return.

Second quarter acquisition and divestiture highlights:

- Divested of our non-core, mature heavy oil assets producing approximately 2,350 boe per day for proceeds of \$83 million; and
- Acquired liquids-rich natural gas assets producing approximately 1,000 boe per day for \$23 million, further concentrating our assets in our West Central Core Area and strengthening our position in the Hoadley Glauconite play.

Subsequent to the second quarter:

- Acquired the remaining 49% interest being approximately 1,600 boe per day in our Wilrich play at Ansell in our Deep Basin Core Area for a purchase price of approximately \$141 million; and
- Completed the bought deal equity financing of 12.1 million common shares for net proceeds of approximately \$192 million.

2014 YEAR-TO-DATE CORE AREA HIGHLIGHTS

WEST CENTRAL CORE AREA

With access to over 1.7 million acres, containing approximately 740 of our future drilling locations, our West Central Core Area is our largest area of operations. This core area offers liquids-rich natural gas and light oil resources in multiple perspective horizons, year round accessibility and extensive infrastructure including over 2,800 kilometers of operated pipelines and 37 facilities, the majority of which are operated by Bonavista.

In 2014, we will spend between \$350 and \$360 million on E&D activities in the West Central Core Area drilling between 95 and 100 horizontal wells. During the first half of 2014, our E&D capital spending in this area totaled approximately \$181 million, involving up to eight rigs, drilling 47 (39.3 net) wells. This represents a 230% increase in E&D spending relative to the first half of 2013. Specific to the second quarter, 90% of the wells drilled were in this core area.

Our West Central Core Area averaged 45,270 boe per day in the first half of 2014 representing a seven percent increase over the same period in 2013. Our Hoadley Glauconite play continues to be the engine of growth representing a forecasted 65% of the total expenditures in this core area for 2014 and delivering excellent economics at current prices.

During the quarter, we renegotiated the freehold royalty rate on lands within our West Central Core Area. This reduced royalty rate applies to all existing and future production and specific to the Glauconite represents approximately 40% of our remaining horizontal drilling locations, resulting in a material impact on the value of our future development in the play.

Hoadley Glauconite Liquids Rich Natural Gas:

Bonavista drilled an additional 16 (15.0 net) horizontal Glauconite wells in the second quarter bringing total activity in the first half of 2014 to 30 (27.1 net) horizontal wells. This represents a 25% increase in drilling activity when compared to 24 (20.4 net) horizontal wells drilled in the first half of 2013.

Current horizontal Glauconite production volumes are approximately 22,500 boe per day, which is modestly ahead of our five year forecast. The continued growth in our Glauconite play has warranted additional infrastructure including the commissioning of a transmission line designed for 120 mmcf per day of natural gas transportation and a 30 mmcf per day compressor station. The final phase of this compressor station was commissioned late in July with current throughput of approximately 28 mmcf per day. These infrastructure additions will provide incremental takeaway capacity from the area, supporting our future growth plans.

The average cost reduction of 11% per well realized to date in our extended reach horizontal program is compelling, when compared to the cost to access the equivalent reservoir from two separate horizontal wells. Year-to-date, Bonavista has drilled five extended reach horizontals with three of these wells drilled in the second quarter. Well performance is meeting our expectations.

During the quarter we completed the previously announced acquisition of liquids-rich natural gas assets producing approximately 1,000 boe per day for \$23 million, further concentrating our assets and strengthening our position in the Hoadley Glauconite play.

Ellerslie Liquids Rich Natural Gas:

Bonavista drilled two additional 100% working interest horizontal Ellerslie wells in the second quarter of 2014. Both wells are in varying stages of completion and evaluation. We continue to believe in the long-term potential of this play given the size and quality of the resource. We look forward to building additional confidence as we work through the operational challenges we've faced developing this scalable resource.

Our inventory of 135 sections of land and approximately 200 horizontal drilling locations make the Ellerslie an exciting component of future upside within the organization.

Cardium Light Oil:

Bonavista drilled two 100% working interest horizontal Cardium wells in the Willesden Green area during the second quarter. We are pleased with the results of these wells with combined average rates of approximately 400 boe per day during the first 60 days of production.

At Lochend, our production from our first quarter drilling program of five (3.7 net) wells has been consistent with our expectations delivering average production rates of approximately 260 boe per day over the first four months of production. Our Lochend program for 2014 consists of 12 wells, seven of which will be drilled in the second half of the year. To accommodate this program, Bonavista has recently constructed and commissioned a 5,000 bbl per day multi-well oil battery at Lochend.

Collectively, this brings our Cardium activity in the first half of 2014 to ten (6.4 net) horizontal wells serving to maintain our corporate Cardium production at 5,500 boe per day which is consistent with our five year forecast.

DEEP BASIN CORE AREA

In 2014, we plan to spend between \$190 and \$200 million on E&D activities in the Deep Basin, drilling up to 32 wells. Seasonality has limited Bonavista's accessibility and activity in this area in the second quarter. Bonavista has spent \$96 million on E&D activities drilling 13 (8.8 net) wells and building our Ansell infrastructure in the first half of 2014. This has resulted in production rates of 16,300 boe per day on average

for the first six months of 2014 which represents an 18% increase relative to the same period in 2013.

Facility projects are responsible for 18% of our total E&D spending in this core area, as we prepare the infrastructure for future growth. Our focus throughout the first half of the year has been on compression and transportation capacity in our Wilrich play at Ansell. This compression and sales line constructed in the first quarter supports our growing processing capacity in the Deep Basin Core Area which is approximately 230 mmcf per day.

Since our expansion into the Deep Basin Core Area in 2010, we have assembled approximately 295,000 net acres and 300 future horizontal locations. With compelling production performance, the Wilrich play provides strong economics at current natural gas pricing, resulting in an attractive recycle ratio and timely payout. In addition, the natural gas liquids content of our Bluesky play translates into solid rates of return supported by strong initial production rates and shallower decline profiles.

The results of a three dimensional seismic program, completed in the first quarter, on our Ansell property revealed extensive Falher and Notikewan channels deposited above the Wilrich reservoir. Consistent with our strategy, these multi-zone targets will continue to enhance the capital and operational efficiencies of the area and optimize the utilization of infrastructure being established.

Wilrich Natural Gas:

In the Wilrich, seven wells (5.3 net) were drilled during the first half of 2014, five of which were on our Ansell property. Subsequent to the quarter, we closed an acquisition of the remaining 49% interest in the Bonavista operated Wilrich play at Ansell. This acquisition brings our Wilrich drilling inventory to 150 net horizontal wells, 97 of which are on our Ansell property. Furthermore, this transaction makes Bonavista the sole owner of 120 mmcf per day of pipeline capacity and 30 mmcf per day of compression capacity in our Ansell field.

Second quarter horizontal Wilrich production was approximately 5,900 boe per day representing an 80% increase from the same period a year ago. Our 2014 drilling program consists of 21 Wilrich wells in Ansell and Marlboro which will establish a solid foundation for future growth in 2015.

Bluesky Liquids Rich Natural Gas:

Our three Bluesky wells drilled in the first quarter continue performing above expectations at a three month average production rate of 625 boe per day. In the second quarter, one non-operated well was drilled in the Pine Creek area and is awaiting tie-in. From a rate of return perspective, the individual well economics of the Bluesky formation rank among the best of our liquids-rich natural gas plays. We continue to pursue Bluesky opportunities in our Pine Creek area. During the quarter, we completed two complementary acquisitions which will add additional development opportunities in the Bluesky and Falher.

EMERGING OPPORTUNITIES

Following up on a successful Falher horizontal well at Morningside in the first quarter, Bonavista drilled an additional Falher well during the second quarter which has averaged 830 boe per day inclusive of 50 bbls per mmcf of natural gas liquids in the first month. We remain optimistic with our Falher opportunities and plan to drill an additional four horizontal wells in 2014 to further delineate the reservoir. To support our Falher drilling program at Morningside, Bonavista has commenced construction of a 15 mmcf per day compressor station which is scheduled to be operational in September of 2014.

In the first half of 2014, we drilled one horizontal well, with an additional horizontal well drilled subsequent to the second quarter, in our Blueberry Montney field. On strategy, the purpose of our 2014 Montney program is to further delineate and retain our 55 section land position for future development of the substantial resource in place. We plan to complete both of these wells in August to further enhance our understanding of this extensive resource. We continue to improve our understanding of the characteristics of the reservoir and the techniques required to optimize recovery most efficiently. Our results coupled with the pace of industry development and future commodity prices will dictate the pace of our development of this play.

STRENGTHS OF BONAVIDA ENERGY CORPORATION

Throughout our seventeen year history, from an initial restructuring in 1997 to create a high growth junior exploration company, through the energy trust phase between July 2003 and December 2010, and since January 2011 as a dividend paying corporation, Bonavista has remained committed to the same operating philosophies despite the endless commodity price volatility and uncertainty inherent in the energy sector. We have consistently maintained a high level of investment activity on our asset base resulting in an increase in corporate production by approximately 120% since converting to an energy trust in July 2003. These results stem from the expertise of our people and their entrepreneurial approach to consistently generating profitable development projects in an unpredictable commodity price environment. Our experienced technical teams have a thorough understanding of our assets and the reservoirs within the Western Canadian Sedimentary Basin as they exercise the discipline and commitment required to deliver long-term value to our shareholders. The core operating and financial principles that guide our people have been with our organization from the beginning and remain solidly intact today.

Our production is approximately 68% weighted towards natural gas and is geographically focused in multi-zone regions, primarily in Alberta. We actively participate in undeveloped land purchases, property acquisitions and farm-in opportunities, which have all enhanced the quantity and quality of our extensive drilling inventory. Specifically over the past five years, technology coupled with North American natural gas supply/demand fundamentals has led to numerous opportunities to reposition the asset portfolio and drastically improve the quality of our development projects. These activities have led to low cost reserve additions and a production base that continues to grow at a steady pace. Today, the predictable production performance and cost structure of our asset base ensures operating netbacks that compete favorably in most operating environments. Furthermore, our assets are predominantly operated by Bonavista, providing control over the pace of operations and a direct influence over our operating and capital cost efficiencies.

Our team brings a successful track record of executing low to medium risk scalable development programs with consistency and with precision. We continually strive for balance sheet flexibility and remain focused on prudent financial management. Our Board of Directors and management team possess extensive experience in the oil and natural gas business. They have successfully guided our organization through many different economic cycles utilizing a proven strategy underpinned with a set of consistent and reliable operating and financial principles. Directors, management and employees also own approximately 11% of the equity of Bonavista, aligning our interests with those of external shareholders.

OUTLOOK

Following a cold winter where natural gas prices strengthened as inventories declined to lower than normal levels, the North American supply response in the second quarter of 2014 has exceeded expectations resulting in continued price volatility. Despite this price uncertainty, we continue to adapt to this commodity price environment as we remain focused on progressing as one of the most efficient operators in the Western Canadian Sedimentary Basin. We have demonstrated continued improvements in efficiency over the past six quarters by repositioning and concentrating our asset portfolio into two core areas. These core areas are characterized by significant remaining resources in multi-zone horizons, accessible to existing infrastructure, and currently account for approximately 86% of our production. Our asset concentration strategy has been demonstrated by the disposition of 4,850 boe per day of high cost, non-core assets, while acquiring 2,500 boe per day of low cost, opportunity-rich assets in the heart of these two core areas. These transactions have complemented our 93% E&D spending year-to-date in these two core areas. The success of this concentration strategy is evidenced by a 10% reduction in operating costs over the previous quarter and recent capital efficiency improvements.

Our goal of maximizing total shareholder return and per share performance was demonstrated by the suspension of our dividend reinvestment and stock dividend plans in June 2014. This suspension illustrates our conviction in the quality of our assets and the confidence in our capital program for 2014, which will see spending of between \$580 and \$600 million and the drilling of between 115 and 120 net wells. As a result of our recent Ansell acquisition, capital spending will be focused on our Wilrich play in the second half of 2014. Significant scheduled turnaround activity will curtail third quarter production by approximately 4,000 boe per day, however volumes will be restored in the fourth quarter with expected exit production growth of approximately 12%, ranging between 84,000 and 86,000 boe per day. This will translate into annual production growth of approximately five percent, ranging between 76,000 and 78,000 boe per day for 2014. The revised 2014 capital program is aligned with our business plan to consistently deliver a balance of profitable growth and sustainable income to our shareholders.

We thank our employees for their continued dedication and our shareholders for their unwavering support. We strongly believe we have the asset base and the team necessary to continue to create long-term value for our shareholders.

FORWARD LOOKING INFORMATION

Corporate information provided herein contains forward-looking information. The reader is cautioned that assumptions used in the preparation of such information, particularly those pertaining to cash dividends, production volumes, commodity prices, operating costs and drilling results, which are considered reasonable by Bonavista at the time of preparation, may be proven to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein and the variations may be material. There is no representation by Bonavista that actual results achieved during the forecast period will be the same in whole or in part as those forecast.

Bonavista is a mid-sized energy corporation committed to maintaining its emphasis on operating high quality oil and natural gas properties, providing moderate growth and delivering consistent dividends to its shareholders and ensuring financial strength and sustainability.

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