Southern Pacific Announces Financial and Operational Results for the Year Ended June 30, 2014

26.09.2014 | Marketwired

CALGARY, ALBERTA--(Marketwired - Sep 25, 2014) - Southern Pacific Resource Corp. ("Southern Pacific" or the "Company") (TSX:STP) today announced its financial and operational results for the year ended June 30, 2014.

HIGHLIGHTS:

- Total Company production, which includes bitumen production from STP-McKay Phase 1 and heavy oil from STP-Senlac, averaged 4,173 barrels per day ("bbl/d") for the year ended June 30, 2014;
- The Company raised $150 million under a first lien term loan replacing the previous $100 million revolving credit facility on March 31, 2014, increasing liquidity and extending maturity date, enabling the Company to implement its near-term development plans;
- The Company sold its interest in its non-core Leismer property for $18.8 million closing on September 24, 2013; and
- The Company's updated reserves report, dated June 30, 2014, shows minimal changes to the reserves year over year, estimating proved plus probable volumes of 274 million barrels of oil equivalent. This compares with estimated proved plus probable volumes of 276 million barrels reported at June 30, 2013.

(thousands, except per share and per boe amounts)		Year ended June 30, 2014
Petroleum revenue, net of royalties	$	135,283
Cash from operating activities before net changes in non-cash working capital[(1)]		9,780
Per share basic and diluted	$	0.02
Funds from operations[(2)]	$	(31,943)
Per share basic and diluted	$	(0.08)
Net loss	$	424,264
Loss per share basic and diluted	$	1.07
Combined average product prices ($ per boe)	$	80.04
Operating netback[(3)]	$	21,724
Operating netback ($ per boe)[(3)]	$	14.50
Weighted average common shares outstanding		
Basic and diluted		397,918
Production		
Heavy oil (bbl/d)		2,230
Bitumen (bbl/d) [(4)]		1,943
Total (boe/day)		4,173

(1) Cash from operating activities before net changes in non-cash working capital and decommissioning costs is a non-GAAP measure defined as cash flow from operating activities less changes in non-cash working capital and less decommissioning liabilities settled.

(2) Funds from operations is a non-GAAP measure defined as cash flow from operating activities less changes in non-cash working capital, less decommissioning liabilities settled and less interest paid.

(3) Operating netback is a non-GAAP measure defined as petroleum sales, net of royalties less diluents costs, less operating costs and less transportation costs.

(4) Bitumen produced at oil sands projects is mixed with diluent and sold as "dilbit". Diluent volumes have been deducted in calculating bitumen production.

Southern Pacific recorded a net loss of for the year ended June 30, 2014 of $424.3 million, or ($1.07) per share. This was mainly due to a non-cash impairment expense of $394.9 million recorded against it's

STP-McKay thermal project asset. The impairment charge was determined based on estimated future cash flows from the project, discounted at a rate of 15% approximating the Company's current cost of capital.

Southern Pacific has filed its Audited Consolidated Financial Statements and Management Discussion and Analysis for the year ended June 30, 2014 on SEDAR at www.sedar.com. Copies are also available on the Company's website at www.shpacific.com.

YEAR END RESERVES AND CONTINGENT RESOURCES

In a report prepared by GLJ Petroleum Consultants ("GLJ"), the Company's independent reserves evaluator, effective June 30, 2014 (the "GLJ Report"), the Company noted minimal decreases to its year-over-year 1P, 2P and 3P reserves of 2.0%, 0.7% and 0.5% respectively. Over the past fiscal year, the Company did not engage in any delineation or corehole drilling on its oil sands leases, and thus there were not significant changes to the geological mapping of the Company's reserves over the past year. The delays in production ramp up at STP-McKay have been analyzed and incorporated into the GLJ Report, but the expectation exists that a fully commercial project at STP-McKay remains technically achievable. The reserves net present values discounted at 10% have decreased in the GLJ Report from the previous year's report by 17%, 22% and 15% across the 1P, 2P and 3P categories. This decrease in value is primarily due to GLJ Report expecting delays in the construction and operation of the STP-McKay Phase 1 Expansion and Phase 2 projects.

The Company's contingent resources have dropped by about 20% across the low, best and high estimate categories. Most of the contingent resources assigned lie outside of the McKay and Senlac properties, and have seen no further delineation over the past year. Decreases in contingent resources and associated value were primarily due to assumptions in timing delays of development rendering some of the resources uneconomic and the divestiture of the Company's working interest lands in Leismer. Listed below is a summary of the Company's reserves and contingent resources, effective June 30, 2014. A more detailed summary is available in the Annual Information Form, which has been filed concurrent with this release.

Southern Pacific Resource Corp. Net Reserves and NPV effective June 30, 2014

		Net Present Value (before tax- WI) (Cdn $/$million)		
	Working Interest Recoverable (MMBOE)	8%	10%	12%
Reserves				
Total Proved (1P)	121	$ 912	$ 745	$ 620
Proved + Probable Reserves (2P)	274	$ 1,570	$ 1,174	$ 882
Proved + Probable + Possible (3P)	381	$ 2,464	$ 1,860	$ 1,428
Contingent Resources				
Low Estimate (P90) Contingent Resource	170	$ 443	$ 249	$ 122
Best Estimate (P50) Contingent Resource	411	$ 1,174	$ 652	$ 316
High Estimate (P10) Contingent Resource	709	$ 2,571	$ 1,565	$ 894

Estimated values may not represent fair market value

OUTLOOK

Strategic Review

On December 11, 2013 Southern Pacific announced the initiation of a strategic review process ("SRP") aimed at identifying and considering all strategic and financial alternatives available to the Company. RBC Capital Markets were retained as a strategic advisor to Southern Pacific's Board of Directors throughout the SRP. In March 2014, as part of the SRP, the Company completed the addition of a new first lien debt facility, replacing the then existing facility which improved Southern Pacific's current liquidity. Other strategic alternatives aimed at maximizing stakeholder value were also explored. During the SRP, proposals were received and the SRP was extended longer than expected in order to fully explore the proposals. However, it was determined by the Company's Board of Directors that none of the proposals received were acceptable. It was further concluded that the current best alternative for all stakeholders is to continue with the development of the Company's existing assets, initially focused on increasing production rates at STP-McKay.

With the strategic process concluded, Southern Pacific has refocused its plans in the near term onto maximizing the throughput and value of the existing projects at Senlac and McKay. Longer term plans have been suspended until the Company is satisfied it is meeting its short term objectives.

STP-McKay Thermal Project

Improving STP-McKay's production rates and reducing operating costs will be the focus of the Company over the near term. Production rate improvement is the focus of a five well pair workover program which commenced in late August. The Company plans to install Inflow Control Devices ("ICDs") into four well pairs and a steam splitter into the injector of a fifth well pair. All of the planned workovers affect well pairs that have been rate restricted or shut-in throughout the SRP, in order to manage steam short circuits and protect the well pairs integrity prior to running the ICDs. The program is currently underway and is expected to be completed around the end of October. Once the fall program is completed, the Company expects to have installed ICDs into seven of its 12 well pairs. Pending results from those installations, an additional three well pairs may be equipped with ICDs later in the year. There are two well pairs that are not expected to require ICD installations; one has developed good conformance without ICDs and the other well pair will have a steam splitter installed in the injector as the method to improve conformance.

Earlier in 2014, Southern Pacific had successfully completed three workovers on its SAGD well pairs at STP-McKay, which involved ICDs into the existing producers of the well pairs (refer to press releases dated March 17 and June 17, 2014).

The ICD system is intended to improve wellbore conformance in a two part process. First, the horizontal producer length is segmented with isolation packers and second, the ICD devices are installed into the segments and are designed to restrict the inflow of steam from reservoir short circuits, thus promoting conformance in other sections of the wellbore. This allows production to occur with less rate restriction on the entire well pair. The success of these ICDs is apparent as data is collected. To date, the Company has been pleased with the performance of the ICDs and with the configurations installed, has been able to improve well bore conformance and operate the well pairs with a reduced risk of steam short circuits damaging wellbore integrity.

Southern Pacific also has received regulatory approval to downspace the existing STP-McKay well pads with additional SAGD well pairs. As first mentioned in the Company's December 11, 2013 press release, the Company believes additional well pairs will be required in order to fully utilize the available steam capacity at STP-McKay. Southern Pacific believes the most prudent strategy is to add them between the existing well pairs, which were originally spaced 100 m apart, allowing ample room for additional well pairs to be drilled. Southern Pacific filed its application with the Alberta Energy Regulator to downspace Pads 101 and 102 in February 2014 and received approval in July 2014. The total Pad 102 downspace project cost is estimated at $51 million. This project's timing has also been affected by the Company's SRP. A revised timing estimate of first steam to the downspaced wells on Pad 102 would be mid 2015 or later, and this is dependent upon the Company obtaining sufficient liquidity to proceed with this project.

STP-Senlac Thermal Project

At STP-Senlac, the Company has full regulatory approval to drill the next pad of three well pairs, Phase L, at an estimated remaining cost of $18.8 million. The timing of initiating this project has also been delayed as a result of the SRP and the timing of the drilling will be dependent upon confirming the results of the ICD installations at STP-McKay as increasing volumes at STP-McKay is the near term focus for the Company. If the ICD results are as expected, and with approvals in place, Phase L drilling could commence on short notice, but the final timing has not been determined.

About Southern Pacific

Southern Pacific Resource Corp. is engaged in the exploration, development and production of in-situ oil sands in Alberta's Athabasca region, and the thermal production of heavy oil in Senlac, Saskatchewan. Southern Pacific trades on the TSX under the symbol "STP."

Advisory

This news release contains certain "forward-looking information" within the meaning of such statements under applicable securities law including estimates as to: the new first lien facility, additional ICD installation timing, future production, operations, operating costs, commodity prices, administrative costs, commodity price risk management activity, acquisitions and dispositions, capital spending, access to credit facilities and lending costs, income and oil taxes, regulatory changes, and other components of cash flow and earnings anticipated discovery of commercial volumes of bitumen, the timeline for the achievement of anticipated exploration, anticipated results from the current drilling program, workovers and any conformance acceleration techniques such as the use of ICDs, and, subject to regulatory approval and commercial factors, the commencement or approval of any SAGD project, the potential results of the strategic alternative review process and enhancement of shareholder value, disclosure intentions with respect to the strategic alternative review process, and general economic outlook.

Forward-looking information is frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words, or statements that certain events or conditions "may" or "will" occur. These statements are only predictions. Forward-looking information is based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include, but are not limited to the inherent risks involved in the exploration and development of oil and gas properties and of oil sands properties, strategic alternatives, conformance acceleration techniques, delays in ramp-up operations, the uncertainties involved in interpreting drilling results and other geological data, fluctuating oil prices and discounts, the possibility of unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors including unforeseen delays. As an oil sands enterprise in the development stage, Southern Pacific faces risks including those associated with exploration, development, ramp-up, approvals and the continuing ability to access sufficient capital from external sources if required. Actual timelines associated may vary from those anticipated in this news release and such variations may be material. Industry related risks could include, but are not limited to, operational risks in exploration, development and production, delays or changes in plans, risks associated to the uncertainty of reserve estimates, health and safety risks and the uncertainty of estimates and projections of production, costs and expenses. For a description of the risks and uncertainties facing Southern Pacific and its business and affairs, readers should refer to Southern Pacific's most recent Annual Information Form. Southern Pacific undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change, unless required by law.

The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as the factors are interdependent, and the Board's and management's future course of action would depend on its assessment of all information at the time.

The reader is cautioned not to place undue reliance on this forward-looking information.

Contact

Southern Pacific Resource Corp.
Byron Lutes
President & CEO
403-269-1529
blutes@shpacific.com
Southern Pacific Resource Corp.
Howard Bolinger
CFO
403-269-2640
hbolinger@shpacific.com
www.shpacific.com