

Zargon Oil & Gas Ltd. Provides Capital Budget Updates, A Little Bow ASP Flood Project Update and Revises Production Guidance

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CALGARY, ALBERTA--(Marketwired - Oct 8, 2014) - Zargon Oil & Gas Ltd. (TSX:ZAR)(TSX:ZAR.DB) ("Zargon") announces its 2015 capital budget and provides a Little Bow Alkaline Surfactant Polymer ("ASP") tertiary flood project update.

Capital Budgets

Zargon's 2015 budget has been set at \$46 million and includes \$13 million of Little Bow ASP chemical costs, \$2 million of phase 1 optimization costs, \$6 million of Little Bow ASP phase 2 development costs, plus \$25 million of conventional (non-ASP) field capital expenditures directed to existing oil exploitation projects. Depending on the corporate cash flows realized throughout the 2015 calendar year, the conventional capital program may be increased or decreased in order to maintain stable debt levels after the payment of dividends.

Zargon's 2014 total capital budget has been increased from \$52 million to \$57 million (before net dispositions of \$12 million). This budget includes \$11 million of Little Bow ASP chemical costs, \$8 million of ASP phase 1 construction and sanctioning costs, \$2 million of ASP phase 1 optimization costs, plus \$36 million of conventional (non-ASP) field capital expenditures directed to existing oil exploitation projects. Following \$34 million of capital expenditures in the first half of the year, the remaining second half expenditures of \$23 million are anticipated to be roughly equally divided between the third and fourth quarters. The increase in the 2014 capital program reflects additional costs for phase 1 ASP optimizations and the acceleration of some conventional projects into the lower cost pre-winter period. For the upcoming winter months, non-ASP field activities will be kept to a minimum.

Little Bow Alkaline Surfactant Polymer ("ASP") Project

Zargon continues to be encouraged by the early injection data for the Little Bow ASP enhanced oil recovery project. Commencing in March 2014, Zargon initiated the injection of large volumes of a dilute chemical solution into a partially depleted Little Bow Mannville I Pool in order to recover substantial incremental oil reserves. To date, ASP injections have totaled approximately 2 million barrels, and represent just less than 10 percent of the total chemical bank (ASP and Polymer only) to be injected.

Encouragingly, pattern injection rates are balanced and are meeting or exceeding reservoir models. We have also observed numerous indicators that are precursors to ASP production, namely: increased produced gas-oil ratios, reduced producer total inflow volumes, changes in the produced water chemistry, minor produced polymer concentrations and increasing injection pressures. Finally, at one producer (02/10-32-14-18 W4), we have observed 12 barrels per day of first incremental ASP production volumes as evidenced by tripling of oil production volumes with a corresponding increase in produced oil cuts. Although we view these production indicators very positively, phase 1 incremental ASP production volumes are small. Currently, phase 1 production capability is averaging approximately 260 barrels per day, which is marginally ahead of the 250 barrels per day baseline rate for the pre-ASP waterflood project. Over the next few months, a material ramp up in production is anticipated and we will provide timely updates to outline material progress. For further information regarding the Little Bow ASP project, please refer to our updated corporate presentation, which is available at www.zargon.ca.

Consistent with our prior communications, Zargon's internal estimates continue to forecast incremental phase 1 production volumes to commence in the 2014 fourth quarter and increase to a 2014 year end rate of 150 barrels of oil per day. Incremental ASP production is expected to average 700 barrels of oil per day in

2015 and then increase to 1,550 barrels of oil per day in 2016, once phase 2 production begins.

Production Guidance

In the September 3, 2014 press release, Zargon provided third and fourth quarter 2014 oil and liquids production rate guidance of 4,200 barrels per day. These production guidance levels are reaffirmed. The fourth quarter 2014 oil volumes are expected to reflect a minor contribution from the Little Bow ASP production volumes. We continue to forecast a 2014 year end ASP exit production rate of 150 barrels per day. In the same September 3, 2014 press release, third and fourth quarter natural gas production guidance was set at 10.2 million cubic feet per day and 6.4 million cubic feet per day, respectively. These third and fourth quarter volumes have now been adjusted to 10.8 million cubic feet per day and 6.8 million cubic feet per day, respectively.

Based on the capital programs outlined in this press release, Zargon's 2015 oil and liquids production guidance is set at 4,700 barrels of oil and liquids per day. These volumes are comprised of a stable 4,000 barrels per day from conventional (non-ASP) properties and 700 barrels per day of incremental tertiary recovery production from the Little Bow ASP property. The Little Bow incremental ASP production volumes are expected to grow significantly throughout the year and are forecast to average 250, 500, 850 and 1,200 barrels per day for the sequential 2015 quarters. Natural gas volumes are forecast to average 6.4 million cubic feet per day in 2015.

Going forward, Zargon's oil weighting is expected to exceed 80 percent of total volumes and will be comprised of low decline (less than 15 percent annually) waterflood and waterdrive oil production volumes augmented by steadily growing tertiary production volumes from the Little Bow ASP project. These high netback oil exploitation volumes (tertiary and waterflood/waterdrive) from existing assets will provide the cash flows required to methodically grow oil production and support our long term dividend generating objectives for many years to come.

Based in Calgary, Alberta, Zargon's securities trade on the Toronto Stock Exchange and there are currently 30.175 million common shares outstanding.

FORWARD-LOOKING STATEMENTS

This press release offers our assessment of Zargon's future plans and operations as at October 8, 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 estimates of economics, reserves, production and costs for the Little Bow ASP project;*
- *our interpretation of the early operational performance of the Little Bow ASP project;*
- *our plans for our Little Bow ASP project and the results therefrom;*
- *our estimates of economics, reserves, production and costs for the non-ASP remaining conventional properties;*
- *our business plans, dividend policy and corporate strategy; and*
- *our capital budgets, production guidance volumes and operating netback.*

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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