

# Chinook Energy Inc. Announces 2015 Montney Focused Capital Program and Guidance

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CALGARY, ALBERTA--(Marketwired - Oct 29, 2014) - **Chinook Energy Inc. (TSX:CKE) ("Chinook")** announced today that its Board of Directors has approved a \$135 million capital program for 2015 focusing on the development of liquids rich natural gas at Birley/Umbach, British Columbia and light oil at Grande Prairie, Alberta. Chinook is also updating its 2014 guidance and providing guidance for 2015.

## 2015 Capital Program

Chinook's capital program for 2015 is designed to phase-in production growth throughout 2015 as Chinook moves from successful Montney delineation activity in 2014 to development of this resource in 2015.

2014 has been a defining year for Chinook as it completed its transformation from a hybrid international company to a focused western Canadian producer that is developing a large Montney resource across two very prospective areas. In 2015, Chinook intends to build on the success of 2014 as it moves toward full scale development and facility expansion at Birley/Umbach, further delineation at Gold Creek and continues its successful Dunvegan oil development program.

### 2015 Capital Program by Category

<u>Expenditure Type</u>	<u>\$MM</u>	<u>%</u>
Drilling, Completion, Equip and Tie-In	93	69
Facilities and Infrastructure	23	17
Land and Seismic	11	8
Optimizations/Turnarounds/Abandonments	8	6
Total	135	100

### 2015 Capital Program by Area

<u>Area - Zone</u>	<u>\$MM</u>
Birley/Umbach (Montney)	97
Grande Prairie (Montney) <sup>(1)</sup>	10
Grande Prairie (Dunvegan)	21
Other	7
Total	135

Note:

(1) Additional well(s) may be included in 2015 and are contingent on results of current drilling operations at 14-12-69-6 W6 (Chinook 75%).

*Birley/Umbach, British Columbia*

Chinook's capital program for 2015 at Birley/Umbach is a result of 2 (1.5 net) successful wells drilled by Chinook in 2014 which delineated the Montney potential over a large portion of Chinook's 54 (45 net) sections of contiguous Montney lands. Chinook's first well at a-60-k/94-H-3 was initially brought on at a restricted IP30 rate of 3.9 mmcf/d and 70 bbls/mmcf of liquids. The well, which has 100 days of operated production, is currently producing at 4.3 mmcf/d and 34 bbls/mmcf of liquids. Chinook's second well at d-A83-H/94-H-3 was completed and tested in early October and is scheduled to be brought on production by mid-November 2014. Favourable results from our first two wells at Birley/Umbach has resulted in a 30% increase to our expected initial 30 day production rate from 3.5 mmcf/d to 4.5 mmcf/d. Chinook plans to drill 6 (5.6 net) wells in the first quarter of 2015 and expand its existing facility, which will increase current throughput capacity from 4 mmcf/d to approximately 35 mmcf/d, upon completion in the second quarter of 2015. Following spring break-up, Chinook expects to drill up to 6 (5.5 net) additional wells in the third quarter of 2015.

*Grande Prairie, Alberta - Montney*

At Gold Creek, Chinook has budgeted a follow up development well (0.375 net) expected to be drilled in the

third quarter of 2015 as a result of its previously announced successful Montney well (0.373 net) drilled in 2014 and subsequent results from offsetting operators. Facility construction and pipeline tie-in of Chinook's first well are complete and Chinook anticipates bringing the well on production by mid-November 2014. In addition, Chinook is currently drilling a second Montney well (75% working interest) at Gold Creek which, if successful, may justify an expansion of the budgeted 2015 capital program along with pending results from several recent wells drilled by other operators immediately offsetting Chinook's 50 (35 net) sections of Montney lands at Gold Creek.

#### *Grande Prairie Area, Alberta - Dunvegan*

Chinook plans to drill 4 (4 net) wells at Albright and 6 (2 net) wells at Karr in the second half of 2015 following another successful drilling program in 2014. Chinook continues to show strong rates of return on its Dunvegan program with production added at approximately \$16,000 per flowing barrel of oil equivalent based on initial 90 day production rates. To date, Chinook has been active on just two of its current six Dunvegan oil pools in the Grande Prairie area with a current estimated inventory of over 80 (54 net) drilling locations.

#### **Updated 2014 Guidance and Guidance for 2015**

Chinook has entered into an agreement to acquire, effective September 1, 2014, approximately 1,200 boe/d (14% liquids) of production (Bluesky, Halfway and Baldonnel production) near its Birley/Umbach operations along with a 100% operated interest in a 18 mmcf/d gas plant currently connected to Westcoast's McMahon facility and a 100% interest in a 55 kilometre-long 12 inch sales gas pipeline which intersects Chinook's Birley/Umbach lands. The pipeline crosses third party lands being actively developed by other Montney operators and terminates at the Aitken Creek gas storage facility. The pipeline is capable of being connected to the Alliance pipeline, the Westcoast system or the proposed NGTL North Montney line. Currently, no gas is being delivered through this pipeline which provides Chinook with flexibility in respect of its gas processing and transportation options as it continues to materially increase its production from the Birley/Umbach area. Cash flow from the acquired property in fiscal 2014 is estimated at \$7 million. The purchase price of the acquisition, which is expected to close on November 6, 2014, is \$17 million in cash plus 3.5 net sections of non-core lands in the Wapiti area of Alberta. Chinook will fund the acquisition with existing cash on hand.

In light of the foregoing pending acquisition, lower forecasted fourth quarter commodity prices, timing delays in the on stream date of Chinook's first Gold Creek Montney well and the closing of our Tunisia disposition in the third quarter, Chinook is updating its 2014 guidance for our Canadian operations. Chinook is also providing guidance for 2015. Both are set forth below:

	Previous 2014 Guidance	Updated 2014 Guidance	2015 Guidance
Average production (boe/d)	7,750-8,250	7,900-8,000	10,500-11,500
Exit production (boe/d)	N/A	9,100-9,400	13,250-13,750
Cash flow (\$mm) <sup>(1)(2)</sup>	\$58-\$60	\$54-\$56	\$62-\$66
Capital expenditures (\$mm) <sup>(3)</sup>	\$81	\$93	\$135
Net debt/(surplus) (\$mm) <sup>(1)(2)(4)</sup>	NA	(\$8)	\$60-\$65

Notes:

- (1) 2014 Pricing assumptions: Canadian crude oil-\$92.95/bbl; Canadian natural gas-\$4.79/mcf.
- (2) 2015 Pricing assumptions: Canadian crude oil-\$84.49/bbl; Canadian natural gas-\$4.08/mcf.
- (3) Updated 2014 Capital Expenditures Guidance includes net acquisitions/dispositions anticipated for the year.
- (4) Management is forecasting positive working capital and no drawn bank debt as at December 31, 2014.

Chinook will be releasing its third quarter financial results on November 13, 2014.

#### **About Chinook Energy Inc.**

Chinook is a Calgary-based public oil and gas exploration and development company with multi-zone conventional production and resource plays in western Canada.

#### **Reader Advisory**

#### *Forward-Looking Statements*

In the interest of providing shareholders and potential investors with information regarding Chinook, including management's assessment of the future plans and operations of Chinook, certain statements contained in this news release constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular, this news release contains, without limitation, forward-looking statements pertaining to: budgeted amounts in fiscal 2015 and the expectation that such amounts will be spent in the manner, location and timeframes set forth herein; Chinook's expectations of its drilling plans by geographic area and the timing thereof; the number of wells budgeted for drilling at certain of the Company's core areas; future exploration and development activities of Chinook and the timing thereof; various matters related to the pending Birley/Umbach acquisition, including satisfaction of the closing conditions thereto, the anticipated closing date, the effect of the acquisition on continuing operations and on Chinook's production volumes and the benefits anticipated to be derived therefrom, as well as management's future expectations regarding production, cash flow, capital expenditures and net debt set out in the table under the heading "Updated 2014 Guidance and Guidance for 2015".

With respect to the forward-looking statements contained in this news release, Chinook has made assumptions regarding, among other things: that Chinook will continue to conduct its operations in a manner consistent with past operations, that the Birley/Umbach acquisition will be completed on substantially the terms and in the time frame set forth herein, future capital expenditure levels, future oil and natural gas prices, future oil and natural gas production levels, future currency, exchange and interest rates, Chinook's ability to obtain equipment in a timely manner to carry out exploration and development activities, the ability of the operator of the projects of which Chinook has an interest in to operate in the field in a safe, efficient and effective manner, the impact of increasing competition, field production rates and decline rates, anticipated production volumes, the ability of Chinook to replace and expand production and reserves through exploration and development activities, certain commodity price and cost assumptions, the results of negotiations and the plans of Chinook's partners in certain of its areas; that the budgeted amounts and expenditures set forth herein, which are subject to the discretion of the Board of Directors of Chinook, will not be amended in the future, and the continued availability of adequate debt and cash flow to fund its planned expenditures.

Although Chinook believes that the expectations reflected in the forward-looking statements contained in this news release, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this news release, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that predictions, forecasts, projections and other forward-looking statements will not occur, which may cause Chinook's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, the Board of Directors of Chinook may amend the 2015 budget based on its discretion, that the Birley/Umbach acquisition may not be completed on the terms disclosed herein or at all; environmental risks, competition from other producers, inability to retain drilling rigs and other services, capital expenditure costs, including drilling, completion and facilities costs, unexpected decline rates in wells, delays in projects and/or operations resulting from surface conditions, wells not performing as expected, delays resulting from or inability to obtain the required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the forgoing list of factors is not exhaustive. Additional information on these and other factors that could affect Chinook's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) and at Chinook's website ([www.chinookenergyinc.com](http://www.chinookenergyinc.com)). Furthermore, the forward-looking statements contained in this news release are made as at the date of this news release and Chinook does not undertake any obligation to update publicly or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

### *Barrels of Oil Equivalent*

Barrels of oil equivalent (boe) is calculated using the conversion factor of 6 mcf (thousand cubic feet) of

natural gas being equivalent to one barrel of oil. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl (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. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

#### *Initial Production Levels*

Any references in this news release to initial, early and/or test production/performance rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for Chinook. The initial production rate may be estimated based on other third party estimates or limited data available at this time. The initial production is generally estimated using boes. In all cases in this news release initial production or test rates are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons.

#### *Non-IFRS Measures*

This news release contains the terms "cash flow" and "net debt" which are not recognized measures under International Financial Reporting Standards ("**IFRS**"). Chinook's method of calculating these measures may differ from other companies, and accordingly these measures may not be comparable to measures used by other companies.

#### *Cash Flow*

The reader is cautioned that this news release contains the term cash flow, which is not a recognized measure under IFRS and is calculated from cash flow from continuing operations adjusted for changes in non-cash working capital and decommissioning obligation expenditures. Management believes that cash flow is a key measure to assess the ability of Chinook to finance capital expenditures and debt repayments. Readers are cautioned, however, that this measure should not be construed as an alternative to other terms such as cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS. Chinook's method of calculating this measure may differ from other companies, and accordingly, it may not be comparable to measures used by other companies.

#### *Net Debt*

The reader is also cautioned that this news release contains the term net debt, which is not a recognized measure under IFRS and is calculated as bank debt adjusted for working capital excluding mark-to-market derivative contracts. Working capital excluding mark-to-market derivative contracts is calculated as current assets less current liabilities both of which exclude derivative contracts and current liabilities excludes any current portion of debt. Management uses net debt to assist them in understanding Chinook's liquidity at specific points in time. Mark-to-market derivative contracts are excluded from working capital, in addition to net debt, as management intends to hold each contract through to maturity of the contract's term as opposed to liquidating each contract's fair value or less.

#### *Future Oriented Financial Information*

This news release, in particular the information in respect of anticipated cash flows, may contain Future Oriented Financial Information ("**FOFI**") within the meaning of applicable securities laws. The FOFI has been prepared by management of Chinook to provide an outlook of Chinook's activities and results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions including the assumptions discussed under the heading "Forward-Looking Statements" and assumptions with respect to production rates and commodity prices. The actual results of operations of Chinook and the resulting financial results may vary from the amounts set forth herein, and such variation may be material. Chinook and its management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments.

## Contact

### [Chinook Energy Inc.](#)

Walter Vrataric  
President and Chief Executive Officer  
(403) 261-6883

### [Chinook Energy Inc.](#)

Jason Dranchuk  
Vice President, Finance and Chief Financial Officer  
(403) 261-6883  
[www.chinookenergyinc.com](http://www.chinookenergyinc.com)

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