Bonavista Energy Corporation Announces 2014 Third Quarter Results

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CALGARY, ALBERTA--(Marketwired - Nov 6, 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 nine months ended September 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 http://www.sedar.com and on Bonavista's website at www.bonavistaenergy.com.

Highlights						
	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Financial						
($ thousands, except per share)						
Production revenues	259,678	246,413	5%	862,240	718,846	20%
Funds from operations(1)	129,074	120,142	7%	425,260	353,224	20%
Per share(1) (2)	0.60	0.61	(2)%	2.06	1.80	14%
Dividends declared(3)	42,608	38,379	11%	121,996	114,064	7%
Per share	0.21	0.21	-%	0.63	0.63	-%
Net income	24,186	22,950	5%	65,825	42,838	54%
Per share(4)	0.11	0.12	(8)%	0.32	0.22	45%
Adjusted net income (loss) (5)	(13,398)	25,949	(152)%	63,087	51,595	22%
Per share(4)	(0.06)	0.13	(146)%	0.31	0.26	19%
Total assets				4,448,521	4,203,569	6%
Long-term debt, net of working capital				1,176,090	1,080,355	9%
Long-term debt, net of adjusted working capital(6)				1,134,110	1,069,295	6%
Shareholders' equity				2,458,323	2,281,476	8%
Capital expenditures:						
Exploration and development	178,904	112,938	58%	477,405	332,233	44%
Acquisitions, net of dispositions	132,260	(11,620)	(1,238)%	(18,909)	15,715	(220)%
Weighted average outstanding equivalent shares: (thousands)(4)						
Basic	214,282	197,725	8%	206,068	196,381	5%
Diluted	217,043	200,211	8%	208,425	198,354	5%
Operating						
(boe conversion - 6:1 basis)						
Production:						
Natural gas (mmcf/day)	310	280	11%	299	275	9%
Natural gas liquids (bbls/day)	15,267	15,305	-%	15,227	15,090	1%
Oil (bbls/day)(7)	7,775	11,608	(33)%	9,272	11,982	(23)%
Total oil equivalent (boe/day)	74,720	73,632	1%	74,313	72,844	2%
Product prices:(8)						
Natural gas ($/mcf)	4.00	2.97	35%	4.44	3.29	35%
Natural gas liquids ($/bbl)	50.87	48.53	5%	54.71	47.02	16%
Oil ($/bbl)(7)	80.75	89.46	(10)%	79.87	81.59	(2)%
Operating expenses ($/boe)	8.21	8.87	(7)%	8.59	8.98	(4)%
General and administrative expenses ($/boe)	1.19	1.13	5%	1.18	1.12	5%
Cash costs ($/boe)(9)	12.28	12.87	(5)%	12.68	13.03	(3)%
Operating netback ($/boe)(10)	21.54	20.44	5%	23.76	20.45	16%

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"). There were no common shares issued under the DRIP and SDP for the three months ended September 30, 2014 (September 30, 2013 - 1.2 million). For the nine months ended September 30, 2014, approximately 1.7 million (September 30, 2013 - 3.4 million) common shares were issued under the DRIP and SDP with an approximate value of $26.1 million (September 30, 2013 - $45.0 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.

	Three months ended			
Share Trading Statistics	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
($ per share, except volume)				
High	16.36	17.85	16.22	14.04
Low	12.61	15.79	13.46	11.25
Close	12.88	16.37	16.17	13.92
Average Daily Volume - Shares	728,707	545,585	566,650	1,000,966

MESSAGE TO SHAREHOLDERS

Our third quarter operating and financial results for 2014 are an outcome of continued success in our pursuit to be one of the most efficient operators in western Canada. With the suspension of our dividend reinvestment and stock dividend plan in June, the third quarter will serve as the platform upon which we portray the per share quality of our assets and our execution as we move forward.

We continued to concentrate our asset portfolio through a focused exploration and development ("E&D") program and repeated success with our acquisition and divestiture ("A&D") initiatives. E&D expenditures biased towards infrastructure in the first half of this year created incremental facility capacity, allowing for the most capital intensive third quarter drilling program in our history. This has resulted in record production, exiting the quarter at 80,000 boe per day and current production of 84,000 boe per day.

We continue to experience improvements in the efficiency of our E&D program and remain committed to our asset disposition program. This continued success will result in an 11% reduction in forecasted capital spending for 2014 to between $520 and $530 million. Notwithstanding this spending reduction, our annual production guidance remains unchanged between 76,000 and 78,000 boe per day and our exit production guidance remains intact between 84,000 and 86,000 boe per day. This validates the quality of our assets, representing a 13% annual growth in our 2014 exit production, despite the net disposition of 4,300 boe per day of non-core assets.

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

- Average production of 74,720 boe per day, despite significant turnaround activity, negatively impacting production by approximately 3,500 boe per day overall for the quarter;
- Invested $178.9 million in E&D activities, drilling 45 (37.3 net) wells with an overall success rate of 98%. Consistent with our asset concentration strategy, 44 of the 45 wells were drilled within our core areas;
- Generated production revenues of $259.7 million, which when combined with the first two quarters of 2014, represents a 20% increase compared to the same period of 2013;
- Hedged 64% of our forecasted natural gas revenues (net of royalties) at an average floor price of $3.41 per gj at AECO for 2014 and approximately 58% at $3.65 per gj for 2015. Additionally, we have hedged 79% of our forecasted oil and liquids revenues (net of royalties) at an average floor price of CDN$89.35 per bbl WTI for 2014 and 40% at CDN$90.75 per bbl WTI for 2015;
- Realized funds from operations of $129.1 million ($0.60 per share) representing a 7% increase from the third quarter of 2013 and a 20% increase, for the first nine months of 2014 compared to the same period of 2013;
- Achieved a 7% reduction in operating costs to $8.21 per boe and a 5% reduction in cash costs to $12.28 per boe, resulting in operating netbacks of $21.54 per boe, a 5% improvement from the third quarter of 2013;
- Completed a bought deal financing for net proceeds of approximately $192 million, issuing 12.1 million common shares to fund our Ansell area acquisition and future development;
- Extended our current bank facility of $600 million to September 10, 2018 with reduced borrowing spreads, of which $443.2 million is undrawn; and
- Delivered cumulative dividends of over $2.6 billion or $27.66 per common share since 2003, when Bonavista introduced a dividend component to our shareholder return.

Acquisition and divestiture highlights:

During the third quarter, we closed the acquisition of the remaining 49% interest in our Wilrich play at Ansell in our Deep Basin Core Area for a purchase price of $141.1 million. This transaction includes approximately 1,600 boe per day of production, the remaining 49% ownership in infrastructure and access to over 31,000 prospective acres of land with 115 future drilling locations.

Subsequent to the quarter, Bonavista has agreed to sell approximately 2,100 boe per day of non-core assets for approximately $94 million.

2014 THIRD QUARTER AND YEAR-TO-DATE CORE AREA HIGHLIGHTS

WEST CENTRAL CORE AREA

Our West Central Core Area is characterized by liquids-rich natural gas and light oil resources in multiple prospective horizons, year round accessibility and extensive infrastructure including over 2,800 kilometers of operated pipelines and 38 facilities, the majority of which is operated by Bonavista. In this core area, we have access to over 1.4 million acres, containing approximately 800 of our future drilling locations. This equates to eight years of inventory at our current development pace of approximately 95 to 100 locations per year.

In 2014, we will spend approximately $377 million on E&D activities, drilling approximately 97 (81.9 net) horizontal wells. In the first nine months of 2014, our E&D capital spending in this area totaled approximately $306 million. This involved up to eight rigs, drilling 82 (67.9 net) wells representing a 44% increase in E&D spending relative to the first nine months of 2013. Specific to the third quarter, 78% of our wells drilled were in this core area.

Production in this area averaged 46,274 boe per day in the first nine months of 2014 representing a seven percent increase over the same period last year, despite significant scheduled third party turnaround activity in the second and third quarters of 2014. Our Hoadley Glauconite play continues to be our engine of growth representing 63% of the total expenditures forecasted in this core area for 2014. Meanwhile, the growth potential of our Falher play has become a focal point with our planning given our recent drilling success in the third quarter.

Glauconite Liquids Rich Natural Gas:

We experienced our most active quarter to date in our Glauconite play drilling 29 (23.1 net) horizontal Glauconite wells, bringing 2014 nine month activity to 59 (50.1 net) horizontal wells, representing a 97% increase when compared to the first nine months of 2013.

This increased activity has led to impressive Glauconite production growth of approximately 50% since the beginning of the year. With current production levels at approximately 26,000 boe per day, we are well ahead of our five year production forecast. Our natural gas liquids recovery within the Glauconite remains consistent between 65 and 70 bbls per mmcf, however we expect a 40% improvement in this recovery in the second quarter of 2015 once deep cut processing is commissioned at the Rimbey facility.

Our extended reach horizontal program continues to demonstrate encouraging results. To date we have drilled ten extended reach horizontal wells averaging 1.9 times the length of a typical "one-mile" well. Using this horizontal length multiplier, these wells have demonstrated cost reductions averaging 10% to 12% with overall production efficiency improvements of approximately 10%. Our most recent extended reach horizontal well in Willesden Green was the first extended reach well in this area to employ a slickwater completion technique. This significantly improved the completion costs, resulting in a cost improvement of 25% when compared to a "one-mile" well. We are expecting to drill four additional extended reach wells in 2015 and will continue to expand infrastructure to support future development.

Our Glauconite play remains the cornerstone of our development program. With inventory of 420 horizontal locations, we are planning predictable and profitable development for an additional seven to eight years. In 2015, we plan to drill an additional 60 to 70 wells resulting in additional growth in production ranging from 20% to 30%.

Falher Liquids Rich Natural Gas:

Following up on two horizontal Falher wells drilled in the first half of 2014, Bonavista drilled an additional three Falher wells in the third quarter. Results from our 2014 Falher program continue to exceed our expectations with first month production rates ranging from 700 to 1,500 boe per day. To complement the prolific natural gas rates, the high heat content of the natural gas generates natural gas liquid recoveries of approximately 50 bbls per mmcf.

We expanded our compression and gathering infrastructure in September enabling meaningful growth in our Morningside Falher production since the beginning of this year from 500 to 3,500 boe per day. With initial results outpacing our forecasts, we are planning additional infrastructure expansions in 2015.

With recent well costs below $3 million to drill, complete and equip, and payouts in less than eighteen months at current commodity prices, our Morningside Falher play competes with the economics of our flagship Glauconite play. As such, we plan to drill eight to ten wells in 2015 to continue to evaluate the extent of this exciting addition to our asset portfolio.

Ellerslie Liquids Rich Natural Gas:

The capital allocation in the Ellerslie was reduced in the second half of the year as we shifted E&D expenditures to our Deep Basin Wilrich play as a result of the acquisition at Ansell. We remain focused on refining and improving our drilling and completion techniques. Specifically, we have conducted a geomechanics study to better understand the rock mass mechanics and associated reservoir parameters which we will apply to our 2015 program. Additionally, we continue to refine our drilling techniques by testing different drilling fluids and drill bits which we expect will improve the drilling of the lateral segment of our horizontal wells. With approximately 200 future horizontal drilling locations, the Ellerslie is an extensive resource and remains an important component of our future success.

Cardium Light Oil:

In July we commissioned our 5,000 bbls per day multi well oil battery at Lochend. In the third quarter, Bonavista drilled and completed two Cardium wells which came on production in early November and are performing as expected. Our 2014 program will conclude with three wells being drilled in the fourth quarter and we expect to drill between 10 and 15 wells in 2015.

DEEP BASIN CORE AREA

Our 2014 Deep Basin program involves spending approximately $211 million on E&D activities drilling approximately 38 (25.3 net) horizontal wells. Deep Basin activity typically accelerates in the fall due to the seasonal accessibility of the region. As such, late in the third quarter, we migrated rigs from the West Central Core Area to our Deep Basin Core Area and now have four rigs operating in the region. The first half of the year focused on expanding our infrastructure to support our second half drilling program of 25 wells, 12 of which will be at Ansell.

During the first nine months, Bonavista spent $133 million with our E&D program drilling 21 (15.5 net) wells, of which eight were at Ansell. This has resulted in Deep Basin third quarter production rates of 16,000 boe per day representing a 22% increase relative to the same period in 2013, despite turnaround activity impacting production by 850 boe per day for the quarter.

The facility projects completed in the first half of the year enhanced our control of compression and processing capacity in the Deep Basin Core area. Having gained a greater understanding over the past year of the deliverability potential of the Spirit River group in this area, we plan to install additional processing infrastructure in 2015 and have secured incremental egress for our product.

Since our entry into the Deep Basin Core Area in 2010, we have assembled access to nearly 300,000 net acres and have identified 300 horizontal drilling locations. With compelling production performance, the Wilrich play provides robust 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. Lastly, as we develop the extensive Spirit River channel system deposited above the Wilrich reservoir, we anticipate significant inventory additions to our asset portfolio in this play.

Spirit River Natural Gas:

In the Wilrich at Ansell, three net wells were drilled during the third quarter, with all three wells completed and tested in excess of nine mmcf per day per well. We continue to adjust our completion techniques and have been experiencing improvements in initial production performance. Total production from the Wilrich at Ansell is currently in excess of 5,500 boe per day and is on track to meet our exit production forecast. To accommodate the drilling of an additional eight wells at Ansell in the final quarter of 2014, we are expanding our compression capacity from 30 mmcf per day to 60 mmcf per day in November. After identifying numerous Falher and Notikewin opportunities utilizing three dimensional seismic, we drilled our first Falher well in the Pine Creek area during the third quarter and will drill our first Notikewin well at Ansell in the fourth quarter. Development economics of the Falher and Notikewin will be optimized with our ability to utilize the existing infrastructure originally established for our Wilrich and Bluesky programs.

Bluesky Liquids Rich Natural Gas:

In the third quarter we expanded the extent of our Bluesky development by drilling one horizontal well and participating in one non-operated well. Our operated well tested at rates up to 10 mmcf per day and are waiting on completion results of the second well. The rate of return and the individual well economics of the Bluesky formation rank among the best of our liquids-rich natural gas plays. We expect to drill an additional six (1.4 net) wells in the fourth quarter and will follow up with up to five wells in 2015.

MONTNEY LIQUIDS RICH NATURAL GAS:

During the third quarter, we drilled our second horizontal well in our Blueberry field in northeast British Columbia targeting the upper Montney. Both of the 2014 wells were completed in the third quarter and have exceeded our expectations. The first well was drilled on the northwest portion of our land and tested 8.1 mmcf per day with 150 bbls per day of free condensate. The second well was drilled on the southern portion of our acreage, in what we consider the higher condensate window, and tested 3.9 mmcf per day with 450 bbls per day of free condensate. Both wells are producing through non-operated facilities. The improved performance of our 2014 wells reflects our understanding of the reservoir characteristics and the use of enhanced completion techniques to maximize stimulated area and conductivity. Our Montney play remains an important component of our future growth. We plan to drill up to six wells for the purposes of delineating the resource, exploring enhanced completion techniques and honoring our land retention program.

STRENGTHS OF BONAVISTA 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 69% 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

Bonavista remains focused on continued improvements in our capital and operating efficiencies. This focus has translated into record production levels of 84,000 boe per day and consistent improvements in our cost to develop and produce our resources. We have achieved these results, despite the increased uncertainty in our commodity prices and markets.

North American energy markets displayed greater than anticipated seasonal weakness over the third quarter resulting in downward pressure on equity valuations in the energy sector. Natural gas pricing was affected by cooler than expected weather in the northeast and central United States, resulting in reduced cooling demand. In addition, there has been a significant increase in natural gas supply, with the "Lower 48 Dry Natural Gas Production" now at approximately 70 bcf per day. Supply growth has also placed downward pressure on oil prices in the third quarter, with WTI down approximately 13%, despite heightened global geopolitical risk.

Notwithstanding continued price volatility, we remain on strategy with repositioning and concentrating our asset base as we endeavor to deliver maximum shareholder value. Over the past nine months, this strategy has demonstrated quarter-over-quarter improvements in our cash costs, continuous enhancements in our capital efficiencies, and the effective management of our inventory of high quality assets.

By the end of this year, we will have divested of approximately 7,100 boe per day of high cost, non-core assets, while acquiring 2,600 boe per day of low cost, opportunity-rich assets in our core areas. We have focused 94% of our E&D spending in these core areas, and have demonstrated an 11% reduction in our operating costs year to date. We remain one of the most efficient producers within each of our core areas, as evidenced by current capital spending efficiencies of approximately $19,000 per boe per day and cash costs approaching $12 per boe. This continued success has led to an 11% reduction in capital spending for 2014 to between $520 and $530 million. Even with lower capital spending, we remain on course to reach both our 2014 exit production guidance of between 84,000 and 86,000 boe per day and our 2014 average production guidance of between 76,000 and 78,000 boe per day. Finally, we have complemented our high quality drilling inventory through the delineation and development of numerous prospective zones within our core areas. We are confident that our strategy will deliver profitable growth per share and sustainable returns to our shareholders for years to come.

Bonavista's Board of Directors has approved a preliminary 2015 capital budget of between $425 and $475 million, which is expected to result in drilling between 100 and 110 net wells. This budget which includes approximately $100 million of dispositions and 3,000 boe per day of planned turnaround activity, is expected to generate annual production of between 82,000 and 85,000 boe per day. This represents production growth of approximately 9%, using the mid-point of this range.

We would like to thank our employees for their dedication and commitment to our vision and our shareholders for their continued support. We remain confident in our strategy and are pleased with our operational success this year. Our high quality assets and our efficient execution positions us to consistently deliver profitable growth per share and income to our shareholders for years to come.

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.

Contact

Keith A. MacPhail
Executive Chairman
Jason E. Skehar
President & CEO
Glenn A. Hamilton
Senior Vice President & CFO
Bonavista Energy Corp.
1500, 525 - 8th Avenue SW
Calgary, AB T2P 1G1
Phone: (403) 213-4300
Website: www.bonavistaenergy.com