

Zargon Oil & Gas Ltd. Provides 2014 Third Quarter Results

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CALGARY, ALBERTA--(Marketwired - Nov 11, 2014) - Zargon Oil & Gas Ltd. ("Zargon" or the "Company") (TSX:ZAR)(TSX:ZAR.DB).

FINANCIAL & OPERATING HIGHLIGHTS (THREE MONTHS ENDED SEPTEMBER 30, 2014)

- Funds flow from operating activities of \$10.9 million were eight percent lower than the \$11.9 million recorded in the prior quarter due to one time general & administrative reorganization costs. Funds flow from operating activities for the 2014 third quarter included reductions of \$2.1 million of realized hedge losses, \$1.6 million of one-time general & administration reorganization costs, \$0.4 million of transaction costs relating to completed property sales and \$0.6 million of asset retirement expenses.
- Third quarter 2014 production averaged 4,194 barrels of oil and liquids per day, a two percent gain from the preceding quarter due to second quarter exploitation drilling successes at Bellshill Lake and Taber. Reflecting completed property dispositions, third quarter 2014 natural gas production of 11.2 million cubic feet per day was 24 percent lower than the preceding quarter. Total production averaged 6,054 barrels of oil equivalent per day, an eight percent decrease from the preceding quarter. For the quarter oil and liquids production increased to 69 percent of total production based on a 6:1 equivalent basis, a ratio that in 2015 is forecast to increase to 80 percent of total production. Importantly, the oil volumes will be comprised of low decline (less than 15 percent annually) waterflood and waterdrive oil volumes that are augmented by increasing ASP tertiary recovery volumes.
- Three monthly cash dividends of \$0.06 per common share were declared in the third quarter of 2014 for a total of \$5.4 million. These cash dividends were equivalent to a payout ratio of 50 percent of funds flow from operating activities.
- The quarter was highlighted by four property dispositions of high cost natural gas properties that had been producing 7.1 million cubic feet per day and 21 barrels of oil per day (1,200 barrels of oil equivalent per day). Total proceeds from the sales were \$6.7 million. The elimination of higher cost, lower netback assets is a key initiative for Zargon. In 2014, Zargon has successfully removed more than 275 net wells from its asset base.
- Third quarter 2014 exploration and development capital expenditures (excluding property acquisitions and dispositions) were \$12.8 million and included \$5.1 million of expenditures related to the Little Bow ASP project (\$1.5 million exploitation and \$3.6 million chemical costs). In the quarter, Zargon drilled 2.0 gross (1.5 net) Williston Basin oil wells.
- Zargon's September 30, 2014 debt, net of working capital (excluding unrealized derivative assets/liabilities) and using the full future face value of the convertible debenture of \$57.5 million, was \$129.1 million. At September 30, 2014, Zargon's bank debt was \$59.4 million. Pursuant to a semi-annual review, syndicated committed credit facilities have been set at \$140 million.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percent Change	2014	2013	Percent Change
Financial Highlights						
Income and Investments (\$ millions)						
Gross petroleum and natural gas sales	37.41	45.14	(17)	118.54	122.81	(3)
Funds flow from operating activities	10.87	16.45	(34)	38.04	46.34	(18)
Cash flows from operating activities	12.36	16.30	(24)	37.25	43.44	(14)
Cash dividends (net of Dividend Reinvestment Plan)	5.43	5.17	5	16.27	14.94	9
Net earnings/(loss)	0.10	(2.35)	104	(1.75)	(0.99)	(77)

Field capital and administrative asset expenditures	12.75	18.68	(32)	46.26	51.92	(11)
Net property and corporate dispositions	(6.66)	(1.14)	(484)	(11.32)	(15.77)	28
Net capital expenditures	6.09	17.54	(65)	34.94	36.15	(3)
Per Share, Basic						
Funds flow from operating activities (\$/share)	0.36	0.55	(35)	1.26	1.55	(19)
Net earnings/(loss) (\$/share)	-	(0.08)	100	(0.06)	(0.03)	(100)
Cash Dividends (\$/common share)	0.18	0.18	-	0.54	0.54	-
Balance Sheet at Period End (\$ millions)						
Property and equipment (D&P)				384.30	392.88	(2)
Exploration and evaluation assets (E&E)				7.57	17.23	(56)
Total assets				426.51	441.87	(3)
Working capital deficiency				12.16	16.45	(26)
Long term bank debt				59.45	43.65	36
Convertible debentures at maturity				57.50	57.50	-
Shareholders' equity				157.91	182.51	(13)
Weighted Average Shares Outstanding for the Period (millions) - Basic	30.15	30.07	-	30.13	29.99	-
Total Common Shares Outstanding at Period End (millions)				30.18	30.09	-

Funds flow from operating activities is an additional GAAP term that represents net earnings/loss and asset retirement expenditures except for non-cash items.

Working capital deficiency excludes derivative assets/liabilities.

Cash dividends are net of the Dividend Reinvestment Plan in 2013. The Dividend Reinvestment Plan was suspended September 2013.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Percent Change	2014	2013	Percent Change
Operating Highlights						
Average Daily Production						
Oil and liquids (bbl/d)	4,194	4,816	(13)	4,203	4,952	(15)
Natural gas (mmcf/d)	11.16	16.46	(32)	13.32	15.49	(14)
Equivalent (boe/d)	6,054	7,560	(20)	6,422	7,533	(15)
Average Selling Price (before the impact of financial risk management contracts)						
Oil and liquids (\$/bbl)	86.61	94.10	(8)	88.80	81.92	8
Natural gas (\$/mcf)	3.89	2.27	71	4.58	2.85	61
Netback (\$/boe)						
Gross petroleum and natural gas sales	67.18	64.90	4	67.61	59.72	13
Royalties	(13.38)	(12.66)	6	(12.76)	(10.96)	16
Realized loss on derivatives	(3.72)	(3.68)	(1)	(4.61)	(0.15)	(2,973)
Operating expenses	(17.71)	(16.53)	7	(17.95)	(17.29)	4
Transportation expenses	(0.70)	(0.72)	(3)	(0.73)	(0.69)	6
Operating netback	31.67	31.31	1	31.56	30.63	3
Wells Drilled, Net	1.5	3.0	(50)	13.2	8.1	63
Undeveloped Land at Period End (thousand net acres)				103	283	(64)

The calculation of barrels of oil equivalent ("boe") is based on the conversion ratio that six thousand cubic feet of natural gas is equivalent to one barrel of oil.

Message to Shareholders

Zargon Oil & Gas Ltd. has released its financial and operating results for the third quarter of 2014 that was highlighted by the disposition of low netback assets and the related one-time reorganization costs.

Little Bow Alkaline Surfactant Polymer ("ASP") 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 2.3 million barrels, which is about seven percent of the phase 1 targeted reservoir pore volume and represents 11 percent of the total chemical bank (ASP and

Polymer only) scheduled to be injected.

Zargon continues to be encouraged by the injection data for the Little Bow ASP enhanced oil recovery project. Increased injection pressures are being observed at seven of the eight ASP injection wells (a remedial workover has been undertaken at the eighth injector), indicating the building of a higher viscosity oil bank within the reservoir. Indicators of ASP fluid movement also continue to provide encouragement, most notably, the production of small concentrations of polymer at producers. To date, minor oil production responses have been observed at two producers.

In preparation for the ASP oil production phase, we continue to optimize producer and injector completion intervals to optimize ASP conformance and recovery. Consequently, current production volumes are slightly under the 250 barrels per day baseline rate for the pre-ASP waterflood project. Notwithstanding the challenges in predicting the initial onset of material ASP production, we are very encouraged by the facility operations, the observed injection performance and the indirect technical evidence of oil banking; all of which are necessary precursors to the highly profitable forecasted reserve recoveries. Over the next few months, a material ramp up in production is anticipated and we will provide timely updates to outline material progress, with the next report in mid-January providing 2014 exit production volumes.

For further information regarding the Little Bow ASP production, reserves and ultimate potential please refer to our updated corporate presentation, which is available at www.zargon.ca.

Other Field Activities

In addition to the third quarter's \$5.1 million of ASP project's exploitation and chemical capital expenditures, Zargon executed a \$7.7 million capital program in the 2014 third quarter on conventional oil exploitation assets. This program reflected the Williston Basin locations plus facility upgrades, battery optimizations and completions for the second quarter Bellshill Lake and Taber oil exploitation drilling program. For the fourth quarter, Zargon is proceeding with a 5.0 net well oil exploitation drilling program at the Taber Sunburst (2) and Williston Basin Mississippian (3) properties prior to the higher cost winter season.

2014 & 2015 Capital Budgets

In the October 8, 2014 capital budget and ASP update press release, Zargon provided an updated 2014 capital budget of \$45 million (after dispositions) and initial 2015 total capital budgets of \$46 million, which will be weighted to the second half of the year. Recognizing the current uncertainties regarding oil prices, we will reassess the 2015 capital budget in the first quarter of 2015. At that time, if low oil prices persist, we may defer non-essential conventional capital programs, while prioritizing the funding of our ASP capital programs and dividends.

Zargon has also entered into a significant oil hedging program to provide a measure of stability and predictability to cash flows as we wait for the ASP production volumes to ramp up. For the remainder of 2014, Zargon has hedged 2,600 barrels per day at \$90.92 US/bbl WTI and 400 barrels per day at \$99.60 Cdn/bbl WTI, while for the first half of 2015 an average of 1,400 barrels per day is hedged at \$93.68 US/bbl WTI.

Production Guidance

In the October 8, 2014 capital budget and ASP update press release, Zargon provided third quarter 2014 oil production rate guidance of 4,200 barrels of oil and liquids per day. Actual third quarter volumes were 4,194 barrels of oil and liquids per day and met guidance. The press release also set Zargon's third quarter 2014 natural gas production guidance of 10.2 million cubic feet per day. Third quarter actual volumes were 11.2 million cubic feet per day and exceeded guidance by 10 percent.

Oil and liquids production for the 2014 fourth quarter had been set at 4,200 barrels of oil per day and has now been revised to 4,100 barrels of oil per day due to regulatory and third party facility shut-ins and minor delays in commencing the fall drilling program. Year end exit production rates in excess of 4,200 barrels of oil per day are still anticipated. Fourth quarter natural gas production guidance remains set at 6.8 million

cubic feet per day.

Looking forward, we expect that first quarter 2015 production volumes will see an increase in production from the ASP project. We are forecasting a 2015 oil and liquids production rate of 4,700 barrels of oil per day which is comprised of 4,000 barrels of oil per day of conventional production and 700 barrels of oil per day of ASP production. These oil and liquids production guidance levels are dependent on the 2015 capital budgets and the profile of the ASP production ramp-up; and consequently will be revisited in the 2015 first quarter when the 2015 capital program is reappraised. Natural gas volumes are forecast to average 6.4 million cubic feet per day in 2015, provided that further natural gas property dispositions are not concluded.

Forward-Looking Statements

This press release offers our assessment of Zargon's future plans and operations as at November 11, 2014, and contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "plan", "intend", "believe" and similar expressions (including the negatives thereof) are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this news release contains forward-looking information and statements pertaining to the following: guidance as to our 2014 and 2015 capital budgets, including the allocation thereof and the sources of funding and various plans, forecasts and estimates as to drilling cost reduction initiatives, and other operational forecasts and plans and results therefrom under the heading "Little Bow Alkaline Surfactant Polymer ("ASP") Project", "Other Field Activities" and "2014 & 2015 Capital Budgets"; our plans with respect to our Little Bow ASP project and the results therefrom referred to under the headings "Little Bow Alkaline Surfactant Polymer ("ASP") Project" and "Production Guidance"; our plans for our hedges under the heading "2014 & 2015 Capital Budgets"; and all matters, including guidance as to our estimated 2014 and 2015 production and production mix, under the heading "Production Guidance".

The forward-looking information and statements included in this news release are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: 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 www.zargon.ca and on 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 used in the preparation of such information and statements, 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; the availability of adequate and acceptable debt and equity financing and funds from operations to fund our planned expenditures; and our ability to add production and reserves through our development and acquisition activities, 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 and statements 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.

Additional GAAP and Non-GAAP Financial Measures

Zargon uses the following terms for measurement within this press release that do not have a standardized

prescribed meaning under Canadian generally accepted accounting principles ("GAAP") and these measurements may not be comparable with the calculation of similar measurements of other entities.

The terms "funds flow from operating activities" and "operating netback per boe" in this press release are not recognized measures under GAAP. Management of Zargon believes that in addition to net earnings and cash flows from operating activities as defined by GAAP, these terms are useful supplemental measures to evaluate operating performance and assess leverage. Users are cautioned; however, that these measures should not be construed as an alternative to net earnings or cash flows from operating activities determined in accordance with GAAP as an indication of Zargon's performance.

Zargon considers funds flow from operating activities to be an important measure of Zargon's ability to generate the funds necessary to finance capital expenditures, pay dividends and repay debt. All references to funds flow from operating activities throughout this press release are based on cash provided by operating activities before the change in non-cash working capital since Zargon believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and, as such, may not be useful for evaluating Zargon's operating performance. Zargon's method of calculating funds flow from operating activities may differ from that of other companies and, accordingly, may not be comparable to measures used by other companies. Funds flow from operating activities per basic share is calculated using the same weighted average basic shares outstanding as is used in calculating earnings per basic share. See Zargon's Management's Discussion and Analysis ("MD&A") as filed on www.zargon.ca and on www.sedar.com for the periods ended September 30, 2014 and 2013 for a discussion of cash flows from operating activities and funds flow from operating activities.

51-101 Advisory

In conformity with National Instrument 51-101, Standards for Disclosure of Oil and Gas Activities ("NI 51-101"), natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. In certain circumstances, natural gas liquid volumes have been converted to a thousand cubic feet equivalent ("mcf") on the basis of one barrel of natural gas liquids to six thousand cubic feet of gas. Boes and mcfes may be misleading, particularly if used in isolation. A conversion ratio of one barrel to six thousand cubic feet of natural gas 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 ratio on a 6:1 basis may be misleading as an indication of value.

Filings

Zargon has filed with Canadian securities regulatory authorities its unaudited financial statements for the three and nine months ended September 30, 2014 and the accompanying MD&A. These filings are available on www.zargon.ca and under Zargon's SEDAR profile on www.sedar.com.

About Zargon

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

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.

Contact

Zargon Oil & Gas Ltd.
C.H. Hansen
President and Chief Executive Officer
403-264-9992
zargon@zargon.ca
www.zargon.ca

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