Zargon Oil & Gas Ltd. Announces the Closing of the Hamilton Lake Property Sale, Revises 2015 Capital Budget and Dividends and Provides an ASP Project Update

22.12.2014 | Marketwired

CALGARY, ALBERTA--(Marketwired - Dec 22, 2014) - Zargon Oil & Gas Ltd. (TSX:ZAR)(TSX:ZAR.DB) ("Zargon" or the "Company") announces measures to enhance its financial position, during what is expected to be a challenging 2015 price environment, through a completed Hamilton Lake property sale, a reduced 2015 conventional capital budget and effective January 2015, a reduced dividend of \$0.03 per common share per month. Production guidance and a Little Bow Alkaline Surfactant Polymer ("ASP") project update are also provided.

Hamilton Lake Property Disposition

Zargon has closed its previously announced agreement with Toro Oil & Gas Ltd. ("Toro") to sell its Hamilton Lake property for \$22.5 million of cash proceeds (before customary adjustments) and 1.19 million Toro common shares. The Hamilton Lake property had been recently producing approximately 170 barrels of oil per day and 1.40 million cubic feet per day (400 barrels of oil equivalent per day) to Zargon's interest.

The cash proceeds from the sale have been used to reduce long term bank debt and working capital deficiencies, which subsequent to this transaction are approximately \$56 million. Zargon's syndicated committed credit facilities have recently been reviewed and reset at \$130 million (previously \$140 million before the Hamilton Lake transaction) which leaves more than \$70 million of available liquidity under the facility. Additionally, Zargon has \$57.5 million of convertible debentures which mature in June 2017.

With the Hamilton Lake sale now completed, Zargon has successfully removed approximately 500 net wells (35 percent) from its business during the last six quarters in order to focus on Zargon's long-life, low-decline and higher-netback oil exploitation assets. Only a few minor non-core assets remain to be sold in 2015.

2015 Capital Budget reduced from \$46 million to \$32 million

In the November 11, 2014 third quarter 2014 press release, Zargon provided an updated 2015 capital budget of \$46 million, which allocated \$21 million to ASP related expenditures and \$25 million to conventional capital expenditures. Recognizing the challenging 2015 oil price environment, we have completed a reassessment of our 2015 capital budget. Our analysis continues to show strong returns and recycle rates for the ASP project at current and lower oil prices. Zargon's conventional projects are more price dependent and consequently, the 2015 conventional capital budget has been decreased from \$25 million to \$12 million. The 2015 ASP budget has now been set at \$20 million and is comprised of \$12 million of chemical costs, \$6 million of Little Bow phase 2 development costs and \$2 million of general ASP exploitation expenditures.

Monthly Dividend Cut from \$0.06 per common share to \$0.03 per common share

Currently, Zargon has been paying a monthly dividend of \$0.06 per common share (\$0.72 per common share annualized), for a total of approximately \$22 million annually, based on 30.2 million common shares outstanding. The Company believes, given current oil commodity prices, that it is prudent to lower the monthly dividend to \$0.03 per common share (\$0.36 per common share annualized) beginning with the January 2015 dividend, payable in February 2015. This dividend reduction will result in \$11 million of improved liquidity in 2015. Based on the Company's current forecasts and revised budget for 2015, Zargon believes that this reduced dividend is sustainable (net debt levels to remain stable) assuming an average

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\$70 US WTI per barrel environment for the next two years. The Company has successfully implemented a number of initiatives in the past few years to reduce its overall cost footprint and remains committed to making further reductions in 2015. The combination of these initiatives, the arrival of material ASP oil production volumes and ultimately higher oil prices will provide the basis for increasing dividends in the future. For further information regarding 2015 projected volumes and costs, please refer to the updated corporate presentation available on the Company's website.

Little Bow ASP project update

In March 2014, Zargon commenced injection of large volumes of dilute chemical solution into the partially depleted Little Bow Mannville I pool to recover substantial incremental oil reserves. To date, 2.8 million barrels of ASP solution has been injected into the first phase of the project. This injection volume is equal to about nine percent of the targeted reservoir pore volume, and represents 13 percent of the total chemical bank (ASP and polymer only) scheduled to be injected.

Zargon continues to be encouraged by the injection and production data for the Little Bow ASP enhanced oil recovery project. We are now observing an aggregate 50 barrels per day of ASP oil production primarily from four producers in close proximity to ASP injectors.

In preparation for the ASP oil production phase, the Company recompleted oil production wells in a manner that reduced current rates, but optimized future ASP conformance and recoveries. In addition, optimization work on ASP injectors in the northwestern segment of the reservoir was completed to improve and ensure the containment of injected fluids within the targeted oil leg. These activities have resulted in localized production deferrals and a delay in the initial ramp-up of ASP production volumes. As a result, phase 1 production volumes, with current ASP response, have now just returned to the 250 barrel per day pre-ASP baseline oil rate.

The Company is anticipating a material ramp-up in production over the next few months and 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 the updated corporate presentation available on the Company's website.

Production Guidance

In the November 11, 2014, third quarter press release, Zargon provided fourth quarter 2014 production guidance of 4,100 barrels of oil and liquids per day, a level that is reaffirmed despite the impact of the Hamilton Lake property sale. Fourth quarter natural gas production guidance is now set at 6.5 million cubic feet per day. Reflecting the reduced conventional capital budget and the Hamilton Lake property sale, first quarter 2015 and year average 2015 conventional production (non-ASP) are anticipated to average 4,000 and 3,800 barrels of oil and liquids per day, respectively. Natural gas volumes are forecast to average 5.0 and 4.8 million cubic feet per day in the 2015 first quarter and 2015 year, respectively, provided that further minor non-core natural gas property dispositions are not concluded.

Looking forward, the company now expects ASP production to ramp up in 2015 by producing 100, 250, 500 and 750 in the successive 2015 quarters with an average rate of 400 barrels of oil per day during the year. Despite the delay in the ASP production ramp up, production volumes of 1,200 and 1,600 barrels of oil per day are predicted for phases 1 and 2 in 2016 and 2017, respectively; and a full 12 percent incremental reservoir recovery factor is anticipated.

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 December 22, 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

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"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 business plans and strategy;
- the Hamilton Lake production and reserve volumes;
- our use of the Hamilton Lake disposition proceeds;
- our expectations for property sales;
- our expectations for our budgeted 2015 Little Bow ASP project capital program;
- our expectations for our budgeted 2015 conventional oil exploitation assets capital program;
- our dividend policy;
- our expected sources of funds for our dividends;
- our expectations for our plans with respect to our Little Bow ASP project; and
- our expectations for production volumes.

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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https://www.rohstoff-welt.de/news/188912--Zargon-Oil-und-Gas-Ltd.-Announces-the-Closing-of-the-Hamilton-Lake-Property-Sale-Revises-2015-Capital-Budge

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