

# BlackPearl Announces Fourth Quarter and Full Year 2014 Financial and Operating Results

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**CALGARY, ALBERTA--(Marketwired - Feb. 26, 2015) - BlackPearl Resources Inc.** ("we", "our", "us", "BlackPearl" or the "Company") (TSX:PXX)(OMX:PXXS) is pleased to announce its financial and operating results for the three and twelve months ended December 31, 2014.

Highlights and accomplishments in 2014 included:

- Q4 2014 oil and gas production was 9,639 boe/day and oil and gas production for the year was 9,287 boe/day;
- Q4 2014 revenue was \$48 million and funds flow from operations (a non-GAAP measure) in the fourth quarter was \$20 million. For the year, oil and gas revenue was \$228 million and funds flow from operations was \$90 million;
- Q4 2014 net income was \$16.3 million compared to \$0.2 million in Q4 2013. Net income for the year increased to \$26.8 million in 2014 compared with net income of \$6.4 million in 2013;
- Capital expenditures in 2014 were \$235.4 million, up from \$93.5 million in 2013;
- As reported on January 29, 2015, Sproule Unconventional Limited ("Sproule"), our independent reserves evaluator, increased BlackPearl's year-end 2014 oil and gas proved plus probable reserves to 296 million barrels of oil equivalent, before royalties. Contingent resources (best estimate) for our three core properties totaled 616 million barrels of oil equivalent, before royalties;
- At Onion Lake, we focused our 2014 capital spending program on the construction of the first phase of our thermal project. This phase of the project is designed for productive capacity of 6,000 bbls/day. In addition to steam, water and oil handling facilities, this phase of the project includes 13 horizontal production wells and up to 35 vertical injection wells. All of these wells were drilled by the end of the year and are currently being completed. All of the modules of the central processing facilities have been delivered and are being assembled on site. Construction is approximately 80% complete and we are on target to commence steam injection by mid-2015. We expect capital costs will be in line with our budget of \$220 million. In addition to thermal development at Onion Lake we continued with our primary development program, drilling 20 successful wells in 2014;
- At Blackrod, we continued to achieve positive results from our SAGD pilot in 2014. The second well pair reached oil production rates of 400 bbls/day during the fourth quarter with a steam oil ratio of near 3, and the well is still in its ramp-up phase. Cumulatively, the well has produced in excess of 80,000 barrels of oil. The regulatory approval process for our 80,000 bbls/day commercial development application has been an extensive process. We have successfully responded to all of the regulators supplemental requests for information and we have addressed all statements of concern raised by area stakeholders. We expect formal approval of the project later this spring;

- At Mooney, in 2014 we completed drilling on phase two lands in preparation for the expansion of our alkali, surfactant, polymer (ASP) flood to these areas. Due to low oil prices we have elected to defer this expansion until 2016. We also commenced development drilling on phase 3 lands at Mooney, drilling five wells. We anticipate expanding the ASP flood to these lands in the future. The Alberta government implemented a new royalty structure in 2014 for EOR projects, which includes our ASP flood at Mooney. Generally, the new royalty structure is positive for new projects, such as our Mooney ASP flood, during their initial years of production.

John Festival, President of BlackPearl, commenting on activities indicated that "we achieved strong production and cash flow performance during the fourth quarter of 2014. Unfortunately this has been overshadowed by global events in the oil and gas sector as the industry is currently facing a very challenging pricing environment. We have responded by scaling back much of our capital spending until prices improve. However, we are continuing to move forward with our Onion Lake thermal project. Production from our thermal project is expected to be our most economic production in terms of operating netbacks, which is critically important in a low price environment. The Onion Lake project is on schedule and on budget and we are planning to start commissioning the facilities during the second quarter of 2015.

We will continue to monitor the volatility in oil prices and will adjust our plans as required, which may include altering our spending programs as well as shutting-in some of our higher cost production until we see sustained improvement in prices. We are also working closely with our service providers, as well as conducting internal assessments to achieve cost savings wherever possible. We have an exciting inventory of projects and as oil prices recover we will look to aggressively develop these projects to expand our asset and production base."

## Financial and Operating Highlights

	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
Daily sales volumes <sup>(1)</sup>				
Oil (bbls/d) <sup>(2)</sup>	8,567	9,981	8,492	9,255
Bitumen (bbls/d)	523	262	380	236
	9,090	10,243	8,872	9,491
Natural gas (mcf/d)	3,294	1,266	2,492	1,434
Combined (boe/d)	9,639	10,454	9,287	9,730
Product pricing (\$)				
Crude oil - per bbl	59.34	58.44	72.47	65.09
Natural gas - per mcf	3.39	3.50	4.12	3.16
Combined - per boe	57.00	57.67	70.24	64.11
(\$000s, except where noted)				
Oil and natural gas revenue - gross	47,798	54,072	228,345	222,157
Net income for the period	16,254	226	26,825	6,449
Per share, basic (\$)	0.05	0.00	0.08	0.02
Per share, diluted (\$)	0.05	0.00	0.08	0.02
Funds flow from operations <sup>(3)</sup>	19,716	20,735	89,723	86,206
Capital expenditures	57,700	22,749	235,366	93,491
Property dispositions	-	(2,032 )	-	(2,032 )
Working capital, end of period	(18,237 )	(8,782 )	(18,237 )	(8,782 )
Long term debt	29,000	-	29,000	-
Shares outstanding, end of period (000s)	335,638	300,425	335,638	300,425

(1) Boe is based on a conversion ratio of 6 mcf of natural gas to 1 bbl of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and is not intended to represent a value equivalency at the wellhead.

(2) Includes production from the Blackrod SAGD pilot. All sales and expenses from the Blackrod SAGD pilot are being recorded as an adjustment to the capitalized costs of the project until the technical feasibility and commercial viability of the project is established.

(3) Funds flow from operations is a non-GAAP measure (as defined herein) that represents cash flow from operating activities before decommissioning costs incurred and changes in non-cash working capital related to operations. Funds flow from operations does not have standardized meanings prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures used by other companies. Management uses this non-GAAP measurement for its own performance measures and to provide its shareholders and investors with a measurement of the Company's efficiency and its ability to fund a portion of its growth expenditures.

## FOURTH QUARTER 2014 ACTIVITIES

Oil and gas revenues were \$47.8 million in the fourth quarter of 2014 compared to \$54.1 million in the same quarter of 2013. The decrease in revenues is attributable to an 11% decrease in oil and gas production partially offset by a 2% increase in realized average crude oil sales prices.

BlackPearl sold an average of 9,639 boe/day during the fourth quarter of 2014 compared with 10,454 boe/day during the fourth quarter of 2013. The decrease in sales volumes was mostly attributable to natural production declines at Onion Lake and from the phase two lands at Mooney. In addition, production was lower in 2014 as a result of changing the focus of our 2014 capital spending program from short-term production growth activities to the construction of the first phase of the Onion Lake thermal project. Over 75% of our 2014 capital spending was dedicated to the construction of the Onion Lake thermal project.

Tighter heavy oil differentials and a weaker Canadian dollar relative to the US dollar contributed to a slight increase in our realized crude oil sales price in the fourth quarter of 2014 compared with the fourth quarter of 2013. In Q4 2014 WTI prices averaged US\$73.15 per barrel (Q4 2013 - US\$97.46), heavy oil differentials were US\$14.39 per barrel (Q4 2013 - US\$ 32.21) and the Canadian dollar was \$0.88 relative to the US dollar (Q4 2013 - \$0.95). This resulted in our wellhead price averaging \$59.34 per barrel in the fourth quarter of 2014 compared with \$58.44 per barrel in the fourth quarter of 2013.

Production costs were \$21.1 million or \$25.12 per boe in the fourth quarter of 2014 compared to \$18.4 million, and \$19.65 per boe in the fourth quarter of 2013. The increase in production costs is primarily due to the expensing of all costs associated with the first phase of the ASP flood at Mooney. In prior years these costs were being capitalized during the initial re-pressurization of the reservoir. G&A expenses were \$1.9 million in the fourth quarter of 2014 compared to \$2.1 million in the fourth quarter of 2013.

Funds flow from operations in the fourth quarter of 2014 was \$19.7 million compared to \$20.7 million in the fourth quarter of 2013. The decrease reflects lower revenues in Q4 2014. Net income in the fourth quarter of 2014 was \$16.2 million compared to a \$0.2 million in the fourth quarter of 2013. Net income in Q4 2014 included \$20.7 million in unrealized gains on risk management contracts (oil price hedging contracts) the Company had previously entered into. Unrealized gains on these contracts represent the non-cash change in the mark-to-market values of our outstanding risk management contracts.

Capital expenditures in the fourth quarter of 2014 were \$57.7 million, a 154% increase compared to the fourth quarter of 2013. The majority of expenditures in Q4 2014 related to the on-going construction of the Onion Lake thermal project.

### Production

BlackPearl's Q4 2014 oil and gas sales volumes were 9,639 boe per day, a 4% increase over production during the third quarter. The increase in fourth quarter production is mainly attributable to additional primary development drilling at Onion Lake. At Onion Lake, we drilled 11 conventional wells during the third quarter of 2014 which began to contribute to production in the fourth quarter.

Production by Area (boe/d)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
Onion Lake	4,651	5,186	4,263	4,797
Mooney	3,236	3,837	3,469	3,685
John Lake	1,109	1,066	1,067	898
Blackrod SAGD Pilot	523	262	380	236
Other	120	103	108	114
	9,639	10,454	9,287	9,730

### Operating Netback

(\$/boe)	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013

Oil and natural gas revenue	57.00	57.67	70.24	64.11
Realized gains on risk management contracts	6.97	-	0.58	-
	63.97	57.67	70.82	64.11
Royalties	11.51	11.87	13.49	12.62
Transportation costs	1.48	1.77	1.89	2.77
Production costs	25.12	19.65	25.24	20.84
Operating netback <sup>(1)</sup>	25.86	24.38	30.20	27.88

(1) *Operating netback is a non-GAAP measure. Operating netback does not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures used by other companies in the oil and gas industry.*

## Hedging Position

Periodically we will enter into risk management contracts in order to ensure a certain level of cash flow to fund planned capital projects. The table below summarizes the Company's current risk management contracts:

Subject of Contract	Volume	Term	Reference	Strike Price	Option Traded
Oil	1,500 bbls/d	January 1, 2015 to March 31, 2015	CDN\$ WCS <sup>(2)</sup>	CDN\$ 80.20/bbl	Swap
Oil	2,500 bbls/d	January 1, 2015 to June 30, 2015	CDN\$ WCS <sup>(2)</sup>	CDN\$ 80.00/bbl	Swap
Oil	1,000 bbls/d	July 1, 2015 to December 31, 2015	CDN\$ WCS <sup>(2)</sup>	CDN\$ 64.45/bbl	Swap
Oil	1,000 bbls/d	January 1, 2016 to December 31, 2016	CDN\$ WTI <sup>(3)</sup>	CDN\$ 80.00/bbl	Call Swaption <sup>(1)</sup>

(1) *The Company sold a European call option to a counterparty whereby the counterparty can elect, on December 31, 2015, exercise the option to enter into the oil swap.*

(2) *WCS refers to Western Canadian Select, a heavy oil reference price in Alberta*

(3) *WTI refers to West Texas Intermediate, a light oil reference price in Cushing Oklahoma*

## Other

The Company's financial statements, notes to the financial statements, management's discussion and analysis and Annual Information Form have been filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and are available on the Company's website ([www.blackpearlresources.ca](http://www.blackpearlresources.ca)). The Annual Information Form includes the Company's reserves and resource data for the period ended December 31, 2014 as evaluated by Sproule and other oil and natural gas information prepared in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. BlackPearl's annual and special meeting of shareholders will be held on May 7, 2015 in Calgary Alberta.

## Forward-Looking Statements

This release contains certain forward-looking statements and forward-looking information (collectively referred to as **"forward-looking statements"**) within the meaning of applicable Canadian securities laws. All statements other than statements of historic fact are forward-looking statements. Forward-looking statements are typically identified by such words as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "potential", "targeting", "intend", "could", "might", "should", "believe" or similar words suggesting future events or future performance.

In particular, this release contains forward-looking statements pertaining to the estimated volumes of BlackPearl's proved and probable reserves, the estimated volumes of BlackPearl's contingent resources, the estimated 6,000 barrel per day productive capacity of the Onion Lake thermal project as well as the estimated capital costs of \$220 million of the project, the mid-2015 target date for initial steam injection for the first phase of the Onion Lake thermal project, potential production levels for the Blackrod SAGD project and the expected timing for regulatory approval of our commercial development application, and the expected timing for expansion of the Mooney ASP flood.

The forward-looking information is based on, among other things, expectations and assumptions by management regarding its future growth, future production levels, future oil and natural gas prices, continuation of existing tax, royalty and regulatory regimes, foreign exchange rates, estimates of future operating costs, timing and amount of capital expenditures, performance of existing and future wells,

recoverability of the Company's reserves and contingent resources, the ability to obtain financing on acceptable terms, availability of skilled labour and drilling and related equipment on a timely and cost efficient basis, general economic and financial market conditions, environment matters and the ability to market oil and natural gas successfully to current and new customers. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their nature, forward-looking statements involve numerous known and unknown risks and uncertainties that contribute to the possibility that actual results will differ from those anticipated in the forward looking statements. These risks include, but are not limited to, risks associated with fluctuations in market prices for crude oil, natural gas and diluent, general economic, market and business conditions, volatility of commodity inputs, substantial capital requirements, conditions including receipt of necessary regulatory and stock exchange approvals with respect to the issuance of common shares, uncertainties inherent in estimating quantities of reserves and resources, extent of, and cost of compliance with, government laws and regulations and the effect of changes in such laws and regulations from time to time, the need to obtain regulatory approvals on projects before development commences, environmental risks and hazards and the cost of compliance with environmental regulations, aboriginal claims, inherent risks and hazards with operations such as fire, explosion, blowouts, mechanical or pipe failure, cratering, oil spills, vandalism and other dangerous conditions, financial loss associated with derivative risk management contracts, potential cost overruns, variations in foreign exchange rates, variations in interest rates, diluent and water supply shortages, competition for capital, equipment, new leases, pipeline capacity and skilled personnel, uncertainties inherent in the SAGD bitumen and ASP recovery process, credit risks associated with counterparties, the failure of the Company or the holder of licences, leases and permits to meet requirements of such licences, leases and permits, reliance on third parties for pipelines and other infrastructure, changes in royalty regimes, failure to accurately estimate abandonment and reclamation costs, inaccurate estimates and assumptions by management, effectiveness of internal controls, the potential lack of available drilling equipment and other restrictions, failure to obtain or keep key personnel, title deficiencies with the Company's assets, geo-political risks, risks that the Company does not have adequate insurance coverage, risk of litigation and risks arising from future acquisition activities. Readers are also cautioned that the foregoing list of factors is not exhaustive. Further information regarding these risk factors may be found under "Risk Factors" in the Annual Information Form.

Undue reliance should not be placed on these forward-looking statements. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will be realized. Actual results will differ, and the differences may be material and adverse to the Company and its shareholders. Furthermore, the forward-looking statements contained in this release are made as of the date hereof, and the Company does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

### **Cautionary Statement on Contingent Resources**

This news release makes reference to contingent resources. Contingent resources are defined in the COGE Handbook as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. In the case of the contingent resources assigned to BlackPearl's three core projects the contingencies include the requirement for more evaluation drilling to better define the resource, the absence of submission of commercial SAGD development applications (for future phases of development at Blackrod), the likelihood of attaining regulatory approvals for commercial SAGD development (for our Onion Lake SAGD project), further establishment of increased oil production response from the ASP flood at Mooney and the uncertainty of the timing of production and development. There is no certainty that it will be commercially viable to produce any of the contingent resources. These volumes are the arithmetic sums of the Best Estimate Resources for Blackrod, Mooney and Onion Lake. Best Estimate (P50) is a classification of estimated resources described in the COGE Handbook as being considered to be the best estimate of the quantity that will be actually recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the best estimate. Please refer to our Annual Information Form for a more detailed discussion of our contingent resources.

### **Non-GAAP Measures**

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"Funds flow from Operations" is a non-GAAP measure that represents cash flow from operating activities before decommissioning costs incurred and changes in non-cash working capital related to operations. Cash flow from operations does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies.

"Operating Netback" is a non-GAAP measure. Operating netback does not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures used by other companies in the oil and gas industry.

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