Calvalley Petroleum Inc. announces results for the fourth quarter and year ended December 31, 2014 and provides operations update

28.02.2015 | CNW

CALGARY, Feb. 27, 2015 /CNW/ - **Highlights**

- During 2014 the Company was unable to carry out many elements of its development plan for the Yemen assets due to restrictions on the availability of services. Yemen has been subject to significant political uncertainty during the year and the situation has yet to stabilize. The safety and security of staff in the region is of critical importance to the Company. The uncertain security situation in the country has made it very difficult to mobilize the necessary equipment and personnel into Yemen and, as a result, development projects are being deferred indefinitely.
- Due in part to the decline in world oil prices, the Company's results for both the quarter and the year have been significantly impacted by a non-cash impairment provision. The calculation for the impairment provision has been based on the Company's production profile under its proved plus probable reserve development case, a price forecast based on prices indicated by the forward pricing curve as at January 7, 2015, and a discount rate of 30%. If the Company had used as a basis the proved developed producing reserve volume forecast, the price forecast adopted by the independent engineering firm for the Company's reserve evaluation, and a discount rate of 20%, the non-cash impairment amount would not be significantly different.
- Excluding the impairment provision of $88.1 million, the Company incurred a loss of $0.00 per share ($0.3 million) in the fourth quarter of 2014 compared to earnings of $0.08 per share ($6.0 million) in the fourth quarter of 2013. For the year ended December 31, 2014, excluding the impairment provision, earnings were $0.00 per share ($0.2 million) compared to $0.28 per share ($23.2 million) in 2013. Inventory of crude oil at the end of December 31, 2014 was approximately 46,200 barrels and represents an increase of 16,600 barrels from December 31, 2013.
- The Company's working interest share of production volumes before royalties and taxes averaged 1,430 barrels per day for the year representing a 43 per cent decline from 2,520 barrels per day for 2013. For the fourth quarter of 2014 production volumes were 1,760 barrels per day compared to 2,390 barrels per day in the comparable period of 2013. The decline in production year over year is due to a combination of the shut-in of the Al Roidhat field, due to marketing restrictions, and production curtailments experienced during the year. During the fourth quarter of 2014, production operations were curtailed for ten days due to a labour dispute.
- In the fourth quarter of 2014 the Company sold an average of 2,920 barrels per day of crude oil compared to 2,460 barrels per day in the comparable period of 2013. For the year ended December 31, 2014 crude oil exports have averaged 1,260 barrels per day compared to 2,330 barrels per day in the comparable period of 2013. For the fourth quarter of 2014, the average sale price received was $74.23 per barrel which represents a discount of $2.35 to the Dated Brent Crude price of $76.58 for the quarter. The product netback for the last quarter of 2014 was $16.82 per barrel, and for the year ended December 31, 2014, the netback of $22.49 per barrel represents a decrease of 47 per cent from $42.13 per barrel for 2013 reflecting both lower realized prices for crude oil and higher operating costs.
- Funds flow from operations ("Cash Flow") for the fourth quarter was $0.03 per share ($2.6 million) compared to $0.10 per share ($8.0 million) in the prior year period. For the year ended December 31, 2014 Cash Flow was $0.07 per share ($5.2 million) down 82 per cent from $0.38 per share ($31.2 million) in the prior year period.
- Capital expenditures in the fourth quarter of $2.3 million include the costs of equipment ordered earlier in 2014 for the planned capital program and received in Yemen in the quarter and project services and are down from $2.8 million in the fourth quarter of 2013. Capital expenditures for the year of $6.8 million are down 29 per cent from capital expenditures of $9.6 million for 2013.
- During the fourth quarter the Company purchased for cancellation 3,403,837 shares at an average price of $1.12 (CAD$1.27) per share under the Company's normal course issuer bid ("NCIB"). For the year ended December 31, 2014 the Company has purchased for cancellation a total of 3,655,006 shares at an average price of $1.14 (CAD$1.29) per share under the NCIB.
- The annual "per share" calculations included in this release are based on 77,217,884 weighted average number of shares outstanding. The fourth quarter "per share" amounts are based on 75,126,232 weighted average number of shares outstanding. The Company had 74,386,820 shares outstanding at December 31, 2014.

- On August 18, 2014 the Board of directors declared a special dividend of C$0.07 per common share payable to shareholders of record on August 29, 2014. The dividend was paid in cash on September 15, 2014.
- Calvalley has a strong balance sheet with approximately $75 million in working capital at December 31, 2014. The value of the volumes of crude oil held in inventory at December 31, 2014 reflect market value.

Operations Update

In early February, 2015 members of the cabinet of the Government of Yemen resigned and, more recently, several foreign embassies have closed their offices and suspended diplomatic services. Amidst the significant concerns for the safety and security of all Yemen staff, contractors and foreign workers and the uncertain political environment the Company is maintaining production operations, however, all activity on capital projects is being deferred until the business and operating environment improves

The Company has recently closed its technical office in London and is reducing working hours and salaries for all management and staff in the Calgary office to reduce its fixed costs of operation.

The Company's agreement in Yemen is a production sharing agreement. The agreement effectively defines each party's interest in each barrel of oil sold. Management uses this production sharing entitlement as an indicator for decision making to ensure profitability under the agreement is optimized both in the short term and the long term.

To optimize profitability, it is advantageous to ensure that the total cost incurred to produce a barrel of oil is less than the effective cost of the pro-rata entitlement under the production sharing agreement allocated for the recovery of costs, which is referred to as "Cost Oil". The agreement effectively allows 45 percent of each barrel sold as Cost Oil to cover allowable operating costs, G&A costs and current and historical capital costs incurred. As noted in the highlight section, operating costs of $26.45 per barrel in Yemen were up significantly in 2014 due mainly to the lower volume of crude oil produced. Incorporating estimated G&A costs to establish an estimate for total allowable costs incurred (excluding capital costs), total estimated allowable costs incurred in 2014 exceeded $33 on a per barrel basis.

To ensure the Company is capable of recovering current and historical operating, G&A and capital costs under the agreement, using the referenced estimated allowable cost per barrel of $33 per barrel (operating and G&A costs only), and grossing this per barrel cost using a denominator of 45%, the calculated required sales price for a barrel of crude oil is approximately $73 per barrel.

Using an estimated allowable cost per barrel to cover operating and G&A costs (excluding capital costs) of $25 per barrel, the calculated required sales price for a barrel of crude oil, which ensures the Company is effectively recovering its costs incurred, is approximately $55 per barrel.

To ensure the Company manages through an extended period of anticipated low crude oil prices, the Company is making every effort to work with all stakeholders in Block 9 to manage costs effectively in order that the impact of reduced revenues is shared fairly by all stakeholders.

Corporate Update

The Company has reviewed several diversification opportunities outside Yemen. No potential transactions have been identified to date.

Calvalley has a healthy balance of cash and working capital for investment purposes and will continue to review investment, diversification and other opportunities that can optimize shareholder value.

The Company welcomes Nabil Nassef, P. Eng. to the Board of Directors of Calvalley. Nabil is a graduate in Civil Engineering from the University of Alberta. Nabil has over 35 years of experience in the oil and gas industry in both Western Canada and more recently in Yemen. Nabil represented Calvalley as General Manager in Yemen during the years 2000 to 2009. Nabil is fluent in speaking, writing and translating the Arabic language. Nabil currently provides consulting services to Calvalley in an advisory capacity.

On February 23, 2015 the Alberta Securities Commission (the "ASC"), released its decision and dismissed all allegations against the Company and former employees. A copy of the decision is available on the ASC website. The ASC alleged that in early 2009 the Company purchased shares pursuant to a normal course issuer bid while in possession of material information relating to its reserves which had not been disclosed to the public. The Commission found that the information in question was not material. With respect to allegations against the Chairman and CEO of the Company, the ASC found that his conduct breached section 221.1(2) of the Securities Act (Alberta) and was contrary to the public interest by making a misleading or untrue statement to ASC Staff during a formal investigative interview. The Commission's conclusion is set out at page 85 of the ASC decision. The matter will now move to a second phase to determine whether (and, if so, what) orders for sanctions and costs ought to be made. The ASC decision also commented on various practices followed by the Company at the material time. The Company is currently reviewing the decision to determine whether additional modifications to current practices are advisable. The Board of Directors fully supports this initiative.

Financial information

Significant financial information is included in the table below and is discussed further in the Company's Management Discussion and Analysis.

	Three months ended December 31		Year ended December 31	
(in thousands of US dollars except per share amounts)	2014	2013	2014	2013
Revenue (Gross)	19,964	25,065	39,851	92,960
Revenue from crude oil sales (net of royalties)	12,511	15,707	24,984	58,264
Adjusted EBITDA(1)	3,739	9,451	7,133	36,477
Operating income (loss)(1)	(87,207)	7,524	(85,720)	29,063
Earnings (loss)	(88,444)	5,999	(87,911)	23,176
Per share	(1.18)	0.08	(1.14)	0.28
Capital expenditures	2,332	2,815	6,784	9,588
Funds flow from operations(1)	2,598	8,042	5,163	31,179
Per share	0.03	0.10	0.07	0.38
Cash flow from operating activities	5,056	6,267	5,564	30,360

(1) See "Non-IFRS Measures" disclosure in December 31, 2014 MD&A filed on www.sedar.com which is incorporated herein by reference

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Calvalley's Management's Discussion and Analysis and Audited Condensed Consolidated Financial Statements for the year ended December 31, 2014 can be found for viewing by electronic means on The System for Electronic Document Analysis and Retrieval at www.sedar.com. They can also be found on the Company's website at www.calvalleypetroleum.com.

Calvalley is an international oil and gas company, with offices in Calgary, Alberta, Canada, that operates its 50% working interest in Block 9 of the Masila Basin, in The Republic of Yemen.

Forward-looking Information

This press release may contain forward-looking information. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions may have been used to identify this forward-looking information. These statements reflect management's current beliefs and are based on information currently available to management. In particular, statements in respect to deferring development projects in Yemen, and reviewing investment, diversification and other opportunities to optimize shareholder value contain forward looking information. Forward-looking information involves significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information including, but not limited to, operational risks, availability of supplies and services, potential delays or changes in plans with respect to exploration or development projects or capital expenditures, delays and interruptions in drilling and completion activities for undetermined periods, success in drilling activities, changes in general economic and market conditions and *other risk factors. Although the forward-looking information contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with this forward-looking information. Investors should not place undue reliance on forward-looking information.*

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. The forward-looking information included in this press release is made as of the date of this press release and Calvalley assumes no obligation to update or revise it to reflect new events or circumstances except as expressly required by applicable securities law.

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