

# Rock Energy Inc. Reports Q1 2016 Results

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CALGARY, May 11, 2016 - [Rock Energy Inc.](#) (TSX:RE) ("Rock" or the "Company") is pleased to report its financial and operating results for three months ended March 31, 2016.

Copies of Rock's audited financial statements and related management's discussion and analysis for the three months ended March 31, 2016 have been filed on the SEDAR website at [www.sedar.com](http://www.sedar.com) and may be obtained on Rock's website at [www.rockenergy.ca](http://www.rockenergy.ca).

Rock is a Calgary-based crude oil exploration, development and production company.

## CORPORATE SUMMARY

### FINANCIAL

Three months ended March 31,	2016	2015
Crude oil and natural gas revenue ('000)	\$ 5,087	\$ 17,466
Funds from operations ('000) <sup>(1)</sup>	\$ 2,103	\$ 6,158
Per share		
- basic	\$ 0.04	\$ 0.14
- diluted	\$ 0.04	\$ 0.14
Net loss ('000)	\$ (5,354)	) \$ (4,178)
Per share		
- basic	\$ (0.11)	) \$ (0.10)
- diluted	\$ (0.11)	) \$ (0.10)
Total net capital expenditures ('000) <sup>(2)</sup>	\$ 785	\$ 14,353
As at March 31,	2016	2015
Net debt ('000) <sup>(1)</sup>	\$ 58,382	\$ 63,154
Common shares outstanding	47,519,245	46,971,997
Options outstanding	3,536,166	2,980,981

### OPERATIONS

Three months ended March 31,	2016	2015
Average daily production		
Crude oil and natural gas liquids (bbls/d)	2,775	5,011
Natural gas (mcf/d)	706	864
Barrels of oil equivalent (boe/d)	2,893	5,155
Average product prices		
Crude oil and natural gas liquids (\$/bbl)	\$ 19.98	\$ 38.22
Natural gas (\$/mcf)	\$ 1.57	\$ 2.96
Total (\$/boe)	\$ 19.33	\$ 37.65
Operating netback (\$/boe) <sup>(2)(3)</sup>	\$ 1.01	\$ 16.70

<sup>(1)</sup> Funds from operations and net debt are considered key financial metrics; Refer to the "Key Financial Metrics" section at the end of this MD&A for definitions.

<sup>(2)</sup> Operating netback and total net capital expenditures are considered Non-GAAP measures; Refer to the "Non-GAAP Measures" section at the end of this MD&A.

<sup>(3)</sup> Operating netback exclude realized hedging gains of \$13.87 per boe for the three months ended March 31, 2016. As at March 31, 2015 the Company did not have any commodity price contracts outstanding.

## LETTER TO THE SHAREHOLDERS

Welcome to the first shareholders report for 2016.

The first quarter has been extremely difficult for our industry as the price for WTI dropped toward \$25.00 US/bbl in January and averaged only \$34.00 US/bbl for the quarter. With this significant deterioration in prices, we reduced our capital spending to only essential projects to preserve the integrity of our assets.

The Company elected to have the production rates from our assets fall, and not complete the workovers that would normally maintain production levels. This preserved cash, preserved reserves, and allowed for the acceleration of pressure support at the Laporte EOR project.

As we announced on December 15, 2015 we decided to explore strategic alternatives for the purpose of preserving and enhancing shareholder value. That process is ongoing; however, it is the Company's intention not to disclose developments with respect to the strategic review process until the Board of Directors has approved a specific transaction or otherwise determines that disclosure is necessary or appropriate.

Sincerely, and on behalf of the Board of Directors:

Allen J. Bey, President and Chief Executive Officer

## REPORT TO SHAREHOLDERS

During the first quarter of 2016 Rock focused on maintaining its balance sheet and capital spending was limited to essential activities to preserve the value of the asset base.

The quarter was highlighted by the following specific accomplishments:

- Drilled 1 (1.0 net) oil well with 100% casing success at Mantario infill;
- Averaged 2,893 boe per day (96% crude oil and liquids);
- Total net capital expenditures of \$0.8 million;
- Generated funds from operations for the quarter of \$2.1 million (\$0.04/ basic share); and
- Negotiated banking agreements with our existing senior lender, and a new subordinated lender for a total combined facility of \$60 million.

Rock's realized price in the first quarter of 2016 was \$19.33 per boe compared to \$35.13 per boe in the fourth quarter of 2015 and \$37.65 for the same period a year ago. The decrease in price realization is primarily attributed to a significant decrease in WTI pricing as it fell to \$34.00 US/bbl during the quarter from \$42.18 in the fourth quarter of 2015 and \$48.63 US/bbl a year ago. This drop in WTI prices was partially offset by a reduction in the US/CAD exchange rate.

Operating costs increased during the quarter to \$17.42 per boe compared to \$16.32 per boe in the fourth quarter of 2015.

Rock generated an operating netback of \$1.01 per boe in the first quarter of 2016 compared to \$17.63 per boe in the fourth quarter of 2015, as operating netbacks were negatively impacted by reduced product pricing. Though operating costs were higher on a per boe produced basis in the quarter, royalties were slightly lower at \$1.08/boe compared to \$1.18/boe in the fourth quarter of 2015.

Total net capital expenditures for the first quarter of 2016 were \$0.8 million, including \$0.8 million for the drilling program and facilities, \$0.5 million for land and capitalized G&A, offset by a \$0.5 million of AFE

accrual reversals from expenditures completed in 2015.

Rock's daily production for the first quarter of 2015 averaged 2,893 boed (96% oil and liquids) including approximately 540 boed from the Onward Viking pool and approximately 1,800 boed from the Mantario/Laporte pool.

#### Mantario/Laporte Saskatchewan

During the first quarter of 2016 Rock drilled and completed one oil well at Mantario/Laporte as well as completed and equipped two oil wells (that were drilled in 2015). The Company also completed one additional polymer injector conversion. Rock elected to delay workovers to repair pump failures, during the first quarter due to low oil prices. In addition workover operations were adversely affected by break up (road bans). Due to these reasons production levels from the pool fell below 1,500 boepd during the months of March and April. Since that time, Rock has been able to move on to the shut in wells and begin to restore production. Production from the pool is currently averaging approximately 1,700 - 1,800 boed, and the Company expects production to stabilize in the 1,800 - 2,000 boed range in the next few months as the remaining repairs are completed.

Though production from the pool was adversely affected in recent months due to the lack of maintenance spending, it has allowed the Company to increase its reservoir voidage replacement and re-pressurize the pool. Moving forward the pool will require the drilling of 4-6 in-fill wells over the next year to maintain and build the production levels.

The Company was successful in the April 8, 2016 land sale in acquiring an additional two sections of land directly to the west of our main pool. This has added an additional exploration target along the same trend as the main Laporte pool.

#### Onward, Saskatchewan Viking

During the first quarter, Rock elected to allow 8.7 sections of freehold land to expire as these lands were not economic to develop at forecast prices for the foreseeable future. Rock continues to have over 35 net sections of land in this area that management believes are prospective for economic oil production. If fully developed at 16 wells per section, this play could generate over 500 drilling locations and 16 million boe of recoverable reserves. Production from the Viking is expected to average 450 boed during the second quarter of 2016.

#### Outlook and 2016 Guidance

Given the current level of crude oil prices, Rock reduced its capital budget for 2016 from the previously announced level of \$20 million (November 12, 2015) to a "cash flow" budget. The Company will monitor cash flow on a monthly basis to ensure discretionary capital spending does not increase existing net debt levels.

On December 15, 2015 Rock announced that it had initiated a full public process to identify and examine strategic alternatives for the purpose of preserving and enhancing shareholder value. Such strategic alternatives may include, but are not limited to, a corporate sale, merger or other business combination, the sale of all or a material portion of Rock's assets, a reorganization, recapitalization or restructuring of Rock or any combination of the foregoing.

It is the Company's intention not to disclose developments with respect to the strategic review process until the board of directors has approved a specific transaction or otherwise determines that disclosure is necessary or appropriate. Rock cautions that there are no assurances or guarantees that the process will result in a transaction and that, if a transaction is undertaken, no assurances or guarantees may be given with respect to the type, terms or timing of such a transaction. In addition, the results of this process may impact the ability of the Company to continue to successfully manage its credit facility agreements and its ability to continue future operations. Additional equity, debt arrangements and/or operating developments may be needed to meet the Company's business objectives. There are no guarantees that such additional capital funding will be available when needed.

For further information please visit Rock's website at [www.rockenergy.ca](http://www.rockenergy.ca).

### Conversion Measures

Production volumes and reserves are commonly expressed on a barrel of oil equivalent ("boe") basis. All conversions in this report are derived by converting natural gas to crude oil in the ratio of six thousand cubic feet ("mcf") of natural gas to one barrel ("bbl") of crude oil. Certain financial values are presented on a boe basis and such measurements may not be consistent with those used by other companies. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of six mcf to one boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

### Non-GAAP Measures

This document, including the accompanying financial statements also contain the terms "operating netback" and "total net capital expenditures" which do not have any standardized meaning prescribed by GAAP and may not be comparable with the calculation of similar measures for other entities and should not be considered an alternative to or more meaningful than the prescribed GAAP measure. Management believes these measures are helpful supplementary measures of financial performance and provide users with information that is commonly used by other oil and gas companies.

Operating netback has been calculated as oil and natural gas revenues, less royalties and production and operating expenses. Management believes this is a measure of operational profitability before administrative and other financing costs. Cash netbacks are calculated as operating netbacks less general and administrative expenses before share based compensation, and interest financing costs. Readers are cautioned that these measures should not be considered an alternative to, or more meaningful than, "net loss and comprehensive loss" as determined in accordance with GAAP as a measure of the Company's performance.

Total net capital expenditures has been calculated to include the cash impacts of capital expenditures and property dispositions, as well as non-cash capital adjustments related to the Company's decommissioning liability and share based compensation costs. Management believes that this provides supplemental information on the total capital spending for the period.

### Key Financial Metric Definitions

#### *Funds from operations*

This document, including the accompanying financial statements, contain the term "funds from operations" as a measure of the Company's performance. Funds from operations or funds from operations per share may not be comparable with the calculation of similar measures for other entities. Funds from operations as used in this report represent cash from operating activities before changes in non-cash working capital and decommissioning expenditures. See "Funds from operations" section for details of this calculation. Management believes that funds from operations represent both an indicator of the Company's performance and a funding source for ongoing operations.

#### *Other Metrics*

This document, including the accompanying financial statements also contain the terms "adjusted working capital deficiency" and "net debt" which may not be comparable with the calculation of similar measures for other entities.

Working capital is defined as the difference between current assets and current liabilities. Working capital (deficiency) is the term used when the difference between current assets and current liabilities is a negative number which is quite common in the oil and gas industry. Adjusted working capital, and adjusted working

capital deficiency have been calculated excluding the unrealized gains on commodity price contracts from current assets and the unrealized losses on commodity price contracts and bank debt from current liabilities. Adjusted working capital and adjusted working capital (deficiency) represent operating liquidity available to the business and are included in the definition of "net debt".

Net debt has been calculated as bank debt plus adjusted working capital or adjusted working capital (deficiency). Net debt is used to calculate the debt-to-annualized-funds from operations ratio. Management believes these measures are useful supplementary measures of the total amount of current and long-term debt. Total capitalization is calculated as net debt plus shareholders' equity. Management believes this measure is a useful supplementary measure of the Company's managed capital.

## Forward-Looking Statements

Certain statements and information contained in this document, including but not limited to management's assessment of Rock's plans and future operations, production, reserves, revenue, commodity prices, operating and administrative expenditures, interest expense, future income taxes, drilling plans, acquisitions and dispositions, funds from operations, capital expenditure programs and debt levels, contain forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These statements, by their nature, are subject to numerous risks and uncertainties, some of which are beyond Rock's control including the effect of general economic conditions, industry conditions, regulatory and taxation regimes, volatility of commodity prices, 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, any of which may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such forward-looking statements, although considered reasonable by management at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made and, therefore, should not unduly be relied on. These statements speak only as of the date of this document. Rock does not intend and does not assume any obligation to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

## Abbreviations

The terms "2016" and "2015" are used throughout this document and refer to the three months ended March 31, 2016 and March 31, 2015, respectively, and the term "prior" or "previous" year refers to 2015. The terms "first quarter of 2016" and "same period of 2015" or similar terms are used throughout this document and refer to the three-month periods ended March 31, 2016 and March 31, 2015, respectively.

bbl	barrel(s)	mbbls	thousand barrels
bbl/d	barrel(s) per day	mboe	thousand barrels of oil equivalent
bcf	billion cubic feet	mboed	thousand barrels of oil equivalent per day
boe	barrels of oil equivalent	mcf	thousand cubic feet
boed	barrels of oil equivalent per day	mmcf	million cubic feet
bps	basis points	mmbbls	million barrels
CDOR	Certificate of Deposit Offered Rate	mmboe	million barrels of oil equivalent
GJ	gigajoule	NGL	natural gas liquids
hectare	1 hectare is equal to 2.47 acres	WTI	West Texas Intermediate
km	kilometer	WCS	Western Canadian Select

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