

# **Petrus Resources Announces Third Quarter 2017 Financial and Operating Results**

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CALGARY, ALBERTA--(Marketwired - Nov 10, 2017) - [Petrus Resources Ltd.](#) ("Petrus" or the "Company") (TSX:PRQ) to report financial and operating results for the third quarter of 2017. Petrus is focused on organic growth and infrastructure in its core area, Ferrier, Alberta. The Company is targeting liquids rich natural gas in the Cardium formation as well as infrastructure in Ferrier to control operations in order to maximize the Company's return on investment. The Company's Management's Discussion and Analysis ("MD&A") and interim consolidated financial statements dated as at and for the ended September 30, 2017 are available on SEDAR (the System for Electronic Document Analysis and Retrieval) at [www.sedar.com](http://www.sedar.com).

- Petrus generated funds flow of \$7.7 million in the third quarter of 2017, a 30% increase relative to the \$5.9 million in the third quarter of 2016. The 30% increase in funds flow is attributed to 49% higher production and 11% lower operating expenses (on a per boe basis) from the prior year. This production growth and lower cost structure reflects the Company's strategic shift to focus on developmental drilling and facility ownership and control in the Ferrier area.
- Third quarter average production was 10,567 boe/d in 2017 compared to 7,100 boe/d for the same period in 2016. The increase is attributable to the Company's drilling program at Ferrier, where production has grown 110% since the start of 2016.
- Total operating expenses have decreased 11% from \$6.04 per boe in the third quarter of 2016 to \$5.42 per boe in the third quarter of 2017. Due to facility constraints, a portion of the Company's Ferrier production was processed through third party facilities during the third quarter of 2017. Ferrier operating expenses are expected to decrease further in the fourth quarter as the Ferrier gas plant expansion is now complete<sup>(1)</sup>.
- Petrus utilizes financial derivative contracts to mitigate commodity price risk. The Company's realized gain on financial derivatives in the third quarter of 2017 increased the Company's corporate netback<sup>(2)</sup> by \$1.88 per boe. The realized gain increased significantly from the \$0.23 per boe realized in the second quarter of 2017 to \$1.88 per boe in the third quarter of 2017. The increase is attributed to the recent volatility in commodity prices, natural gas in particular. As a percentage of third quarter 2017 production, Petrus has derivative contracts in place for 60% and 70% of its natural gas and oil and gas liquids production, respectively, up to the end of the next fiscal year.
- During the third quarter Petrus entered into a farm-in agreement (the "Farm-in Agreement") to drill two extended reach horizontal ("ERH") Cardium wells in Ferrier. Upon completion of these wells, Petrus will also earn a working interest in additional sections of land in Ferrier. Subsequent to the end of the third quarter, the ERH wells were each drilled to a length of approximately 2 sections. The Company estimates the Farm-in Agreement will contribute 16 gross (5.2 net) well locations to its drilling inventory<sup>(1)</sup>.
- In order to accommodate for the Farm-in Agreement, Petrus' Board of Directors approved a \$10 million increase to the Company's capital budget for 2017 to a range of \$60 to \$70 million, from the \$50 to \$60 million previously approved. The budget increase is expected to be funded through availability under the Company's existing credit facilities<sup>(1)</sup>.
- During the third quarter of 2017, Petrus participated in or spud 6 gross (4.7 net) Cardium wells in the Ferrier area. As part of the gas plant expansion, increasing the plant's capacity from 30 mmcf/d to 60 mmcf/d, was completed in early October. With the new processing capacity available at the plant, the fracture stimulation operations for the new wells were scheduled for the fourth quarter. The wells are expected to be brought onstream later in the fourth quarter<sup>(1)</sup>.
- Subsequent to the end of the third quarter of 2017 Petrus completed the semi-annual review of its revolving credit facility ("RCF"). The RCF syndicate of lenders increased the borrowing base from \$120 million to \$130 million. In addition, the Company's total debt borrowing limit was increased from \$141 million to \$155 million. Petrus' second lien term loan ("Loan") has \$35 million outstanding therefore lender consent, from both the RCF syndicate and Petrus' Term Loan, is required for total borrowings against the RCF that exceed \$120 million.

(1) Refer to "Advisories - Forward-Looking Statements" attached hereto.

(2) Refer to "Non-GAAP Financial Measures" in the September 30, 2017 Management's Discussion & Analysis.

#### SELECTED FINANCIAL INFORMATION

OPERATIONS	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2016	Three months ended Jun. 30, 2017	Three months ended Mar. 31, 2017
Average Production				
Natural gas (mcf/d)	45,550	30,009	42,392	40,300
Oil (bbl/d)	1,877	1,419	2,015	1,540
NGLs (bbl/d)	1,098	680	1,160	1,060
Total (boe/d)	10,567	7,100	10,240	9,330
Total (boe)	972,140	653,215	931,821	839,000
Natural gas sales weighting	72	% 70	% 69	% 72
Realized Prices				
Natural gas (\$/mcf)	1.66	2.53	3.29	2.85
Oil (\$/bbl)	51.23	44.50	59.02	62.60

NGLs (\$/bbl)	24.79	15.56	30.32	33.1
Total realized price (\$/boe)	18.82	21.06	28.69	26.4
Royalty income	0.01	0.07	0.03	0.05
Royalty expense	(2.73)	(2.99)	(4.62)	(3.9)
Net oil and natural gas revenue (\$/boe)	16.10	18.14	24.10	22.5
Operating expense	(5.42)	(6.04)	(5.53)	(4.5)
Transportation expense	(1.29)	(1.49)	(1.32)	(1.3)
Operating netback <sup>(1)(2)</sup> (\$/boe)	9.39	10.61	17.25	16.7
Realized gain on derivatives (\$/boe) <sup>(2)</sup>	1.88	4.06	0.23	0.57
General & administrative expense	(1.09)	(1.69)	(1.12)	(1.0)
Cash finance expense	(1.99)	(3.85)	(1.94)	(2.0)
Decommissioning expenditures <sup>(3)</sup>	(0.23)	(0.04)	(1.03)	(0.1)
Corporate netback <sup>(1)(2)</sup> (\$/boe)	7.96	9.09	13.39	13.9
FINANCIAL (000s except per share)	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2016	Three months ended Jun. 30, 2017	Three months ended Mar. 31, 2017
Oil and natural gas revenue	18,299	13,805	26,753	22,2
Net income (loss)	(50,696)	(4,702)	(781)	7,31
Net income (loss) per share				
Basic	(1.03)	(0.10)	(0.02)	0.16
Fully diluted	(1.03)	(0.10)	(0.02)	0.16
Funds flow <sup>(3)</sup>	7,727	5,938	12,458	11,7
Funds flow per share <sup>(3)</sup>				
Basic	0.16	0.13	0.25	0.25
Fully diluted	0.16	0.13	0.25	0.25
Capital expenditures	13,055	7,231	18,903	18,9
Net acquisitions (dispositions)	(4,866)	(29,718)	-	8,81
Weighted average shares outstanding				
Basic	49,428	45,349	49,428	46,7
Fully diluted	49,428	45,349	49,428	46,9
As at period end				
Common shares outstanding				
Basic	49,428	45,349	49,428	49,4
Fully diluted	49,428	45,349	49,428	52,6
Total assets	409,078	448,404	465,794	460
Non-current liabilities	191,145	169,714	170,580	165
Net debt <sup>(1)</sup>	137,531	124,310	137,069	130

(1) Refer to "Non-GAAP Financial Measures" in the September 30, 2017 Management's Discussion & Analysis.

(2) In prior periods Petrus included realized gain on derivatives (hedging gain (loss)) in the calculation of operating netback. The comparative information has been re-classified to conform to current presentation.

(3) In prior periods Petrus excluded decommissioning expenditures from the calculation of funds flow. The comparative information has been re-classified to conform to current presentation.

## OPERATIONS UPDATE

### Production

Average third quarter production by area was as follows:

For the three months ended September 30, 2017	Ferrier	Foothills	Central Alberta	Total
Natural gas (mcf/d)	30,014	8,123	7,413	45,550
Oil (bbl/d)	1,157	237	483	1,877

NGLs (bbl/d)	846	28	223	1,097
Total (boe/d)	7,007	1,627	1,933	10,567
Natural gas sales weighting	71%	83%	64%	72%

Third quarter average production was 10,567 boe/d (72% natural gas) in 2017 compared to 7,100 boe/d (70% natural gas) in the third quarter of 2016. The 49% increase is attributable to the Company's drilling program in its core operating area, Ferrier. Natural gas production has grown 110% since the third quarter of 2016.

### *Commodity Pricing*

During the third quarter of 2017, Petrus realized high volatility in the market price of its natural gas revenue as a result of high volatility in the Alberta natural gas commodity price market. In particular, there was high volatility in the daily average natural gas spot price (AECO 5A index) which is the index on which Petrus sold all of its natural gas in the third quarter of 2017. Due to market factors outside the Company's control, the AECO 5A natural gas price averaged \$1.38 per GJ during the third quarter of 2017, which is 28% lower than the third quarter 2017 average forward monthly (AECO 7A index) natural gas price of \$1.84 per GJ. During the third quarter of 2017 Petrus' realized natural gas price was \$1.66 per mcf which is 50% lower than the \$3.29 per mcf realized in the second quarter of 2017. Beginning in November 2017, Petrus has elected for approximately half of its natural gas production to be paid on the forward monthly natural gas price (AECO 7A index) in an attempt to reduce the Company's exposure to daily natural gas price volatility.

### *Ferrier Farm-In*

During the third quarter Petrus entered into a farm-in agreement (the "Farm-in Agreement") to drill two extended reach ("ERH") Cardium wells in Ferrier, the Company's core operating area. Upon completion of these wells, Petrus will earn a 25% interest in three additional sections of land in Ferrier. Subsequent to the end of the third quarter, the ERH wells were drilled to a lateral length of approximately two sections. The Company estimates that the Farm-in Agreement will contribute 16 gross Cardium locations to its drilling inventory<sup>(1)</sup>.

### *Capital Development*

In order to accommodate for the Farm-in Agreement, Petrus' Board of Directors approved a \$10 million increase to the capital budget for 2017 to \$60 to \$70 million, from the \$50 to \$60 million previously approved. The budget increase is expected to be funded through availability under the Company's existing credit facilities. The Company's capital expenditure program for 2017 anticipates drilling 16 gross (11.8 net) Cardium wells in Ferrier. The capital expenditure program also provides for investment in processing facility expansion<sup>(1)</sup>.

Petrus has spud or participated in 6 gross (4.7 net) Cardium wells in the Ferrier area since the end of the second quarter of 2017. The Ferrier gas plant expansion, increasing the plant's capacity from 30 mmcf/d to 60 mmcf/d, was completed in early October 2017. With the new processing capacity available at the plant, the fracture stimulation operations for the new wells were scheduled to start in the fourth quarter. The wells are expected to be brought onstream later in the fourth quarter<sup>(1)</sup>.

### *Property Acquisition & Disposition Activity*

On August 15, 2017 Petrus closed the disposition of its working interest in certain non-core oil and natural gas properties in the Company's Foothills area for cash consideration of \$4.9 million. The assets disposed of included approximately 150 boe/d of production along with related land and infrastructure. The proceeds were utilized to repay indebtedness under the Company's credit facilities.

Petrus has initiated a non-core asset divestiture process for its Central Alberta (Thorsby) and Foothills areas, and has engaged GMP Securities L.P. ("GMP FirstEnergy") as its exclusive financial advisor to assist with the process. Through the divestiture process, the Company's Board of Directors determined its Foothills assets' characteristics do not fit within the strategic focus of the Company. As a result, Petrus recognized an impairment loss of \$45.0 million related to the Foothills Cash Generating Unit ("CGU") for the three and nine month periods ended September 30, 2017. The divestiture of these non-core assets is expected to further enhance Petrus' balance sheet and continue to strengthen the focus on the Company's core operating area, Ferrier.

### *Credit Review*

Subsequent to the end of the third quarter of 2017 Petrus completed the semi-annual review of its revolving credit facility ("RCF"). The RCF syndicate of lenders increased the borrowing base from \$120 million to \$130 million. In addition, the Company's total debt borrowing limit was increased from \$141 million to \$155 million. Petrus' second lien term loan ("Term Loan") has \$35 million outstanding therefore lender consent, from both the RCF syndicate and Petrus' Term Loan lender, is required for total borrowings against the RCF that exceed \$120 million.

*(1) Refer to "Advisories - Forward-Looking Statements" attached hereto.*

An updated corporate presentation can be found on the Company's website at [www.petrusresources.com](http://www.petrusresources.com).

## ADVISORIES

### *Basis of Presentation*

Financial data presented above has largely been derived from the Company's financial statements, prepared in accordance with GAAP which require publicly accountable enterprises to prepare their financial statements using IFRS. Accounting policies adopted by the Company are set out in the notes to the audited financial statements as at and for the twelve months ended December 31, 2016. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

### *Forward-Looking Statements*

Certain information regarding Petrus set forth in this MD&A contains forward-looking statements within the meaning of applicable securities law, that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such statements represent Petrus' internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, production, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Petrus believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Petrus' actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Petrus.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: the availability of cash flows from operating activities; expected timing of completion of the expansion of the Ferrier gas plant and the resulting processing and compression capacity at the Ferrier gas plant and expectations of decreased operating expense; sources of financing and the requirement therefor; the growth of Petrus and the availability of the full amount of the revolving credit facility; the treatment of the revolving credit facility following the end of the revolving period; Petrus' ability to fund its financial liabilities; the size of, and future net revenues from, crude oil, NGL (natural gas liquids) and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the timing for bringing new wells on production; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs; the performance characteristics of the Company's crude oil, NGL and natural gas properties including estimated production; crude oil, NGL and natural gas production levels and product mix; Petrus' future operating and financial results; capital investment programs; supply and demand for crude oil, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; and treatment under governmental regulatory regimes and tax laws. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

This MD&A discloses drilling locations, which are unbooked locations based on Petrus' prospective acreage

and internal estimates as to the number of wells that can be drilled per section. Unbooked locations do not have attributed reserves or resources (including contingent and prospective). Unbooked locations have been identified by management as an estimation of the Company's multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information.

There is no certainty that the Company will drill any unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which the Company will actually drill wells, including the number and timing thereof is ultimately dependent upon the availability of funding, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, the majority of other unbooked drilling locations are farther away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

These forward-looking statements are subject to numerous risks and uncertainties, most of which are beyond the Company's control, including the impact of general economic conditions; volatility in market prices for crude oil, NGL and natural gas; industry conditions; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources; completion of the financing on the timing planned and the receipt of applicable approvals; and the other risks. With respect to forward-looking statements contained in this MD&A, Petrus has made assumptions regarding: future commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; future exchange rates; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment and services; effects of regulation by governmental agencies; and future operating costs. Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Petrus' future operations and such information may not be appropriate for other purposes. Petrus' actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive therefrom. Readers are cautioned that the foregoing lists of factors are not exhaustive.

There are no assurances or guarantees that the non-core asset divestiture process will result in a sale of such assets or, if a sale is undertaken, what the terms or timing of such a sale will be.

These forward-looking statements are made as of the date of this MD&A and the Company disclaims any intent or obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

### *BOE Presentation*

The oil and natural gas industry commonly expresses production volumes and reserves on a barrel of oil equivalent ("boe") basis whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved measurement of results and comparisons with other industry participants. Petrus uses the 6:1 boe measure which is the approximate energy equivalence of the two commodities at the burner tip. Boe's do not represent an economic value equivalence at the wellhead and therefore may be a misleading measure if used in isolation.

### *Abbreviations*

*000's*    *thousand dollars*

*\$/bbl*    *dollars per barrel*

*\$/boe*    *dollars per barrel of oil equivalent*

*\$/GJ* dollars per gigajoule  
*\$/mcf* dollars per thousand cubic feet  
*bbl* barrel  
*bbl/d* barrels per day  
*boe* barrel of oil equivalent  
*boe/d* barrel of oil equivalent per day  
*GJ* gigajoule  
*GJ/d* gigajoules per day  
*mcf* thousand cubic feet  
*mcf/d* thousand cubic feet per day  
*mmcf/d* million cubic feet per day  
*NGLs* natural gas liquids  
*WTI* West Texas Intermediate

## Contact

Neil Korchinski, P.Eng.  
President and Chief Executive Officer  
403-930-0889  
nkorchinski@petrusresources.com

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