

BlackPearl Announces First Quarter 2018 Financial and Operating Results

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CALGARY, May 2, 2018 /CNW/ - BlackPearl Resources Inc. ("BlackPearl" or the "Company") (TSX: PXX) (NASDAQ S PXXS) is pleased to announce its financial and operating results for the three months ended March 31, 2018.

Highlights include:

- At Onion Lake, construction of the phase 2 thermal expansion project was completed during the quarter and we commenced steam injection in the first pad of wells in February and into the second pad of wells in March. In late April, we converted wells on the first pad over to oil production. When fully ramped-up, in 9 to 12 months, the two phases of the thermal project will have name-plate production capacity of 12,000 bbls/d. With only minor capital spending remaining, total capital expenditures for the project are expected to be approximately \$178 million, which was under our budget of \$180 - \$185 million.
- Total capital investment for the quarter was \$35.2 million, the majority of which related to the Onion Lake thermal expansion project.
- Crude oil prices were higher in the first quarter of 2018, with WTI oil prices averaging US\$62.87 per bbl compared to US\$51.91 per bbl during the first quarter of 2017. However, the increase in WTI oil prices was offset by significant heavy oil differentials during the quarter. Due to takeaway capacity constraints the heavy differential averaged US\$48.00 per bbl in the first quarter compared to US\$14.61 per bbl in the first quarter of 2017. More recently, heavy oil differentials have narrowed into the range of US\$15 to \$18 per bbl, which should result in improved Company netbacks going forward.
- Production for the quarter averaged 9,927 barrels of oil equivalent (boe) per day, a 6% decrease compared to Q4 2017 volumes. Lower production volumes in Q1 2018 were due, in part, to the Company's response to wider heavy oil differentials and transportation constraints during the quarter. We elected to defer certain typical well servicing activities on our conventional heavy oil program until differentials and takeaway capacity improve. Thermal oil production was also impacted during the quarter as a result of integrating the phase 2 operations at Onion Lake into the existing phase 1 operations. Phase 1 of the thermal project has now been on production for two and a half years; to the end of March we have produced nearly five million barrels of oil from the thermal project. We are planning to drill our first pad of sustaining wells for phase 2 later this year to maintain production at design capacity.
- Oil and natural gas revenues in the first quarter of 2018 were \$30.9 million compared with \$37.2 million in the same quarter of 2017. The decrease in revenues reflect significantly wider heavy oil differentials in Q1 2018. For the three months ended March 31, 2018, the Company incurred a net loss of \$8.8 million. The net loss is primarily a result of unrealized losses of \$10.0 million on risk management contracts that are required under the Company's long-term debt covenants.
- Thermal operating costs, including energy costs, during Q1 2018 were under \$10/bbl, which reflects the continued strong performance from our Onion Lake project.
- The Company maintained its strong financial position with \$125 million of its \$195 million of total credit facilities drawn as of March 31, 2018. The syndicate of lenders in the Company's senior credit facilities completed its semi-annual review and made changes to the borrowing base or terms of our credit facilities.
- As a result of the recent improvements in oil prices, differentials and transportation bottlenecks, we are maintaining our 2018 year production and have increased our funds flow guidance despite the lower production and funds flow amount experienced during the first quarter. We expect to exit 2018 with production of approximately 14,000 boe/d, 40% higher than the start of the year.

John Festival, President of BlackPearl commented "Q1 was a challenging quarter for us and other heavy oil producers due to wider than normal heavy oil differentials and takeaway capacity constraints. However, I am pleased with our response to these challenges as we successfully completed a significant capital project while still maintaining our strong financial position. The challenges faced in Q1 have eased somewhat in Q2; however, it reiterates the importance to the energy sector and the global economy that additional pipeline capacity is built. Over the next few months we look forward to seeing the growth in our production and free cash flow from the expansion of our thermal project at Onion Lake."

Financial and Operating Highlights

	Three months ended March 31	
	2018	2017
Daily sales volumes		
Oil (bbl/d)	9,397	10,105
Bitumen (bbl/d) ⁽¹⁾	438	542
Combined	9,835	10,647
Natural gas (mcf/d)	549	638
Combined (boe/d) ⁽²⁾	9,927	10,753
Product pricing (\$)		
Crude oil - per bbl	36.41	40.75
Natural gas - per mcf	1.86	2.50
Combined - per boe	36.16	40.48
Netback (\$/boe)		
Sales	36.16	40.48
Realized gains (losses) on risk management contracts (0.05)		0.37
Royalties	4.58	5.90
Transportation costs	2.66	2.67
Operating costs	14.65	15.00
Netback ⁽⁵⁾	14.22	17.28
(\$000's, except per share and boe amounts)		
Revenue		
Oil and gas revenue – gross	30,881	37,204
Net income (loss) for the period	(8,789)	7,814
Per share, basic and diluted	(0.03)	0.02
Adjusted funds flow ⁽³⁾	9,063	12,924
Cash flow from operating activities ⁽⁴⁾	14,353	14,786

Capital expenditures	35,177	13,356
Working capital deficiency (surplus) ⁽⁷⁾	10,486	(4,180)
Long term debt	123,149	-

(1) 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.

(2) See outstanding lease period conversion ratio of 6 mcf: 1 barrel. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

(3) "Adjusted funds flow" 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. Adjusted funds flow does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies.

(4) "Cash flow from operating activities" is a GAAP measure and has a standardized meaning prescribed by Canadian GAAP.

(5) "Netback" is a non-GAAP measure that does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies.

(6) "Net debt" is a non-GAAP measure that does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies.

(7) "Working Capital" represents current assets less current liabilities, excluding the fair value of risk management contracts and deferred consideration.

Production

Oil and gas production averaged 9,927 barrels of oil equivalent per day in the first quarter of 2018, an 8% decrease compared to the first quarter of 2017.

Average Daily Sales Volume

Area (boe/d)	Q1 2018	Q4 2017	Q1 2017
Onion Lake - thermal	5,860	6,204	6,182
Onion Lake - conventional	1,706	1,917	2,147
Mooney	1,056	1,178	942
John Lake	691	699	808
Blackrod	438	481	542
Other	176	121	132
	9,927	10,600	10,753

Financial Results

Oil and natural gas revenues were \$30.9 million in the first quarter of 2018, 17% lower than in the same period in 2017.

decrease in revenues is attributable to an 8% decrease in sales volumes and an 11% decrease in the average realized price received.

Our realized oil price (before the effects of risk management activities) in Q1 2018 was \$36.41 per barrel compared to \$38.50 per barrel in 2017. The decrease is primarily attributable to wider heavy oil differentials during the quarter. In Q1 2018 the heavy oil differential was US\$24.33 per barrel compared to US\$14.61 per barrel in Q1 2017.

Total production costs were \$12.5 million in the first quarter of 2018, 9% lower than the comparable period in 2017. The decrease in production costs is primarily attributable to lower production volumes in 2018. On a per boe basis, total production costs were comparable, with costs in Q1 2018 averaging \$14.65 per boe and \$15.00 per boe in the same period in 2017.

	Q1 2018	Q4 2017	Q1 2017
Conventional Production			
Production costs (\$000s)	7,446	7,834	8,858
Per boe (\$)	22.80	21.75	24.43
Thermal Production			
Production costs (\$000s)	5,064	4,664	4,925
Per boe (\$)	9.60	8.17	8.85
Energy costs	3.68	2.30	4.27
Non-energy costs	5.92	5.87	4.58
Total Production			
Production costs (\$000s)	12,510	12,498	13,783
Per boe (\$)	14.65	13.43	15.00

Adjusted funds flow in Q1 2018 was \$9.1 million compared with \$12.9 million in the first quarter of 2017. The decrease is primarily due to lower revenues as a result of a decrease in realized sales prices and reduced sales volumes. Net loss for the quarter was \$1.5 million compared to net income of \$7.8 million in Q1 2017. The loss in Q1 2018 was primarily attributable to unrealized losses on our risk management contracts.

Capital spending was \$35.2 million during Q1 2018, with the majority of costs spent on the expansion of the Onion Lake thermal project.

At March 31, 2018, the Company had long-term debt of \$125 million, made up of \$50 million of bank debt and second lien debt of \$75 million. The total credit facilities available to the Company are currently \$195 million. The lenders in our banking syndicate recently completed their semi-annual review of our credit facilities and no changes were made to the borrowing base available to the Company. The next review of these facilities are expected to be completed by November 30, 2018.

Outlook - Guidance

We are still planning to spend between \$80 and \$85 million on capital projects for the year. The focus in the first quarter was completing the expansion of the Onion Lake thermal project. For the remainder of 2018, our capital plans remain unchanged and includes drilling on some of our conventional heavy oil projects and the drilling of a sustaining well pad for the Onion Lake thermal project.

A significant portion of these capital costs will continue to be funded with our anticipated adjusted funds flow, which is expected to be positive for the remainder of 2018.

be between \$65 and \$70 million, up 8% from our previous guidance. The increase is attributable to higher forecast oil prices for the remainder of the year we have assumed a WTI oil price of US\$66.00 per bbl, heavy oil differential of US\$20.00 per bbl, a CDN\$ exchange rate of \$0.79 and an AECO gas price of CDN\$1.50 per GJ. Year-end 2018 debt levels are expected to be between \$130 and \$135 million, down from our previous guidance of between \$130 and \$140 million.

We still anticipate oil and gas production to average between 11,000 and 12,000 boe/d in 2018, and we expect to exit 2018 with approximately 14,000 boe/d.

The 2018 first quarter report to shareholders, including the financial statements, management's discussion and analysis and the financial statements are available on the Company's website (www.blackpearlresources.ca) or SEDAR (www.sedar.com).

Non-GAAP Measures

Throughout this release, the Company uses terms "adjusted funds flow", "netback" and "net debt". These terms do not have a standardized meaning as prescribed by GAAP and, therefore, may not be comparable with the calculation of similar measures presented by other issuers.

"Adjusted funds flow" is a non-GAAP measure commonly used in the oil and gas industry to assist in measuring a company's ability to finance its capital programs, decommissioning costs, debt repayments and other financial obligations. Adjusted funds flow is defined as cash flow from operating activities before decommissioning costs incurred and changes in non-cash working capital related to operations. Adjusted funds flow is not intended to represent cash flow from operating activities or other measures of financial performance in accordance with GAAP.

The following table reconciles non-GAAP measure adjusted funds flow to cash flow from operating activities, the nearest GAAP measure.

(\$000s)	Three months ended	
	March 31,	
	2018	2017
Cash flow from operating activities	14,353	14,786
Add (deduct):		
Decommissioning costs incurred	36	42
Changes in non-cash working capital related to operations	(5,326)	(1,904)
Adjusted funds flow	9,063	12,924

"Netback" is calculated as oil and gas revenues less royalties, production costs and transportation costs on a dollar basis divided by total production for the period on a boe basis. Netback is a non-GAAP measure commonly used in the oil and gas industry to assist in measuring operating performance against prior periods on a comparable basis. Our operating netback calculation is consistent with the definition found in the Canadian Oil and Gas Evaluation (COGE) Handbook.

"Net debt" is calculated as long-term debt less working capital for the period ended. Working capital consists of cash and cash equivalents, trade and other receivables, inventory, prepaid expenses and deposits, less accounts payable and accrued liabilities and current portion of decommissioning liabilities. Management utilizes net debt as a key measure to assess the liquidity of the Company.

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

