

Connacher Announces Q1 2018 Results

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CALGARY, May 29, 2018 /CNW/ - [Connacher Oil and Gas Ltd.](#) ("Connacher" or the "Company") announces its financial and operating results for the three months ended March 31, 2018 ("Q1 2018") (all amounts are in Canadian dollars unless otherwise noted).

Q1 2018 Highlights

Financial

- Q1 2018 revenue, net of royalties, decreased 28% to \$33.9 million (Q1 2017 - \$46.9 million), primarily due to unfavourable fixed price sales agreements and increased index exposure to the Western Canadian Select differential ("WCS"), offset by higher sales volumes. In Q1 2018, the fixed price sales agreements yielded an unfavourable impact to revenue of royalties, of \$12.0 million
- In Q1 2018, WTI fixed priced sales agreements affected 76% of barrels sold and will affect 49% of barrels sold in Q3 2018 and beyond, the Company is focused on a hedging program to reduce WCS risk
- Q1 2018 adjusted EBITDA decreased to a deficit of \$16.4 million (Q1 2017 - \$1.9 million), primarily due to lower revenue of royalties
- Q1 2018 funds used increased to \$28.8 million (Q1 2017 - funds used of \$9.5 million), primarily due to a lower adjusted EBITDA
- In Q1 2018, the Company generated a net loss of \$57.2 million (Q1 2017 – net loss of \$24.6 million). The net loss is primarily due to a lower adjusted EBITDA and foreign exchange losses
- Q1 2018 capital expenditures totaled \$5.3 million (Q1 2017 - \$1.7 million) and focused primarily on well servicing to restore and maintain production and capital related to drilling of future infill wells
- The Company closed Q1 2018 with a cash balance of \$54.3 million (including restricted cash of \$7.1 million) (Q4 2017 - \$43.3 million)

Operational

- Q1 2018 production increased 5% to 12,670 bbl/d (Q1 2017 – 12,052 bbl/d). The increase in production is primarily due to completion of the Company's well restart program in Q2 2017
- Q1 2018 blending costs increased 15% to \$16.2 million (Q1 2017 - \$14.1 million), primarily due to higher total diluent volumes associated with increased bitumen production and higher diluent pricing
- Q1 2018 transportation and handling costs increased 37% to \$10.0 million (Q1 2017 - \$7.3 million), primarily due to increase in dilbit sales volumes and lower plant-gate sales in Q1 2018 compared to the prior period

Q1 2018 Financial Highlights

FINANCIAL ⁽¹⁾	Q1 2018	Q1 2017
Revenue, net of royalties	\$33,855	\$46,900
Adjusted EBITDA ⁽²⁾	(16,387)	1,901
Net earnings (loss)	(57,166)	(24,608)
Basic per share	(2.02)	(0.87)
Diluted per share	(2.02)	(0.87)
Funds used ⁽³⁾	(28,775)	(9,500)
Capital expenditures	5,313	1,708
Cash on hand ⁽⁴⁾	54,260	16,834
Working capital deficiency	(291,829)	(299,967)
Long-term debt	-	-
Shareholders' equity	(94,028)	453,576

(1) (\$ 000) except per share amounts

(2) Adjusted EBITDA is a non-GAAP measure and is defined in the "Advisory Section" of the Q1 2018 MD&A and is reconciled to net loss under "Reconciliations of Net Loss to EBITDA, Adjusted EBITDA, and Bitumen Netback"

(3) Funds used is a non-GAAP measure and is defined in the "Advisory Section" of the Q1 2018 MD&A and is reconciled to cash flow from operating activities under "Reconciliations of Cash Flow From (Used in) Operating Activities to Funds Used"

(4) Balance includes restricted cash of \$7.1 million, pursuant to the terms of the Initial Order granted in the Company's CCAA proceeding before the Court of Queen's Bench of Alberta, Judicial Centre of Calgary

Q1 2018 Operational Highlights

OPERATIONAL	Q1 2018	Q1 2017
Average benchmark prices		
WTI (US\$/bbl)	\$62.87	\$51.91
WTI (\$/bbl)	79.64	68.53
Heavy oil differential (US\$/bbl)	(24.28)	(14.58)
WCS (\$/bbl)	48.89	49.28
\$/US\$ exchange rate	1.27	1.32
Production and sales volumes ⁽¹⁾		
Daily bitumen production (bbl/d)	12,670	12,052
Daily bitumen sales (bbl/d)	12,649	12,054
Bitumen netback (\$/bbl) ⁽²⁾⁽³⁾		
Dilbit sales	\$25.67	\$37.43
Blending of products sold	(9.96)	(6.52)
Realized bitumen sales price	15.71	30.91
Transportation and handling costs	(8.77)	(6.73)
Net realized bitumen sales price	6.94	24.18
Royalties	(0.17)	(0.68)
Net bitumen revenue price	6.77	23.50
Production and operating expenses	(16.89)	(18.32)
Bitumen netback	\$(10.12)	\$5.18

(1) The Company's bitumen sales and production volumes differ due to changes in inventory and product losses

(2) A non-GAAP measure which is defined in the "Advisory Section" of the Q1 2018 MD&A. Bitumen netback is reconciled to net loss under "Reconciliations of Net (Loss to EBITDA, Adjusted EBITDA, and Bitumen Netback". Bitumen netbacks per barrel amounts are calculated by dividing the total amounts presented in the "Bitumen Netback" table on page 10 by bitumen sold volumes as presented in the "Production and Sales Volumes" table on page 8, with the exception of dilbit sales (presented as dilbit sales divided by dilbit sales volume) and diluent costs (presented as the cost of diluent in excess of the dilbit selling price)

(3) Before risk management contract gains or losses

Companies' Creditors Arrangement Act ("CCAA") Proceeding and Status

On March 31, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with Credit Suisse AG, Cayman Islands Branch, as administrative agent, and certain lenders constituting the "Required Lenders" in respect of US\$153.8 million of loans made by the lenders (the "Lenders") under the credit agreement dated as of May 23, 2014 (as amended, restated, supplemented, or otherwise modified from time to time, including as amended pursuant to Amendment No. 1 dated May 8, 2015) (the "Amended Term Loan Facility"). Under the terms of the Forbearance Agreement, the Lenders agreed to, among other

things, forbear from exercising enforcement rights and remedies arising from the Company's failure to pay the cash interest and principal payments due on March 31, 2016 until the earlier of April 30, 2016; the occurrence of an event of default under the Amended Term Loan Facility, unrelated to the failure to pay principal and interest due on March 31, 2016; or the occurrence of a default or breach of representation by the Company under the Forbearance Agreement.

On April 30, 2016, the Company entered into a second forbearance agreement (the "Second Forbearance Agreement") which extended the forbearance period until May 16, 2016.

On May 17, 2016, the Company sought and obtained creditor protection under the Companies' Creditors Arrangement Act ("CCAA") pursuant to an order (the "Initial Order") granted by the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the "Court"). The Court granted CCAA stay protection for an initial period expiring on June 16, 2016. Since the Initial Order, seven Court-ordered stay extensions have been obtained, with the most recent extending the stay of proceedings until and including June 29, 2018 (the "CCAA Stay Period").

Under the Initial Order, Ernst & Young Inc. was appointed by the Court as the monitor (the "Monitor").

The CCAA is a federal insolvency statute that allows an insolvent company which owes creditors in excess of \$5 million to restructure its business and financial affairs and stays creditors and others from enforcing rights against the insolvent company.

The Initial Order also approved and authorized the Company and the Monitor to conduct a sale and investment solicitation process (the "SISP"), as set out in Schedule "A" to the Initial Order, to identify one or more purchasers and/or investors in the Company's business and/or property.

As authorized and approved by the Initial Order, the Company secured interim financing in the form of a senior secured debtor-in-possession credit facility (the "DIP") established pursuant to a credit arrangement dated as of May 15, 2016 with certain existing lenders (certain of which are or were also significant shareholders of the Company) (the "Interim Lenders") for up to US\$20 million (collectively, the "Total DIP Commitments"), with initial commitments of up to US\$11.5 million (the "Initial Commitments").

On October 26, 2016, the Company entered into a Waiver, Approval, and Modification Agreement (the "First DIP Amendment Agreement") with its Interim Lenders related to the DIP. Pursuant to the First DIP Amendment Agreement, the Interim Lenders agreed to waive certain limited defaults under the DIP related to the CCAA SISP timelines and advanced to the Company an additional amount of approximately US\$5.0 million of the Total DIP Commitments initially authorized by the Court to support the Company's continuing operations.

On December 16, 2016, the Company entered into a further Approval and Modification Agreement (the "Second DIP Amendment Agreement") with the Interim Lenders related to the DIP. The Second DIP Amendment Agreement extended the maturity date under the DIP from May 17, 2017 to December 31, 2017 and amended certain provisions of the DIP in order to provide the Company with greater flexibility to enter into hedging agreements and other long-term contracts.

On June 27, 2017, the Company entered into Approval and Modification Agreement #3 (the "Third DIP Amendment Agreement") with the Interim Lenders with respect to the DIP. The Third DIP Amendment Agreement extended the maturity date of the DIP from December 31, 2017 to January 31, 2018.

On January 30, 2018, the Company received approval from the Court in its proceeding under the CCAA to grant a royalty to Burgess Energy Holdings, L.L.C ("Burgess") on all of the lands (the "Royalty Lands") containing bitumen together with the oil sands rights and interests owned by the Company (the "Royalty") for cash consideration. Concurrent with the closing of the Royalty transaction, the Company used a portion of the consideration to repay, in full, the US\$16.5 million owing under the DIP. Furthermore, the Company obtained an extension of the CCAA stay of proceeding to June 29, 2018.

On March 28, 2018, the Court approved the Company's entry into a Support Agreement (the "Support

Agreement") with certain first lien lenders holding in excess of 75% of the principal amount of debt outstanding under the Amended Term Loan Facility and commencement of a new SISP. The Support Agreement provides the foundation for the Company's exit from CCAA protection by securing majority first lien lender support for the commencement of a new SISP and the implementation of either a: (i) "Superior Transaction" identified during the new SISP (being a transaction that provides greater than \$90 million of cash consideration, excluding existing cash on hand, plus payment of all priority claims and assumption of certain liabilities); or, (ii) pre-negotiated credit bid transaction pursuant to which a newly formed entity on behalf of the first lien lenders ("Newco") will acquire the assets of the Company (the "Credit Bid Transaction") in the event a Superior Transaction is not identified during the new SISP.

The Support Agreement also contains a number of financial and non-financial covenants and restrictions on the Company.

The key features of the Credit Bid Transaction include: (i) formation of Newco to acquire all or substantially all of the Company's assets (ii) assumption by Newco of the Company's post-CCAA filing trade payables; (iii) offers of employment being made by Newco to all of the Company's employees; (iv) entry by Newco into a new senior secured facility (the "Newco Senior Secured Facility"); and, (v) distribution of the shares of Newco and the obligation under the Newco Senior Secured Facility to the existing first lien lenders on the terms set out in the Support Agreement and related exhibits. The Credit Bid Transaction, if implemented, would not provide a recovery to stakeholders beyond the existing first lien lenders and creditors with claims that rank in priority to the first lien lenders.

The Company continues to proceed with the new SISP and the pre-determined milestones as approved by the Court.

Further information on the new SISP and the Credit Bid Transaction can be found on the CCAA Monitor's website at www.ey.com/ca/connacheroilandgas.

The Credit Bid Transaction or any Superior Transaction identified pursuant to the new SISP will be subject to approval of the Court.

As at March 31, 2018, in connection with the CCAA proceeding, the Company identified the following obligations subject to potential compromise:

(Canadian dollars in thousands)

Current and long-term portions of Amended Term Loan Facility \$210,438

Interest payable on Amended Term Loan Facility	59,737
Convertible Notes	45,000
Interest payable on Convertible Notes	20,762
Trade and accrued liabilities	18,653
Total liabilities subject to compromise	\$354,590

The aforementioned obligations, subject to potential compromise, represent the amounts expected to be resolved through the CCAA proceeding and remain subject to future, potentially material, adjustments. On August 24, 2016, the Court granted a claims procedure order establishing a process for the filing of claims against the Company and its directors and officers by September 26, 2016 (the "Claims Bar Date"). The Company received 89 claims by the Claims Bar Date.

The liabilities that are not subject to the CCAA proceeding are excluded from the liabilities subject to

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