

Cardinal Energy Ltd. Announces Second Quarter 2018 Results

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CALGARY, Alberta, Aug. 02, 2018 -- (TSX: CJ) [Cardinal Energy Ltd.](#) ("Cardinal" or the "Company") is pleased to announce its operating and financial results for the quarter ended June 30, 2018.

The Company's unaudited financial statements and management's discussion and analysis for the quarter ended June 30, 2018, will be available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on Cardinal's website at www.cardinalenergy.ca.

Highlights from the second quarter of 2018:

- Drilled and completed two horizontal multistage fractured Glauconitic channel wells and one horizontal multilateral Ellerslie well in our Bantry, Southern Alberta area with initial rates well above expectations.
- Cardinal completed the annual review of its credit facility in the quarter and chose to leave the bank line unchanged at a conservative \$325 million while extending the term by a year. We continue to de-lever our balance sheet and expect to have our net bank debt reduced to under \$200 million in Q3. Our last royalty disposition is expected to close in Q3 instead of Q2 as previously announced. Cardinal expects to be able to continue to reduce our net debt in 2018.
- Second quarter 2018 cash flow from operating activities and adjusted funds flow increased by 69% and 58%, respectively, over the same period in 2017 while adjusted funds flow per diluted share increased by 14% over the same period.
- Revenue increased 65% in the second quarter of 2018 compared to the second quarter of 2017 which included 29% and 25% increases in light oil and medium/heavy oil realized pricing, respectively.
- Despite an increasing power and regulatory cost environment, Cardinal maintained its operating costs below first quarter 2018 levels to average \$20.81/boe in the second quarter.
- Total payout ratio was 98% for both the three and six months ended June 30, 2018.
- Reduced the second quarter 2018 net debt to adjusted funds flow ratio by 44% over the same period in 2017 and by 11% over the first quarter of 2018.

Financial and Operating Highlights

(\$ 000's except shares, per share and operating amounts)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Financial						
Petroleum and natural gas revenue	111,847	67,602	65	206,626	130,176	59
Cash flow from operating activities	21,923	12,986	69	53,725	28,369	89
Adjusted funds flow ⁽¹⁾	27,085	17,144	58	52,636	31,730	66
basic per share	0.24	0.22	9	0.46	0.41	12
diluted per share	0.24	0.21	14	0.46	0.40	15
Earnings (loss)	(19,970)	1,218	n/m	(33,284)	8,780	n/m
basic and diluted per share	(0.17)	0.02	n/m	(0.29)	0.11	n/m
Dividends declared	12,359	9,406	31	24,640	17,424	41
per share	0.105	0.105	-	0.21	0.21	-
Net bank debt ⁽¹⁾	213,133	238,652	(11)	213,133	238,652	(11)
Exploration and development capital	14,059	15,285	(8)	26,859	36,504	(26)
Acquisitions, net	(963)	297,114	n/m	(5,992)	329,289	n/m
Total capital expenditures	13,620	313,004	(96)	21,900	366,712	(94)
Weighted average shares outstanding						
basic (000s)	114,190	79,612	43	113,796	77,596	47

diluted (000s)	114,190	80,511	42		113,796	78,782	44
Operating							
Average daily production							
Light oil (bbl/d)	8,898	3,100	187		8,964	2,954	203
Medium/heavy oil (bbl/d)	8,510	10,014	(15	)	8,655	9,958	(13
NGL (bbl/d)	702	703	-		681	503	35
Natural gas (mcf/d)	16,632	20,021	(17	)	16,569	16,506	-
Total (boe/d)	20,882	17,154	22		21,062	16,166	30
Netback ⁽¹⁾							
Petroleum and natural gas revenue	58.86	43.31	36		54.20	44.49	22
Royalties	9.98	6.01	66		9.21	6.19	49
Operating expenses	20.81	20.57	1		20.87	21.69	(4
Netback	28.07	16.73	68		24.12	16.61	45

⁽¹⁾ See non-GAAP measures

Q2 Overview

We are pleased to report our second quarter results, which saw production average 20,882 boe/d for the quarter, ahead of our 20,500 boe/d budget forecast for Q2. Our asset base continues to deliver consistent results with base decline coming in below our 10% forecast. Quarter over quarter, our Q2 production declined at less than 2% despite no drilling activity coming on stream until the last week of the quarter, no acquisitions, a net disposition of 50 boe/d of non-core high operating cost assets and approximately 200 boe/d shut in due to storms.

Operationally, Cardinal's focus for the first six months of 2018 has been to: maintain production; de-risk our lands for future drilling; and to identify and begin implementation of long lead-time capital projects that we expect will reduce future operating costs.

In Southern Alberta, following up the Company's successful Q1 stratigraphic test well program, three new producers were drilled in Q2. The drill program targeted two Glauconitic channels and one Ellerslie sandstone target. Collectively the wells have come on-stream at a combined rate in excess of 1,100 boe/d (89% oil) with a total drill, case and complete costs of approximately \$5 million. The positive results from these wells also set up 15 to 20 additional offset drilling locations.

At Grande Prairie, the Company's horizontal wells drilled over the past year continue, on average, to exceed expectations. Two additional horizontals are planned for Q3.

Our Central operating district, focused in the Wainwright area, continues to benefit from the multiple legacy waterfloods delivering a very low decline, predictable production base. In the second quarter, the Company completed a review of future drilling opportunities which has resulted in 25 potential locations being added to inventory.

In the Midale and House Mountain properties that were acquired in June of last year, production has remained consistent over the past year. With Cardinal spending limited capital since we acquired the properties, they have generated approximately \$60 million of operating income after development capital expenditures over the past 12 months.

At Midale, we have begun to reconfigure the CO₂ flood to expose more of the reservoir to the Enhanced Oil Recovery Scheme ("EOR"). We have also started to increase the amount of CO₂ being injected into the reservoir. The early stage results from these initiatives is that production is slightly inclining over the past few months without any new drilling activity. We expect to drill our first new wells into the Midale Unit in the second half of the year, which will set up a more aggressive 2019 drilling program.

House Mountain has also seen low to no decline on its production base. Cardinal has conducted several recompletions and optimization work has continued in the field since it was acquired last year. Q2 average

production in House Mountain was impacted by a severe storm in June, which impacted quarterly volumes by approximately 200 boe/d. Over 95% of the impacted production is back online and the balance of production is expected to resume prior to year-end.

The first of our power generation projects is expected to be operational in Q3 with additional power projects, designed to lessen our dependence on the power grid, scheduled to be completed on a quarterly basis in Q4 and in 2019. Based on preliminary estimates the first two power projects could reduce Cardinal's operating costs by \$1.5 million per year.

We have also begun work on our first oil blending facility which we expect to be operational prior to year-end. This is the first of four oil blending projects that we have identified that will give Cardinal higher pricing on its existing products, opportunity for third party revenues and more flexibility to sell its products into different sales points.

Outlook

With confidence in the low decline of our asset base and with oil prices remaining in an attractive range, we expect to drill an additional seven wells in the second half of 2018 which we estimate will result in an increase of 2 to 4% of exit production growth for 2018.

As the Company's average hedged price increases in the latter half of 2018 combined with an 11% decrease in hedged volumes, we expect to decrease our hedging losses in the third and fourth quarter of 2018.

Our mandate for 2018/2019 will be to focus on three areas: maintaining our dividend and our total payout ratio below 100%, reducing our debt levels to 1x run rate adjusted funds flow and reducing our operating costs through larger long lead time capital projects. In addition, we will proactively upgrade our infrastructure to minimize our future environmental impact and continue to accelerate our future abandonment obligation expenditures.

Cardinal is able to provide shareholders with a sustainable dividend, modest growth and a continually improving asset base all supported by free funds flow.

Note Regarding Forward Looking Statements

This press release contains forward-looking statements and forward-looking information (collectively "forward-looking information") within the meaning of applicable securities laws relating to Cardinal's plans and other aspects of Cardinal's anticipated future operations, management focus, objectives, strategies, financial, operating and production results. Forward-looking information typically uses words such as "anticipate", "believe", "project", "expect", "goal", "plan", "intend", "may", "would", "could" or "will" or similar words suggesting future outcomes, events or performance. The forward-looking statements contained in this press release speak only as of the date thereof and are expressly qualified by this cautionary statement.

Specifically, this press release contains forward-looking statements relating to the anticipated achievements of the Company's' 2018 second half budget and the funding of the same, our dividend policy, payout ratios, capital expenditure plans including the 2018 capital expenditure budget, decline rates, planned royalty dispositions, the use of proceeds therefrom and the anticipated benefits therefrom, completion of our power generating projects and the effect of our operating costs, completion of our oil blending facility and the anticipated benefits therefrom, plan to maintain the dividend, upgrade infrastructure, and accelerate future abandonment obligation expenditures, future total payout ratio, expected development capital, future production, net bank debt, net bank debt to adjusted funds flow, future drilling, completion and optimization results and opportunities, the matters set forth under "Outlook", Cardinal's asset base and future prospects for development and growth therefrom.

Forward-looking statements regarding Cardinal are based on certain key expectations and assumptions of Cardinal concerning anticipated financial performance, business prospects, strategies, regulatory developments, current and future commodity prices and exchange rates, applicable royalty rates, tax laws, future well production rates and reserve volumes, future operating costs, the performance of existing and

future wells, the success of its exploration and development activities, the ability to market and monetize the Company's royalty interests in a manner, and for proceeds, acceptable to the Company, the sufficiency and timing of budgeted capital expenditures in carrying out planned activities, the availability and cost of labor and services, the impact of increasing competition, conditions in general economic and financial markets, availability of drilling and related equipment, effects of regulation by governmental agencies, the ability to obtain financing on acceptable terms which are subject to change based on commodity prices, market conditions, drilling success and potential timing delays.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Cardinal's control. Such risks and uncertainties include, without limitation: the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; currency fluctuations; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; the royalty interests may not be monetized in the manner, timing or for proceeds expected by the Company, environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition from other producers; the lack of availability of qualified personnel, drilling rigs or other services; changes in income tax laws or changes in royalty rates and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; and ability to access sufficient capital from internal and external sources.

Management has included the forward-looking statements above and a summary of assumptions and risks related to forward-looking statements provided in this press release in order to provide readers with a more complete perspective on Cardinal's future operations and such information may not be appropriate for other purposes. Cardinal's 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 Cardinal will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this press release and Cardinal disclaims any intent or obligation to update publicly 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.

This press release contains future-oriented financial information and financial outlook information (collectively, "FOFI") about our prospective results of operations, cash flows, payout ratios and components thereof, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained in this press release were made as of the date hereof and is provided for the purpose of describing our anticipated future business operations. We disclaim any intention or obligation to update or revise any FOFI contained in this press release, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this press release should not be used for purposes other than for which it is disclosed herein.

Drilling Locations

This press release discloses unbooked locations which are internal estimates based on the Company's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. Unbooked locations have been identified by management as an estimation of our 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 all 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 we actually drill wells will ultimately depend upon the availability of capital, 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 derisked by drilling existing wells in relative close proximity to such unbooked drilling locations, 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.

Oil and Gas Advisories

Where applicable, oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Utilizing a conversion ratio at 6 Mcf: 1Bbl may be misleading as an indication of value.

Non-GAAP measures

This press release contains the terms "adjusted funds flow", "adjusted funds flow per share", "adjusted funds flow per diluted share", "run rate adjusted funds flow", "net debt to adjusted funds flow ratio", "net debt", "total payout ratio", "net bank debt", "netback" and "netback after risk management" which do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS" or, alternatively, "GAAP") and therefore may not be comparable with the calculation of similar measures by other companies. Cardinal uses adjusted funds flow, adjusted funds flow per share, net debt to adjusted funds flow ratio and total payout ratio to analyze operating performance and assess leverage. Cardinal feels these benchmarks are a key measure of profitability and overall sustainability for the Company. Adjusted funds flow is not intended to represent operating profits nor should it be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of performance calculated in accordance with GAAP. As shown below, adjusted funds flow is calculated as cash flows from operating activities adjusted for changes in non-cash working capital, decommissioning expenditures and acquisition costs. Total payout ratio represents the ratio of the sum of dividends declared (net of participation in the DRIP and SDP) plus development capital expenditures divided by adjusted funds flow. "Run rate adjusted funds flow" is quarterly adjusted funds flow, presented on an annualized basis. The term "net debt" is not recognized under GAAP and is calculated as bank debt plus the principal amount of convertible unsecured subordinated debentures ("convertible debentures") and current liabilities less current assets (adjusted for the fair value of financial instruments and the current portion of the decommissioning obligation). Net debt is used by management to analyze the financial position, liquidity and leverage of Cardinal. Net bank debt is calculated as bank debt plus current liabilities less current assets (adjusted for the fair value of financial instruments and the current portion of the decommissioning obligation). Net bank debt is used by management to analyze the financial position, liquidity and leverage of Cardinal. Netback is calculated on a boe basis and is determined by deducting royalties and operating expenses from petroleum and natural gas revenue. Netback after risk management includes realized gains or losses in the period on a boe basis. Netback and netback after risk management are utilized by Cardinal to better analyze the operating performance of our petroleum and natural gas assets taking into account our risk management program against prior periods.

	Three months ended			Six months ended		
	June 30, 2018	June 30, 2017	Change %	June 30, 2018	June 30, 2017	Change %
Cash flow from operating activities	21,923	12,986	69	53,725	28,369	89
Change in non-cash working capital	4,264	2,343	82	(5,563)	1,115	n/m
Funds flow	26,187	15,329	71	48,162	29,484	63
Decommissioning expenditures	898	452	99	4,115	883	n/m
Transaction costs	-	1,363	(100)	359	1,363	(74)
Adjusted funds flow	27,085	17,144	58	52,636	31,730	66

About Cardinal Energy Ltd.

Cardinal is a junior Canadian oil focused company built to provide investors with a stable platform for dividend income and growth. Cardinal's operations are focused in low decline light and medium quality oil in Alberta and Saskatchewan.

For further information: M. Scott Ratushny, CEO or Laurence Broos, VP Finance, [Cardinal Energy Ltd.](http://www.cardinalenergy.ca), 600, 400 – 3rd Avenue SW, Calgary, AB T2P 4H2, Main Phone: (403) 234-8681 Website: www.cardinalenergy.ca

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