

BlackPearl Announces Second Quarter 2018 Financial and Operating Results

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CALGARY, Aug. 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 and six months ended June 30, 2018.

Highlights include:

- BlackPearl's production averaged 11,250 boe/d in Q2 2018, a 13% increase compared to 9,927 boe/d in Q1 2018. The increase in production is attributable to the successful ramp-up of production from the expansion of our Onion Lake project. First oil from the phase 2 expansion was achieved in April and production is currently over 3,500 bbl/d. Production is expected to reach name-plate capacity of 6,000 bbl/d in early Q1 2019, a few months ahead of our original estimate.
- Current production is approximately 13,000 boe/d and continues to climb with the phase 2 ramp-up at Onion Lake. We maintained our 2018 exit production guidance of 14,000 bbl/d.
- At Onion Lake, we completed construction of the phase 2 expansion and commenced steam injection during the third quarter. After a three month warm up, the first well pad was placed on production in April followed by the second well pad in May. Total cost of the expansion was \$175 million, which is just under \$30,000 per flowing barrel, a top tier industry metric. In the second quarter we also started construction of our first sustaining well pad and related facilities for phase 1 which is expected to be completed by the end of the year.
- In addition, at Onion Lake, during the third quarter we will begin work on a facility optimization program of our phase 1 facilities. This optimization work should allow us to increase production by up to an additional 2,000 bbl/d (to bring our name-plate capacity to 14,000 bbl/d) and is expected to cost approximately \$15 million, representing an industry leading development capital of \$7,500 per flowing barrel. This program will be completed in the first half of 2019 and we anticipate it will take nine to twelve months after completion to reach our increased production target.
- We are also evaluating the construction of a pipeline that would allow us to transport our Onion Lake oil production to Alberta, which will expand the sales options for our oil.
- At Blackrod, the Company has filed an application to add a third well pair to its existing successful SAGD pilot. The purpose of the new well pair is to evaluate the performance of drilling longer horizontal sections (up to 1400 metres) and the implementation of steam flow control devices, both of which have been successfully adopted at other SAGD projects. The Blackrod SAGD pilot has cumulatively produced over 725,000 barrels of oil since its start-up in 2014.
- As a result of the improvement in oil prices we are planning to drill 10 to 15 conventional heavy oil wells during the second half of 2018. Due to low oil prices we have had limited new drilling activity on our conventional heavy oil program over the last few years.
- Oil and natural gas revenues in the second quarter of 2018 were \$50.3 million compared with \$37.7 million in the second quarter of 2017, a 33% increase. The increase reflects higher oil production this quarter as well as higher realized crude oil prices. For the three months ended June 30, 2018, the Company incurred a net loss of \$7.2 million. The net loss was the result of unrealized losses of \$13.4 million on risk management contracts that are required under the Company's debt covenants.
- Thermal operating costs were \$9.70/bbl in the second quarter; and we expect to see reductions in these costs as our production at Onion Lake continues to ramp-up.
- We maintained our financial flexibility with \$68 million of available undrawn credit. At June 30, 2018, the Company had a long-term debt of \$127 million, made up of \$52 million of bank debt and second lien notes of \$75 million. When production from phase 2 at Onion Lake is fully ramped-up our debt to annualized cash flow is expected to be less than one and a half times, generate significant free cash flow due to low sustaining capital requirements at Onion Lake.

John Festival, President of BlackPearl commenting on Q2 activities indicated that "three years of successful operations at Onion Lake thermal phase 1 has given us the confidence to build and operate additional phases. Both the construction and pro-

ramp-up of phase 2 are ahead of schedule and we are looking ahead to drill and construct another pad site to keep the project at or above nameplate capacity as well as undertaking the optimization work to add an additional 2,000 barrels production. At current oil prices, when phase 2 is fully ramped up, our corporate cash flow should be in excess of \$150 thermal reserves at Onion Lake can sustain 20,000 barrels per day for 20 years.

We are encouraged by the recent developments with respect to Enbridge Line 3 and the Trans Mountain Pipeline expansion should address the price uncertainty with respect to both WTI and the heavy oil differential in Canada. Because we can report some of the highest heavy oil cash flows per barrel due to the quality of the Onion Lake thermal project we are in position to manage the price uncertainty. Industry reports continue to rank Saskatchewan thermal projects as the most thermal projects in western Canada."

Financial and Operating Highlights

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Daily sales volumes				
Oil (bbl/d)	10,758	9,843	10,080	9,973
Bitumen (bbl/d) ⁽¹⁾	401	437	420	489
	11,159	10,280	10,500	10,462
Natural gas (mcf/d)	548	633	549	635
Combined (boe/d) ⁽²⁾	11,250	10,386	10,592	10,568
Product pricing (\$) (before the effects of hedging transactions)				
Crude oil - per bbl	51.30	41.93	44.39	41.33
Natural gas - per mcf	1.02	2.58	1.44	2.54
Combined - per boe	50.91	41.65	44.07	41.06
Netback (\$/boe)				
Oil and gas sales	50.91	41.65	44.07	41.06
Realized gain (loss) on risk management contracts	(7.17)	(0.04)	(3.86)	0.17
Royalties	6.30	5.87	5.50	5.89
Transportation	2.63	2.62	2.64	2.64
Operating costs	15.10	14.97	14.89	14.98
Netback ⁽⁵⁾	19.71	18.15	17.18	17.72
(\$000's, except per share amounts)				
Revenue				

Oil and gas revenue – gross	50,263	37,702	81,144	74,906
Net income (loss) for the period	(7,159)	8,318	(15,948)	16,132
Per share, basic and diluted	(0.02)	0.02	(0.05)	0.05
Adjusted funds flow ⁽³⁾	15,582	14,179	24,645	27,103
Cash flow from operating activities ⁽⁴⁾	10,602	15,080	24,955	29,866
Capital expenditures	10,641	53,434	45,818	66,790
Working capital deficiency (surplus), end of period ⁽⁷⁾	3,099	(43,680)	3,099	(43,680)
Long-term debt <small>(1) 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.</small>	125,355 <small>128,454</small>	72,820 <small>28,640</small>	125,355 <small>128,454</small>	72,320 <small>28,640</small>

(2) See outstanding end of period conversion ratio of 6 mcf of gas to 1 barrel. 236,844,240,336,250,902 mcf, 844,240,336,250,902 boe outstanding end of period conversion ratio of 6 mcf of gas to 1 barrel. 236,844,240,336,250,902 mcf, 844,240,336,250,902 boe
 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 changes in non-cash working capital related to operations and decommissioning costs. 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 11,250 barrels of oil equivalent per day (boe/day) in the second quarter of 2018, a 13% increase from the first quarter average. The increase in oil production is attributable to the successful ramp-up of phase 2 production at our Onion Lake thermal project.

Average Daily Sales Volume

Six months ended

June 30,

(boe/day)	Q2 2018	Q1 2018	Q2 2017	2018	2017
Onion Lake - thermal	7,482	5,860	5,816	6,675	5,998
Onion Lake - conventional	1,558	1,706	2,087	1,632	2,117
Mooney	1,061	1,056	1,103	1,058	1,023
John Lake	585	691	801	637	804
Blackrod	401	438	437	420	489
Other	163	176	142	170	137
	11,250	9,927	10,386	10,592	10,568

Financial Results

Oil and natural gas sales increased 33% in the second quarter of 2018 to \$50.3 million from \$37.7 million in the same period in 2017. The increase in oil and gas sales is attributable to a 22% increase in average sale price received and an 8% increase in production volumes (on a boe basis) in the second quarter of 2018 compared to the same period in 2017.

Our realized oil price (before the effects of risk management activities) in Q2 2018 was \$51.30 per barrel compared to \$41.93 per barrel for the same period in 2017. The increase in our realized wellhead price reflects higher WTI reference oil prices in Q2 2018 compared with Q2 2017 (US\$67.88/bbl vs US\$48.29/bbl), partially offset by wider heavy oil differentials (US\$19.19/bbl vs US\$11.14/bbl).

Total production costs were \$14.9 million in the second quarter of 2018, 10% higher than the comparable period in 2017. The increase in production costs is primarily attributable to higher production volumes in 2018. On a per boe basis, total production costs were comparable, with costs in Q2 2018 averaging \$15.10 per boe and \$14.97 per boe in the same period in 2017.

	2018		2017		Six months ended	
	June 30					
	Q2	Q1	Q2	2018	2017	
Conventional Production						
Production costs (\$000s)	8,299	7,446	7,941	15,745	16,799	
Per boe (\$)	27.09	22.80	21.11	24.88	22.74	
Thermal Production						
Production costs (\$000s)	6,605	5,064	5,611	11,669	10,536	
Per boe (\$)	9.70	9.60	10.60	9.66	9.71	
Energy costs	2.59	3.68	4.16	3.07	4.22	
Non-energy costs	7.11	5.92	6.44	6.59	5.49	
Total Production						
Production costs (\$000s)	14,904	12,510	13,552	27,414	27,335	
Per boe (\$)	15.10	14.65	14.97	14.89	14.98	

Stronger crude oil prices and higher production volumes in Q2 2018 had a positive impact on our adjusted funds flow during the quarter. In Q2 2018 our adjusted funds flow was \$15.6 million, 10% higher than the \$14.2 million generated for the same period in 2017. Net loss for the quarter was \$7.2 million compared to net income of \$8.3 million in Q2 2017. The loss was primarily attributable to unrealized losses on our risk management contracts.

At June 30, 2018, the Company had long-term debt of \$127 million, made up of \$52 million of bank debt and second lien notes of \$75 million. The total credit facilities available to the Company are currently \$195 million.

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

Updated Guidance

We anticipate oil and gas production to average 12,000 boe/d in 2018, which is on the higher end of our previous guidance of between 11,000 and 12,000 boe/d. The increase in production is attributable to the quicker than anticipated ramp-up of production from the expansion of our Onion Lake thermal project. Phase 2 is expected to reach name-plate capacity of 6,000 bbl/d in Q1 2019, a few months ahead of our original estimate. We have maintained our 2018 exit production guidance of 14,000 bbl/d.

We are planning to spend between \$95 and \$100 million on capital projects in 2018, up from our previous guidance of between \$80 and \$85 million. The increase in capital spending is primarily the result of optimization work on the steam generation facilities we are planning to undertake at the Onion Lake thermal project that will allow us to increase production by up to 2,000 bbl/d. This work is expected to be completed in the first half of 2019. In addition to this optimization work, we are planning to drill 10 to 15 wells on our conventional heavy oil projects in the last half of the year and construct a sustaining well pad and related facilities for the Onion Lake thermal project, both of which were included in our original capital spending plans. Q3 2018 production from our Onion Lake thermal project will be temporarily impacted as we are

required to shut-in some of the phase 1 producing wells during the drilling of the sustaining pad.

The majority of these capital costs will continue to be funded with our anticipated adjusted funds flow, which is expected to be between \$75 and \$80 million, up from our previous guidance of between \$65 and \$70 million. The increase in adjusted funds flow is attributable to higher production and oil price forecasts than what we used in our previous guidance. For the remainder of the year we have assumed a WTI oil price of US\$66.25 per bbl, heavy oil differential of US\$20.00 per bbl, a US\$ to CDN\$ exchange rate of \$0.76 and an AECO gas price of CDN\$1.50/GJ. Year-end 2018 debt levels are anticipated to be between \$135 and \$140 million, up marginally from our previous guidance of between \$130 and \$135 million. The increase in year-end debt levels reflects the increase in forecasted capital spending for the remainder of the year.

Non-GAAP Measures

Throughout this release, the Company uses terms "adjusted funds flow", "operating netback" and "net debt". These terms do not have any 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 Company previously referred to "adjusted funds flow" as "funds flow from operations".

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

	Three months ended		Six months ended	
	June 30,		June 30,	
(\$000s)	2018	2017	2018	2017
Cash flow from operating activities	10,602	15,080	24,955	29,866
Changes in non-cash working capital related to operations	4,886	(984)	(440)	(2,888)
Decommissioning costs	94	83	130	125
Adjusted funds flow	15,582	14,179	24,645	27,103

Operating netback is calculated as oil and gas revenues less royalties, production costs and transportation costs on a dollar basis and divided by total production for the period on a barrel of oil equivalent basis. Operating 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 plus working capital for the period ended. Working capital consists of cash and cash equivalents, trade and other receivables, inventory, prepaid expenses and deposits, fair value of risk management assets less accounts payable and accrued liabilities, current portion of decommissioning liabilities, and fair value of risk management 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", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "potential", "targeting", "intend", "could", "might", "should", "believe" or similar words suggesting future events or future performance.

In particular, this release contains forward-looking statements pertaining to the expectation that the phase 2 expansion of the Onion Lake thermal project will reach its name-plate capacity of 6,000 bbl/d in early Q1 2019; our 2018 exit production guidance is expected to be 14,000 bbl/d; that the steam facility optimization work at Onion Lake will be completed in the first half of 2019, cost approximately \$15 million and potentially add 2,000 bbl/d of production; that when production from phase 2 at Onion Lake is fully ramped-up our debt to annualized cash flow is expected to be less than one and will generate significant free cash; that corporate annual cash flows could reach \$150 million when phase 2 production at Onion Lake is fully ramped-up; that the Onion Lake reserves can sustain production of 20,000 bbl/d for 20 years and all the information under Updated Guidance.

The forward-looking information is based on, among other things, expectations and assumptions by management regarding its future growth, future production levels, future oil and natural gas prices, continuation of existing tax, royalty and regulatory regimes, foreign exchange rates, estimates of future operating costs, timing and amount of capital expenditures, performance of existing and future wells, recoverability of the Company's reserves and contingent resources, the ability to obtain financing on acceptable terms, availability of skilled labour and drilling and related equipment on a timely and cost efficient basis, general economic and financial market conditions, environment matters and the ability to market oil and natural gas successfully to current and new customers. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their nature, forward-looking statements involve numerous known and unknown risks and uncertainties that contribute to the possibility that actual results will differ from those anticipated in the forward-looking statements. Further information regarding these risk factors may be found under "Risk Factors" in the Annual Information Form, which can be accessed on SEDAR at www.sedar.com.

Undue reliance should not be placed on these forward-looking statements. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will be realized. Actual results will differ, and the differences may be material and adverse to the Company and its shareholders. Furthermore, the forward-looking statements contained in this release are made as of the date hereof, and the Company does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

This is information that [BlackPearl Resources Inc.](#) is obliged to make public pursuant to the EU Market Abuse Regulation and the Swedish Securities Markets Act. The information was submitted for publication at 4:00 p.m. Mountain Time on August 2, 2018.

SOURCE [BlackPearl Resources Inc.](#)

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