

BlackPearl Announces Third Quarter 2018 Financial and Operating Results

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CALGARY, Nov. 5, 2018 - BlackPearl Resources Inc. ("BlackPearl" or the "Company") (TSX: PXX) (NASDAQ Stockholders are pleased to announce its financial and operating results for the three and nine months ended September 30, 2018. View the full press release [here](#).
Version.

Q3 Highlights:

- The Company entered into an Arrangement Agreement with [International Petroleum Corp.](#) ("IPC") whereby IPC has agreed to acquire all of the common shares of BlackPearl. The combined company will result in a well-capitalized company with significant cash flows to pursue acquisitions as well as organic growth opportunities within BlackPearl. The combined company will also reduce risk through geographic and commodity diversification. The combined company is expected to have production of approximately 45,000 barrels of oil equivalent per day (boe/d) including production from Canada, Malaysia, France and the Netherlands. Shareholders of BlackPearl will own approximately 46% of the combined company. The acquisition is expected to close before the end of the year.
- Corporate production averaged 13,863 boe/d in Q3 2018, a 53% increase compared with the same period in 2017, and a 10% increase compared to Q2 2018 production volumes. We anticipate exiting 2018 with production in excess of 15,000 boe/d, exceeding our previous year-end exit production guidance. The increase in production was due to the very successful completion of the production ramp-up from our phase 2 expansion on the Onion Lake thermal project.
- Our previously announced thermal optimization plan at Onion Lake is expected to add 2,000 boe/d at a cost of \$1.00/bbl, resulting in thermal productive capacity increasing to 14,000 boe/d. Capital for this optimization will be spent by Q4 2018 and the production ramp-up should be complete by the end of Q3 2019.
- Total capital spending for the quarter was \$22.6 million and \$68.4 million for the first nine months of 2018. Almost all of the capital spending in 2018 related to the Onion Lake thermal project.
- Oil and natural gas revenues in Q3 2018 were \$61 million compared with \$33 million in the same period in 2017, a 85% increase. The increase reflects higher oil production as well as higher realized crude oil sales prices. For the three months ended September 30, 2018, the Company generated net income of \$1.0 million and adjusted funds flow was \$19.0 million, a 44% increase from the same period in 2017.
- Strong operating cost performance continued with thermal operating costs of \$9.60/bbl in Q3 2018 compared with \$10.50/bbl in Q3 2017.
- The Company maintained its strong liquidity position during the quarter. At September 30, 2018, the Company had a total debt of \$125 million, made up of \$50 million of bank debt (with total capacity available of \$120 million) and second lien debt of \$75 million.

John Festival, President of BlackPearl commenting on the acquisition of BlackPearl indicated that "I believe the combination of IPC's current cash flow generation and BlackPearl's growth opportunities provides an excellent platform for increasing value creation for shareholders."

Commenting on Q3 activities, Mr. Festival indicated that "the expansion of the Onion Lake thermal project has performed ahead of our expectations. With current optimization projects underway we see production from the Onion Lake thermal project of 14,000 barrels of oil per day by year-end 2019 and we are evaluating whether there are additional optimization or expansion opportunities available. Record wide heavy oil differentials will have an impact on our short-term cash flows; however, with the turnarounds coming to completion and expanding rail transportation capacity we remain confident that differentials will narrow. Longer-term, additional pipelines will be built which should further reduce the differentials."

Financial and Operating Highlights

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Daily sales volumes				
Oil (bbl/d)	13,367	8,486	11,188	9,472
Bitumen (bbl/d) ⁽¹⁾	411	500	417	493
	13,778	8,986	11,605	9,965
Natural gas (mcf/d)	508	516	535	595
Combined (boe/d) ⁽²⁾	13,863	9,072	11,694	10,064
Product pricing (\$) (before the effects of hedging transactions)				
Crude oil - per bbl	49.61	42.05	46.49	41.55
Natural gas - per mcf	0.98	1.31	1.29	2.18
Combined - per boe	49.33	41.71	46.19	41.26
Netback (\$/boe)				
Oil and gas sales	49.33	41.71	46.19	41.26
Realized gain (loss) on risk management contracts	(7.66)	1.84	(5.39)	0.67
Royalties	(5.78)	(5.69)	(5.61)	(5.83)
Transportation	(2.83)	(2.33)	(2.72)	(2.55)
Operating costs	(14.27)	(16.46)	(14.64)	(15.43)
Netback ⁽⁵⁾	18.79	19.07	17.83	18.12
(\$000's, except per share amounts)				
Revenue				
Oil and gas revenue – gross	61,047	32,894	142,191	107,800
Net income (loss) for the period	1,039	(5,445)	(14,909)	10,687
Per share, basic and diluted	0.01	(0.02)	(0.04)	0.03
Adjusted funds flow ⁽³⁾	19,358	13,412	44,003	40,515
Cash flow from operating activities ⁽⁴⁾	21,581	10,775	46,536	40,641
Capital expenditures				

22,607

58,592

68,425

Working capital deficiency (surplus), end of period	8,572	8,445	8,572	8,445
Long term debt	123,560	72,738	123,560	72,738
Net debt ⁽⁶⁾	114,988	64,293	114,988	64,293
Shares outstanding, end of period	336,858,840	336,267,235	336,858,840	336,267,235

(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) Boe amounts are based on a conversion ratio of 6 mcf of gas to 1 barrel of oil. 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 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. See non-GAAP measures.

(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. See non-GAAP measures.

(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. See non-GAAP measures.

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

Oil and gas production averaged 13,863 boe/day in the third quarter of 2018, a 53% increase compared with the third quarter of 2017. The increase reflects the very successful ramp-up in production from the phase 2 expansion of the Onion Lake thermal project.

Average Daily Sales Volume

	Three months ended		Nine months ended	
	September 30,		September 30,	
(boe/day)	2018	2017	2018	2017
Onion Lake - thermal	10,026	4,553	7,804	5,511
Onion Lake - conventional	1,500	1,942	1,587	2,058
Mooney	1,098	1,157	1,072	1,068
John Lake	668	774	648	794
Blackrod	411	500	417	493
Other	160	146	166	140
	13,863	9,072	11,694	10,064

Financial Results

Oil and natural gas sales increased 86% to \$61.0 million in the third quarter of 2018 compared to \$32.9 million in sales during the same period in 2017. The increase reflects a 53% increase in oil production and an 18% increase in our average realized sale price.

Our realized oil price (before the effects of risk management activities) in Q3 2018 was \$49.61 per barrel compared to \$42.05 per barrel for the same period in 2017. The increase in our realized wellhead price reflects higher WTI reference oil prices in Q3 2018 compared with Q3 2017 (US\$69.50/bbl vs US\$48.21/bbl) partially offset by wider heavy oil differentials (US\$22.25/bbl vs US\$9.96/bbl).

Total production costs were \$17.7 million in the third quarter of 2018, 36% 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 \$14.27 per boe compared to \$16.46 per boe in the same period in 2017. The reduction in per barrel operating costs reflects the low cost of our operations at our Onion Lake thermal project.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Conventional Production				
Production costs (\$000s)	8,796	7,681	24,541	24,480
Per boe (\$)	27.91	20.78	25.89	22.09
Thermal Production				
Production costs (\$000s)	8,857	5,297	20,526	15,833
Per boe (\$)	9.60	12.65	9.63	10.52
Energy costs	3.12	3.59	3.09	4.04
Non-energy costs	6.48	9.06	6.45	6.48
Total Production				
Production costs (\$000s)	17,653	12,978	45,067	40,313
Per boe (\$)	14.27	16.46	14.64	15.43

Stronger crude oil prices and higher production volumes in Q3 2018 had a positive impact on our adjusted funds flow during the quarter. In Q3 2018 our adjusted funds flow was \$19.4 million, 44% higher than the \$13.4 million generated for the same period in 2017. Net income for the quarter was \$1.0 million compared to a loss of \$5.4 million in Q3 2017.

Capital spending was \$22.6 million in Q3 2018 with the majority of spending on the first sustaining well pad and associated facilities for the Onion Lake thermal project.

At September 30, 2018, the Company had long-term debt of \$125 million, made up of \$50 million of bank debt and second lien notes of \$75 million. The total credit facilities available to the Company are currently \$195 million.

Business Combination with International Petroleum Corp.

As previously announced, the Company entered into an arrangement agreement with IPC on October 9, 2018 whereby IPC has agreed to acquire all of the common shares of BlackPearl (the "Arrangement"). Pursuant to the Arrangement, BlackPearl shareholders will receive 0.22 of an IPC share for each of their BlackPearl shares. The special shareholder meeting to vote on the Arrangement will be held on December 7, 2018 at the Calgary Petroleum Club, 319 – 5th Avenue SW, Calgary, Alberta, at 9:00 a.m. (Calgary time). All shareholders entitled to vote are encouraged to vote in person or by proxy at the meeting. All of the directors and officers of BlackPearl, as well as entities related to the Lundin family and Burgundy Asset Management Ltd., together representing approximately 35% of the total BlackPearl Shares, have entered into agreements with IPC pursuant to which they have agreed to vote their BlackPearl Shares in favour of the Arrangement. Assuming receipt of shareholder approval and the satisfaction of all other conditions to the Arrangement, BlackPearl expects the Arrangement will be completed by the end of the year.

The 2018 third 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).

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
(\$000s)	2018	2017	2018	2017
Cash flow from operating activities	21,581	10,775	46,536	40,641
Changes in non-cash working capital related to operations	(2,519)	2,197	(2,959)	(691)
Decommissioning costs	296	440	426	565
Adjusted funds flow	19,358	13,412	44,003	40,515

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 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 the 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", "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 related to our expectation that our year-end

production rate will be in excess of 15,000 boe/d; our expectation that optimization work currently underway will increase production by 2,000 boe/d and the likelihood that overall Onion Lake thermal production will reach in excess of 14,000 boe/d by the end of 2019; that the capital costs of the optimization work at Onion Lake will be approximately \$15 million and that the acquisition of BlackPearl by IPC will be completed by the end of the year.

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 3:00 p.m. Mountain Time on November 5, 2018.

SOURCE [BlackPearl Resources Inc.](#)

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