

TORC Oil & Gas Ltd. Announces Second Quarter 2019 Financial & Operational Results

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CALGARY, July 31, 2019 - [TORC Oil & Gas Ltd.](#) ("TORC" or the "Company") (TSX: TOG) is pleased to announce its financial operating results for the three and six months ended June 30, 2019. The associated management's discussion and analysis ("MD&A") and unaudited interim financial statements as at and for the three and six months ended June 30, 2019 can be found on www.sedar.com and www.torcoil.com.

Highlights	Three months ended			Six months ended	
	June 30	March 31	June 30	June 30	June 30
(in thousands, except per share data)	2019	2019	2018	2019	2018
Financial					
Adjusted funds flow, including					
transaction related costs ⁽¹⁾	\$81,125	\$76,067	\$74,637	\$157,192	\$138,649
Per share basic	\$0.37	\$0.35	\$0.38	\$0.72	\$0.70
Per share diluted	\$0.37	\$0.34	\$0.37	\$0.71	\$0.69
Adjusted funds flow, excluding					
transaction related costs ^{(1), (2)}	\$81,125	\$76,067	\$75,337	\$157,192	\$139,349
Per share basic	\$0.37	\$0.35	\$0.38	\$0.72	\$0.71
Per share diluted	\$0.37	\$0.34	\$0.38	\$0.71	\$0.70
Net cash from operating activities	\$100,765	\$53,930	\$75,036	\$154,695	\$133,330
Net income	\$11,464	\$6,335	\$13,321	\$17,799	\$18,545
Per share basic	\$0.05	\$0.03	\$0.07	\$0.08	\$0.09
Per share diluted	\$0.05	\$0.03	\$0.07	\$0.08	\$0.09
Exploration and development					
Expenditures ⁽¹⁾	\$34,854	\$54,109	\$30,004	\$88,962	\$71,674
Property acquisitions, net of					
Dispositions ⁽¹⁾	\$688	\$146	\$227,214	\$834	\$229,908
Net debt ⁽¹⁾	\$363,895	\$396,038	\$367,035	\$363,895	\$367,035
Cash dividends declared ⁽³⁾	\$10,930	\$9,761	\$9,071	\$20,691	\$16,979
Dividends declared per common share	\$0.072	\$0.066	\$0.064	\$0.138	\$0.124
Common shares					

Shares outstanding, end of period	218,912	217,676	210,812	218,912	210,812
Weighted average shares (basic)	218,279	217,140	197,423	217,713	196,890
Weighted average shares (diluted)	221,752	220,530	200,787	221,195	200,153

Operations

Production

Crude oil (Bbls per day)	23,534	23,700	18,850	23,617	18,839
NGL (Bbls per day)	1,559	1,459	1,282	1,509	1,222
Natural gas (Mcf per day)	19,397	18,646	17,560	19,023	17,500
Barrels of oil equivalent (Boepd, 6:1)	28,326	28,267	23,059	28,297	22,978

Average realized price

Crude oil (\$ per Bbl)	\$70.03	\$64.85	\$75.44	\$67.44	\$71.47
NGL (\$ per Bbl)	\$12.28	\$20.32	\$31.13	\$16.14	\$28.99
Natural gas (\$ per Mcf)	\$0.67	\$2.18	\$0.84	\$1.41	\$1.28
Barrels of oil equivalent (\$ per Boe, 6:1)	\$59.32	\$56.86	\$64.04	\$58.10	\$61.12

Operating netback per Boe (6:1)

Operating netback ⁽¹⁾	\$34.35	\$32.64	\$38.82	\$33.51	\$36.26
Operating netback (prior to hedging) ⁽¹⁾	\$34.35	\$32.64	\$39.28	\$33.51	\$36.52

Adjusted funds flow netback per Boe (6:1)

Including transaction related costs ⁽¹⁾	\$31.47	\$29.90	\$35.57	\$30.69	\$33.34
Excluding transaction related costs ⁽¹⁾	\$31.47	\$29.90	\$35.90	\$30.69	\$33.51

Wells drilled:

Gross	13	34	8	47	34
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(1) Management uses these non-GAAP financial measures to analyze operating performance, leverage and investing activity. These measures do not have a standardized meaning under GAAP and therefore may not be comparable with the calculation of similar measures for other companies. See Non-GAAP Measurements Success (1) document for additional information.

(2) For ease of readability, in this press release, adjusted funds flow, excluding transaction related costs will be referred to as "cash flow".

(3) Cash dividends declared are net of the share dividend program participation.

PRESIDENT'S MESSAGE

The second quarter of 2019 represents the continued execution of TORC's business plan. TORC maintains a focus on the Company's long term objectives of disciplined growth while maintaining financial flexibility and providing a sustainable dividend. Operational momentum from TORC's successful first quarter capital program was demonstrated in the second quarter as production volumes were maintained on significantly lower capital expenditures.

The Company's key achievements in the second quarter of 2019 included the following:

- Achieved record quarterly production of 28,326 boepd, up from 28,267 boepd in the first quarter of 2019 and 23,000 boepd in the second quarter of 2018;
- Generated cash flow of \$81.1 million relative to \$76.1 million in the first quarter of 2019 and \$75.3 million in the second quarter of 2018;
- Generated cash flow per share of \$0.37 as compared to \$0.35 in the first quarter of 2019 and \$0.38 in the second quarter of 2018;
- Successfully drilled 13 (9.8 net) wells spending \$34.9 million;
- During the second quarter, TORC declared dividends of \$15.7 million of which \$4.8 million was paid under the share repurchase program;
- Achieved a payout ratio of 56% in the second quarter and 70% for the first half of 2019 while continuing to grow production and cash flow;
- Exited the second quarter with net debt of approximately \$363.9 million, down from \$396.0 at the end of the first quarter of 2019. \$300.6 million drawn on the Company's \$500 million credit facility.

OPERATIONAL UPDATE

TORC's second quarter production averaged 28,326 boepd. The solid performance of the Company's existing low decline production base, combined with a successful drilling program, continued to deliver predictable production growth.

TORC spent a total of \$34.9 million of exploration and development capital in the second quarter. In the first six months of 2019, the Company executed on a development drilling program of 47 (37.7 net) wells spending \$89.0 million, representing 40% of the Company's \$180 million capital program. TORC remains well positioned to achieve 2019 production guidance.

SOUTHEAST SASKATCHEWAN

TORC participated in the drilling of 9 (6.0 net) conventional wells in the second quarter following an active first quarter. In the first half of 2019, the Company drilled 27 (20.5 net) conventional wells. With 45 (33.7 net) wells budgeted to be drilled in 2019, 16 (12.5 net) additional conventional wells are planned to be drilled in the second half of 2019. TORC has identified more than 400 additional undrilled conventional light oil locations in southeast Saskatchewan, providing years of high quality drilling inventory. The primary objective of TORC's southeast Saskatchewan conventional properties is to maintain a stable production profile and maximize free cash flow from the assets.

As planned, TORC did not drill wells in the Torquay/Three Forks resource play during the second quarter of 2019. During the second quarter, 2 (2.0 net) Torquay/Three Forks wells drilled in the first quarter were completed and brought on production. In the second half of 2019, 11 (8.0 net) Torquay wells are scheduled to be drilled, for a total of 16 (12.5 net) wells in 2019. TORC has identified over 150 net development locations in the Torquay/Three Forks play providing multiple years of drilling inventory.

On the unconventional Midale light oil resource play in southeast Saskatchewan, TORC drilled 4 (3.8 net) wells during the second quarter for a total of 11 (9.4 net) wells in the first half. The Company plans to drill an additional 7 (5.5 net) unconventional wells across the Company's land position for both the development and further delineation of the play during the second half of 2019. Through the continued consolidation and delineation of this play, TORC has identified 175 net undrilled locations on the Company's land base.

CARDIUM

In 2019, TORC has budgeted to drill 9 (8.2 net) Cardium wells. As planned, the Company drilled 4 (3.3 net) wells in the 2019, all in the first quarter. TORC's Cardium program includes drilling an additional 5 (4.9 net) wells. TORC has identified more than 290 net undrilled Cardium locations for future development. With a decline profile below 25% and a deep inventory of high quality development locations, the Cardium continues to contribute to the Company's free cash flow growth strategy.

CAPITAL PROGRAM

TORC's 2019 \$180 million capital program is concentrated on the Company's primary core areas in southeast Saskatchewan focused on both conventional opportunities and unconventional plays, and the Cardium play in central Alberta. TORC continues to focus on operational efficiencies with a goal of achieving results that exceed budget expectations.

The capital program maintains TORC's balanced approach as the Company continues to focus on achieving long term growth, protecting the Company's strong financial position, and maintaining a consistent decline profile to preserve repeatable the business model.

Based on current commodity prices and budgeted cost structure, the Company expects to achieve significant free cash flow in 2019 above the current capital program and dividend. This free cash flow will continue to position the Company to take advantage of opportunities to enhance the growth, sustainability and repeatability of the Company's business model.

DIVIDEND

TORC's dividend is reviewed regularly with the Board of Directors and is an important component of TORC's overall strategy. During the second quarter, TORC declared dividends of \$15.7 million of which \$4.8 million was paid under the share repurchase plan.

The Board of Directors has confirmed a dividend of \$0.025 per common share will be paid on August 15, 2019 to shareholders of record on July 31, 2019.

TORC's priorities are to act prudently to protect financial flexibility while positioning the Company to continue to achieve growth over a long term basis while paying out a sustainable dividend.

OUTLOOK

TORC has built a sustainable growth platform of light oil focused assets. The stability of the high quality, low decline, light oil assets in southeast Saskatchewan and the low risk Cardium development inventory in central Alberta, combined with the unconventional light oil resource plays in southeast Saskatchewan, positions TORC to provide value creation through a long term focused growth strategy with a sustainable dividend.

TORC has the following key operational and financial attributes:

High Netback Production ⁽¹⁾	2019E Average: 28,300 boepd 2019E Exit: 28,300 boepd
Total Proved plus Probable Reserves ⁽²⁾	Greater than 138 mmboe (~84% light oil & liquids)
Southeast Saskatchewan Light Oil Development Inventory	Greater than 400 net undrilled conventional locations Greater than 150 net undrilled Torquay/Three Forks locations Greater than 175 net undrilled unconventional Midale locations
Cardium Light Oil Development Inventory	Greater than 290 net undrilled locations
Sustainability Assumptions ⁽³⁾	Corporate decline ~23% Capital Efficiency ~\$28,000 per boepd (IP 365)
2019 Capital Program	\$180 million
Monthly Dividend	\$0.025 per share
Net Debt as at June 30, 2019 ⁽⁴⁾	\$364 million; \$301 million drawn on a bank line of \$500 million
Shares Outstanding	219 million (basic)
Tax Pools	Approximately \$1.8 billion

Notes:

(1) ~88% light oil & NGLs.

(2) All reserves information in this press release are gross reserves. The reserve information for TORC in the foregoing table is derived from the independent engineering report effective December 31, 2018 prepared by Sproule & Associates Limited ("Sproule") evaluating the oil, NGL and natural gas reserves attributable to all of our properties (the "TORC Reserve Report").

(3) Refers to full cycle capital efficiency which is the all-in corporate capital budget divided by the IP365 of the associated wells. Corporate decline refers to TORC's estimated oil and gas production decline rate in the normal life cycle of a well.

(4) See "Non-GAAP Measures".

An updated corporate presentation can be found at www.torcoil.com.

READER ADVISORIES

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 the Company's plans, strategy, business model, focus, objectives and other aspects of TORC's anticipated future operations and financial, operating and drilling and development plans and results, including, expected future production, production mix, reserves, drilling inventory, net debt, cash flow and free cash flow, financial flexibility and liquidity, capital costs, operating netbacks, operational efficiencies, decline rate and decline profile, product mix, capital expenditure program, capital efficiencies, commodity prices, royalties, tax pools and future growth. In addition, and without limiting the generality of the foregoing, this press release contains forward-looking information regarding: the focus and allocation of TORC's 2019 capital budget; anticipated average and exit production rates, available free cash flow, management's view of the characteristics and quality of the opportunities available to the Company; TORC's dividend policy and plans; and other matters ancillary or incidental to the foregoing.

Forward-looking information typically uses words such as "anticipate", "believe", "project", "target", "guidance", "expect", "goal", "plan", "intend" or similar words suggesting future outcomes, statements that actions, events or conditions "may", "would", "could" or "will" be taken or occur in the future. The forward-looking information is based on certain key expectations and assumptions made by TORC's management, including expectations concerning prevailing commodity prices, exchange rates, interest rates, applicable royalty rates and tax laws; capital efficiencies; decline rates; future production rates and estimates of operating costs; performance of existing and future wells; reserve and resource volumes; anticipated timing and results of capital expenditures; the success obtained in drilling new wells; the sufficiency of budgeted capital expenditures in carrying out planned activities; the timing, location and extent of future drilling operations; the state of the economy and the exploration and production business; results of operations; performance; business prospects and opportunities; the availability and cost of financing, labour and services; the impact of increasing competition; ability to market oil and natural gas successfully and TORC's ability to access capital.

Statements relating to "reserves" are also deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

Although the Company believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because TORC can give no assurance that they will prove to be correct. Since forward-looking information addresses future events and conditions, by its very nature they involve inherent risks and uncertainties. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits that the Company will derive there from. Management has included the above summary of assumptions and risks related to forward-looking information provided in this press release in order to provide securityholders with a more complete perspective on TORC's future operations and such information may not be appropriate for other purposes.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect TORC's operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

These forward-looking statements are made as of the date of this press release and TORC disclaims any intent or obligation to update publicly any forward-looking information, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Dividends

The payment and the amount of dividends declared in any month will be subject to the discretion of the board of directors and will depend on the board of director's assessment of TORC's outlook for growth, capital expenditure requirements, funds from operations, potential acquisition opportunities, debt position and other conditions that the board of directors may consider relevant at such future time. The amount of future cash dividends, if any, may also vary depending on a variety of factors, including fluctuations in commodity prices and differentials, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens and foreign exchange rates.

Non-GAAP Measurements

This press release includes non-GAAP measures commonly used in the oil and natural gas industry. These non-GAAP measures 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. For details, descriptions and reconciliations of these non-GAAP measurements, see the Company's Management's Discussion and Analysis for the three and six months ended June 30, 2019.

"Adjusted funds flow, including transaction related costs" represents cash flow from operating activities prior to changes in non-cash operating working capital and settlement of decommissioning obligations. "Adjusted funds flow, excluding transaction related costs" represents cash flow from operating activities prior to changes in non-cash operating working capital, settlement of decommissioning obligations and transaction related costs. Management considers these measures to be useful as they assist in the determination of the Company's ability to generate liquidity necessary to finance capital expenditures, settlement of decommissioning obligations and funding of its dividend. Transaction related costs are incurred during asset and/or corporate acquisitions and are typically not considered a cost incurred in the normal course of business. As a result, excluding transaction related costs from adjusted funds flow further assists in the determination of the Company's ability to generate liquidity in the normal course of business. For ease of readability, in this press release, "adjusted funds flow, excluding transaction related costs" is also referred to as "cash flow". TORC calculates cash flow per share using the same method and shares outstanding that are used in the determination of earnings per share.

"Net debt" is calculated as current assets (excluding financial derivative assets) less: i) current liabilities (excluding financial derivative liabilities) and ii) bank debt. Management considers this measure to be useful in determining the Company's leverage.

"Operating netback" or "netback" represents revenue and realized gain or loss on financial derivatives, less royalties, operating expenses and transportation expenses and has been presented on a per Boe basis. Management believes that in addition to net income, operating netback is a useful measure as it assists in the determination of the Company's operating performance and profitability.

"Exploration and development expenditures" represents expenditures on property, plant and equipment ("PP&E") excluding: acquisitions, non-cash PP&E additions and capitalized general and administrative expenses. See Capital Expenditures in the MD&A for further details.

"Property acquisitions, net of dispositions" represents additions to PP&E related to the Company's asset and/or corporate acquisition and disposition activity.

"Free cash flow" represents adjusted funds flow, excluding transaction related costs, less i) exploration and development expenditures", and ii) cash dividends paid. Management considers this measure to be useful in determining its ability to finance capital expenditures and fund its dividend.

"Payout ratio" represents cash dividends paid, plus exploration and development expenditures, divided by adjusted funds flow, excluding transaction related costs. The Company considers this to be a key measure of sustainability.

Oil and Gas Disclosures

The term "boe" or barrels of oil equivalent 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 equivalent (6 Mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

This press release discloses drilling locations in three categories: (i) proved locations; (ii) probable locations;

and (iii) unbooked locations. Proved locations and probable locations are derived from the TORC Reserve Report effective December 31, 2018 and account for drilling locations that have associated proved and/or probable reserves, as applicable. Unbooked locations are internal estimates prepared by a qualified reserves evaluator based on TORC'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. Of the 1,015 net drilling locations identified herein, 350 are proved locations, 137 are probable locations and 528 are unbooked locations. Of the 400 net conventional drilling locations identified herein, 165 are proved locations, 60 are probable locations and 175 are unbooked locations. Of the 150 net Torquay/Three Forks drilling locations identified herein, 41 are proved locations, 25 are probable locations and 84 are unbooked locations. Of the 175 net unconventional Midale drilling locations identified herein, 80 are proved locations, 17 are probable locations and 78 are unbooked locations. Of the 290 net Cardium drilling locations identified herein, 64 are proved locations, 35 are probable locations and 191 are unbooked locations.

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 TORC will drill all unbooked drilling locations and, if drilled, there is no certainty that such locations will result in additional oil and gas reserves 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, some of 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 or production.

SOURCE [TORC Oil & Gas Ltd.](#)

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