

# Petrus Resources Announces Second Quarter 2020 Financial & Operating Results

12.08.2020 | [GlobeNewswire](#)

CALGARY, Aug. 12, 2020 - [Petrus Resources Ltd.](#) (TSX: PRQ) is pleased to report financial and operating results as at and for the three and six months ended June 30, 2020. Petrus is focused on the profitable development of its Ferrier Cardium asset to generate free cash flow for debt repayment.

The second quarter of 2020 was one of the most challenging on record for the Canadian oil and gas sector with volatile commodity prices resulting from the COVID-19 pandemic. This environment tested the business strategy, profitability and balance sheets of all companies in the industry. The efforts Petrus has made to reduce debt levels, decrease both operating and general and administrative ("G&A") costs and balance the production base between natural gas and light oil and liquids, have allowed the Company to succeed in this challenging environment. As one of the lowest cost producers in the Western Canadian Sedimentary Basin, Petrus is well positioned to prosper with the recent improvement in commodity prices. With current pricing, new wells drilled in Petrus' core area of Ferrier can deliver payouts in under one year<sup>(2)</sup>.

A low corporate cost structure combined with a strong hedging portfolio and higher natural gas weighting has helped to protect the Company against extreme commodity price volatility through the first half of 2020. As a percentage of second quarter 2020 production, Petrus has derivative contracts in place for 54%, at an average price of \$2.11/mcf, and 80%, at average price of \$75.91 (C\$/bbl), of natural gas and oil and natural gas liquids production, respectively, for the remainder of 2020.

During the first quarter of 2020, Petrus successfully drilled and brought on stream two net wells in its core area of Ferrier. While initial production rates were strong for both wells, the decision was made to shut in one well and heavily restrict production volumes on the other. While this impacted second quarter production, it was done in order to conserve value, rather than produce high initial rates in a depressed oil price market. As commodity prices improved subsequent to June 30, 2020, the shut-in well was brought on production at restricted rates while the second well continues to be limited by the use of downhole choke. Second quarter production was 6,291 boe/d which does not include approximately 750 boe/d of intentionally reduced volumes, as estimated by management. As of mid-July, the majority of these volumes have resumed production.

## HIGHLIGHTS:

- Credit facility - The Company completed the extension of its revolving credit facility and second lien term loan, extending maturities to mid-2021.
- Debt repayment - Generated funds flow<sup>(1)</sup> of \$5.9 million (\$0.12 per share) for the second quarter of 2020 with net capital expenditures of \$0.3 million while reducing net debt by \$5.5 million during the quarter.
- Low operating costs - Operating expense for the three months ended June 30, 2020 was \$4.44/boe. The Company continues to focus on optimizing its cost structure, particularly in the Ferrier area, through facility ownership and control.
- Commodity price risk mitigation - Petrus utilizes financial derivative contracts to mitigate commodity price risk and provide stability and sustainability to funds flow. Petrus achieved a gain of \$6.39/boe in the second quarter as a result of these contracts.

## CREDIT FACILITY EXTENSION

Subsequent to the end of the second quarter, the Company completed its annual Revolving Credit Facility (RCF) review with the total facility updated to \$88.5 million. At the end of the second quarter of 2020, the Company was drawn \$86.7 million against the RCF, inclusive of a \$0.6 million letter of credit outstanding. The RCF is required to reduce by \$2.75 million at the end of each fiscal quarter. The RCF maturity date has been updated to May 31, 2021.

**SECOND LIEN TERM LOAN EXTENSION**

Concurrent with the extension to the maturity of the RCF, Petrus has entered into an amending agreement with Macquarie Bank Limited to extend the \$35 million second lien term loan ("Term Loan") maturity date to July 31, 2021. The interest rate on the Term Loan balance will be updated to become the Canadian Dealer Offered Rate plus 975 basis points. All of the interest will be made by way of payment-in-kind (&#220;PIK&#221;) and added to the outstanding balance of the Term Loan in lieu of monthly payment of cash interest.

The extensions of both the RCF and Term Loan include the removal of the Total Debt to Adjusted EBITDA ratio as well as the Proved and PDP Asset Coverage Ratios from the financial covenants, and the Working Capital ratio covenant has been updated to a minimum test of 0.6:1.0.

Petrus' management believes it has adequate liquidity to execute the Company's business plan over the coming year. The Company continues its efforts to divest certain non-core assets and evaluate other sources of capital to improve its balance sheet. Reduction of debt remains the Company's top priority. Since December 31, 2015 Petrus has repaid 47% or \$106 million of its net debt<sup>(1)</sup>. This includes a \$55 million reduction of the Company's Term Loan, which was \$90 million in 2014 and currently has \$35 million outstanding.

**2020 OUTLOOK**

Petrus intends to remain flexible to adjust quarterly capital spending as the year progresses. The Company continues to forecast free cash flow in excess of planned capital expenditures for the remainder of the year and will utilize free cash flow to reduce amounts drawn on its credit facilities. Petrus&#217; Board of Directors approved a third quarter 2020 capital budget of \$0.7 million. Management continues to review pricing on a daily basis to adjust production levels to maximize value of the reserve base. Petrus received support benefits from the Canada Emergency Wage Subsidy ("CEWS") program and has made successful applications for grants under the Alberta Site Rehabilitation Program. The Company will continue to pursue programs announced by the Federal and Provincial Governments to support Canadian businesses, and the oil and gas industry specifically through the COVID-19 pandemic<sup>(2)</sup>.

**OPERATIONS UPDATE**

Second quarter average production by area was as follows:

For the three months ended June 30, 2020	Ferrier	Foothills	Central Alberta	Total
Natural gas (mcf/d)	21,222	1,211	5,192	27,625
Oil (bbl/d)	558	50	257	865
NGLs (bbl/d)	707	4	111	822
Total (boe/d)	4,803	255	1,233	6,291

Second quarter production averaged 6,291 boe/d in 2020 compared to 8,647 boe/d in 2019. The decrease in production can be attributed to natural declines due to lower capital activities in the second half of 2019 and first half of 2020 as the Company focused on debt reduction, and the significant restriction of production volumes from new wells drilled in the first quarter of 2020. Second quarter production does not include approximately 750 boe/d of intentionally reduced volumes, as estimated by management. As of mid-July, the majority of these volumes have resumed production.

In the second quarter of 2020, the Company invested capital of \$0.3 million, which consisted of non-discretionary maintenance capital and capitalized G&A. Petrus&#217; Board of Directors approved a third quarter 2020 capital budget of \$0.7 million. Management continues to review pricing on a daily basis to adjust production levels to maximize value of the reserve base. With the high level of control afforded by operated assets and ownership of key infrastructure, the Company can adjust liquids content in the natural gas stream to maximize profitability of all products as well as adjust production rates quickly to respond to changing market conditions.

<sup>(1)</sup> Refer to "Non-GAAP Financial Measures".

<sup>(2)</sup> Refer to "Advisories - Forward-Looking Statements".

**SELECTED FINANCIAL INFORMATION**

OPERATIONS	Three months ended Jun. 30, 2020	Three months ended Jun. 30, 2019	Three months ended Mar. 31, 2020	Three months ended Dec. 31, 2019
Average Production				
Natural gas (mcf/d)	27,630	32,350	30,604	32,641
Oil (bbl/d)	867	1,679	1,134	1,834
NGLs (bbl/d)	819	1,576	1,088	1,018
Total (boe/d)	6,291	8,647	7,323	8,292
Total (boe)	572,440	786,819	666,361	762,874
Light oil weighting	14	% 19	% 15	% 22
Realized Prices				
Natural gas (\$/mcf)	2.35	1.30	2.40	2.65
Oil (\$/bbl)	27.18	70.96	50.02	65.16
NGLs (\$/bbl)	12.87	19.91	23.19	20.62
Total realized price (\$/boe)	15.73	22.29	21.23	27.39
Royalty income	0.06	0.15	0.30	0.13
Royalty expense	(1.51)	) (1.72	) (2.85	) (2.91
Net oil and natural gas revenue (\$/boe)	14.28	20.72	18.68	24.61
Operating expense	(4.44)	) (4.33	) (4.55	) (4.47
Transportation expense	(1.40)	) (1.22	) (1.05	) (1.30
Operating netback <sup>(1)</sup> (\$/boe)	8.44	15.17	13.08	18.84
Realized gain (loss) on derivatives (\$/boe)	6.39	(1.02)	) 1.76	(1.86
Other income	0.17	0.10	0.07	&#8212;
General & administrative expense	(1.43)	) (0.67	) (1.35	) (1.91
Cash finance expense	(3.20)	) (2.70	) (3.13	) (2.54
Decommissioning expenditures	(0.15)	) (0.24	) (0.56	) (0.41
Funds flow & corporate netback <sup>(1)(2)</sup> (\$/boe)	10.22	10.64	9.87	12.12
FINANCIAL (000s except \$ per share)	Three months ended Jun. 30, 2020	Three months ended Jun. 30, 2019	Three months ended Mar. 31, 2020	Three months ended Dec. 31, 2019
Oil and natural gas revenue	9,041	17,652	14,344	20,998
Net income (loss)	(6,281)	) 2,863	(87,444	) (3,332
Net income (loss) per share				
Basic	(0.13)	) 0.06	(1.77	) (0.06
Fully diluted	(0.13)	) 0.06	(1.77	) (0.06
Funds flow	5,855	8,366	6,566	9,260
Funds flow per share				
Basic	0.12	0.17	0.13	0.19
Fully diluted	0.12	0.17	0.13	0.19
Capital expenditures	305	2,505	8,655	4,351
Net dispositions	&#8212;	&#8212;	&#8212;	&#8212;
Weighted average shares outstanding				
Basic	49,469	49,469	49,469	49,469
Fully diluted	49,469	49,469	49,469	49,469
As at period end				
Common shares outstanding				
Basic	49,469	49,469	49,469	49,469
Fully diluted	49,469	49,469	49,469	49,469
Total assets	184,532	328,912	193,679	289,225
Non-current liabilities	43,017	81,249	38,533	42,346

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Net debt <sup>(1)</sup>	120,570	130,619	125,974	123,744
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<sup>(1)</sup>Refer to "Non-GAAP Financial Measures".

<sup>(2)</sup>Corporate netback is equal to funds flow which is a directly comparable GAAP measure. Petrus analyzes these measures on an absolute value and per unit basis.

#### NON-GAAP FINANCIAL MEASURES

This press release makes reference to the terms "operating netback", "corporate netback" and "net debt". These indicators are not recognized measures under GAAP (IFRS) and do not have a standardized meaning prescribed by GAAP (IFRS). Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Management uses these terms for the reasons set forth below.

##### *Operating Netback*

Operating netback is a common non-GAAP financial measure used in the oil and natural gas industry which is a useful supplemental measure to evaluate the specific operating performance by product at the oil and natural gas lease level. The most directly comparable GAAP measure to operating netback is funds flow. Operating netback is calculated as oil and natural gas revenue less royalties, operating and transportation expenses. It is presented on an absolute value and per unit basis.

##### *Funds Flow and Corporate Netback*

Corporate netback is a common non-GAAP financial measure used in the oil and natural gas industry which evaluates the Company's profitability at the corporate level. Corporate netback is equal to funds flow which is a directly comparable GAAP measure. Petrus analyzes these measures on an absolute value and per unit basis. Management believes that funds flow and corporate netback provide information to assist a reader in understanding the Company's profitability relative to current commodity prices. It is calculated, in the above table, as the operating netback less general and administrative expense, finance expense, decommissioning expenditures, plus other income and the net realized gain (loss) on financial derivatives.

##### *Net Debt*

Net debt is a non-GAAP financial measure and is calculated as current assets (excluding unrealized financial derivative assets) less current liabilities (excluding unrealized financial derivative liabilities, right-of-use lease obligations, and deferred share unit liabilities) and long term debt. Petrus uses net debt as a key indicator of its leverage and strength of its balance sheet. There is no GAAP measure that is reasonably comparable to net debt.

#### ADVISORIES

##### *Basis of Presentation*

Financial data presented above has largely been derived from the Company's financial statements, prepared in accordance with GAAP which require publicly accountable enterprises to prepare their financial statements using IFRS. Accounting policies adopted by the Company are set out in the notes to the consolidated financial statements as at and for the twelve months ended December 31, 2019. The reporting and the measurement currency is the Canadian dollar. All financial information is expressed in Canadian dollars, unless otherwise stated.

##### *Forward-Looking Statements*

Certain information regarding Petrus set forth in this new release contains forward-looking statements within the meaning of applicable securities law, that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such statements represent Petrus' internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, production, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Petrus believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Petrus' actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Petrus.

In particular, forward-looking statements included in this press release include, but are not limited to, statements with respect to: prospective changes to the terms of the RCF and Term Loan; Petrus' capital program, flexibility and utilization of free cash flow; Petrus' utilization of Federal and Provincial programs; Petrus' expectations regarding second half 2020 production volumes; Petrus' ability to modify its operations, including its ability to adjust liquid volumes and the results thereof; expectations regarding the adequacy of Petrus' liquidity and the funding of its financial liabilities; the impact of the current economic environment on Petrus; the performance characteristics of the Company's crude oil, NGL and natural gas properties; future prospects; the focus of and timing of capital expenditures; access to debt and equity markets; Petrus' future operating and financial results; capital investment programs; supply and demand for crude oil, NGL and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; and treatment under governmental regulatory regimes and tax laws. In addition, statements relating to reserves are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, most of which are beyond the Company's control, including the impact of general economic conditions; volatility in market prices for crude oil, NGL and natural gas; impact of the economic crisis on the Company's lenders; willingness of the company's lenders to negotiate; industry conditions; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources; completion of the financing on the timing planned and the receipt of applicable approvals; and the other risks. With respect to forward-looking statements contained in this press release, Petrus has made assumptions regarding: future commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; willingness of its lenders to negotiate; the impact of the current financial crisis; future exchange rates; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment and services; effects of regulation by governmental agencies; and future operating costs. Management has included the above summary of assumptions and risks related to forward-looking information provided in this press release in order to provide shareholders with a more complete perspective on Petrus' future operations and such information may not be appropriate for other purposes. Petrus' 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 the Company will derive therefrom. Readers are cautioned that the foregoing lists of factors are not exhaustive.

This press release contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Petrus' prospective results of operations including, without limitation, its ability to repay debt, which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. Petrus' actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits Petrus will derive therefrom. Petrus has included the FOFI in order to provide readers with a more complete perspective on Petrus' future operations and such information may not be appropriate for other purposes.

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

#### *BOE Presentation*

The oil and natural gas industry commonly expresses production volumes and reserves on a barrel of oil equivalent (boe) basis whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved measurement of results and comparisons with other industry participants. Petrus uses the 6:1 boe measure which is the approximate energy equivalence of the two commodities at the burner tip. Boe's do not represent an economic value equivalence at the wellhead and therefore may be a misleading measure if used in isolation.

#### Abbreviations

\$000&#8217;s	thousand dollars
\$/bbl	dollars per barrel
\$/boe	dollars per barrel of oil equivalent
\$/GJ	dollars per gigajoule
\$/mcf	dollars per thousand cubic feet
bbl	barrel
bbl/d	barrels per day
boe	barrel of oil equivalent
mboe	barrel of oil equivalent
mmboe	thousand barrel of oil equivalent
boe/d	million barrel of oil equivalent per day
GJ	gigajoule
GJ/d	gigajoules per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
NGLs	natural gas liquids
WTI	West Texas Intermediate

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Die URL für diesen Artikel lautet:

<https://www.rohstoff-welt.de/news/358868--Petrus-Resources-Announces-Second-Quarter-2020-Financial-und-Operating-Results.html>

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