

Pan Orient Energy Corp. 2020 Second Quarter Financial & Operating Results

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CALGARY, Aug. 13, 2020 - [Pan Orient Energy Corp.](#) ("Pan Orient" or the "Company") (TSXV: POE) reports 2020 second quarter consolidated financial and operating results. Please note that all amounts are in Canadian dollars unless otherwise stated. BOPD refers to barrels of oil per day.

The Company is today filing its unaudited consolidated financial statements as at and for the six months ended June 30, 2020, along with related management's discussion and analysis with Canadian securities regulatory authorities. Copies of these documents are available and can be obtained online at www.sedar.com or the Company's website, www.panorient.ca.

Commenting today on Pan Orient's 2020 second quarter results, President and CEO Jeff Chisholm stated: "Despite the challenging financial and operating environment experienced in 2020, the Company has completed the drilling of two potential new oilfield discoveries and one successful L53-DD oilfield appraisal well while staying within the bounds of cash flow generated from existing oil production. Further, the Company remains in a strong financial position with \$31.4 million in working capital and non-current deposits (combined Canada and Thailand) at the end of the second quarter."

HIGHLIGHTS

Thailand (net to Pan Orient's 50.01% equity interest in the Thailand Joint Venture)

- 2020 drilling program with seven wells to date:
 - The L53-DD6ST2 appraisal well in the L53-DD field encountered an estimated combined 16.5 meters of possible oil pay as interpreted in the BB/CC and AA2 sandstones. The well was placed on production February 11th and added 188 BOPD to Pan Orient's 50.01% equity interest, 188 BOPD in the first quarter and 181 BOPD in the second quarter.
 - The L53-AA2 exploration well represented a potential new pool discovery, outside the recently approved L53-DD Production Area, with an estimated combined 11.0 meters of possible oil pay as interpreted in the AA and S sandstones with testing pending.
 - The L53-AA1 exploration well and the L53-AAST1 sidetrack exploration well were abandoned after failing to encounter bearing sands.
 - The L53-BB1ST1 exploration well drilled in June encountered an estimated combined 10.6 meters of possible oil pay as interpreted in the AA/SH1, AA2 and BB sandstones with testing pending.
 - The L53-DD8 well drilled in July encountered an estimated combined 19.3 meters of oil pay as interpreted in the DD and CC sandstones.
 - The L53-DD7 appraisal well is currently drilling. Once the rig has completed the drilling of L53-DD7, well completion can be run on L53-DD8, L53-BB1ST1 and (if warranted) L53-DD7 and production/testing will commence immediately thereafter, and include the L53-AA2 exploration well.
- Net to Pan Orient's 50.01% equity interest in the Thailand Joint Venture, oil sales from Concession L53 in the first half of 2020 were 1,123 BOPD, with 932 BOPD from the L53-DD field.
- Adjusted funds flow from operations of \$5.7 million in the first half of 2020 with \$2.0 million (\$20.91 per barrel) in the second quarter and \$3.7 million (\$34.11 per barrel) in the first quarter. The realized price of Concession L53 crude oil averaged \$34.11 per barrel in the first half of 2020 and the Brent reference price has partially recovered from US\$19.50 in 2020 to US\$40.27 in June 2020 and US\$44.50 as at August 11th.
- Despite weak oil prices, Thailand had adjusted funds flow from operations of \$5.7 million in the first half of 2020 to \$1.0 million of Thailand exploration and development activities. In addition, the Thailand Joint Venture paid a \$4.3 million to Pan Orient in January 2020 and Pan Orient's share of working capital and long-term deposits in Thailand at June 30, 2020 was \$6.6 million.

Indonesia East Jabung Production Sharing Contract (Pan Orient is non-operator with a 49% ownership interest)

- The operator of the East Jabung Production Sharing Contract ("PSC") provided notice to the Government of Indonesia in January 2020 of withdrawal from the East Jabung PSC and is determining final steps to be taken for formal approval of expiry from the GOI, including reclamation requirements. Pan Orient is withdrawing from operations in Indonesia and the office in Jakarta was closed March 31, 2020.

- Activities of the Company in Indonesia are reported in 2020 as discontinued operations. For the first half of 2020, operations in Indonesia were \$157 thousand of G&A expense, \$155 thousand in realized and unrealized foreign exchange losses on currency exchange rates since the end of 2019 and a \$672 thousand recovery of exploration expense and adjustment of previously booked capital expenditures at the East Jabung PSC.

Sawn Lake (Operated by Andora Energy Corporation, in which Pan Orient has a 71.8% ownership)

- With the significantly lower prices for heavy oil and bitumen, and the associated deterioration in the economics for expansion at Sawn Lake, there is no expected commercial development at Sawn Lake in the current market. As a result, the Company reported a non-cash net impairment charge of \$80.2 million on Sawn Lake Exploration and Evaluation assets at March 31, 2020.
- After the impairment of Sawn Lake recorded at March 31, 2020, no operating expenses or G&A are capitalized. In the second quarter of 2020, Pan Orient reports operating expense of \$63 thousand associated with the Sawn Lake suspended facility and wellpair.
- On July 13, 2020 Andora surrendered a 100% owned oil sands lease (nine sections) which was not prospective and no contingent resources had been assigned in the September 30, 2019 Contingent Resources Report.

Corporate

- Total corporate adjusted funds flow from operations (including Pan Orient's 50.01% equity interest in the Thailand Joint Venture) of \$5.6 million (\$0.10 per share) in the first half of 2020, with \$1.2 million (\$0.02 per share) in the second quarter of 2020. The decrease from \$4.4 million (\$0.08 per share) in the first quarter of 2020 is largely due to lower crude oil prices in Thailand, foreign exchange loss of \$0.9 million in Canada on cash holdings denominated in US dollars, and partially offset by a \$0.7 million recovery of impairment expenses previously recorded for Indonesia.
- The loss attributable to common shareholders for the first half of 2020 was \$58.2 million (\$1.09 loss per share), primarily resulting from a net \$57.6 million impairment charge for the Sawn Lake, Alberta Exploration and Evaluation assets at March 31, 2020. The loss attributable to common shareholders for the second quarter of 2020 was \$1.0 million (\$0.02 loss per share).
- The normal course issuer bid for the period of May 16, 2019 to May 16, 2020 expired during the second quarter. The Company had repurchased 2,190,900 common shares at an average price of \$0.78 per share, with 1,536,500 common shares repurchased in 2020 at an average price of \$0.59 per share.
- Pan Orient renewed the normal course issuer bid and is authorized to purchase, for cancellation, up to 4,228,734 common shares (10% of the public float) during the period of May 21, 2020 to May 20, 2021. To date, Pan Orient has repurchased 785,000 common shares at an average price of \$0.67 per share. As at August 11, 2020 there are 52,734 common shares outstanding.
- Pan Orient has maintained a strong financial position with working capital and non-current deposits of \$24.8 million and long-term debt at June 30, 2020. In addition, the Thailand Joint Venture has \$6.6 million in working capital and long-term deposits, net to Pan Orient's 50.01% equity interest, and Thailand funds flow from operations are expected to fund the remaining 2020 Thailand exploration and development activities.

OUTLOOK

THAILAND

Concession L53 Onshore (Pan Orient Energy (Siam) Ltd., in which Pan Orient has 50.01% ownership)

Once drilling of the L53-DD7 appraisal well is completed, the L53-DD8, L53-BB1, L53-AA2 and (if warranted) L53-DD7 will be completed and put on production/testing. Approval of the new South AA Production Area was received July 17, 2020, and the L53-DD5ST1 well will be brought back into production, after a conversion from beam pump to electrical submersible pump.

The L53AC-E exploration well has been deferred until late 2020 and the exact timing for drilling this well will be dependent on oil prices and the global COVID-19 pandemic situation.

CANADA

Corporate

Pan Orient will maintain a strong cash position during these uncertain times. The focus for the remainder of 2020 remains the completion of the exploration drilling and development activities in Thailand prior to the "reserved area" exploration land in January 2021, and to finance these activities with funds flow from operations generated in Thailand.

COVID-19 Coronavirus

The operations in Thailand of Pan Orient Energy (Siam) Ltd. ("POS") continue to be somewhat affected by the worldwide COVID-19 coronavirus pandemic. The Thailand government imposed a state of emergency in late March, giving it wide powers to address the crisis. Domestic travel restrictions have now been eased but a travel ban on most foreigners entering Thailand remains in effect. New confirmed cases of COVID-19 in Thailand peaked at the end of March and early April, followed a week or so later by a peak in deaths, and have remained very low since then. There have been only four deaths since the beginning of April. Overall, the infection and death rate has been much lower in Thailand than in most western nations.

Prudent measures have been taken by POS to help protect the health and safety of staff, which are of paramount importance. POS was fortunate to have completed the first phase of the 2020 Thailand drilling program before the real effects of the pandemic were felt. The second phase of the drilling program commenced in late June.

POS and Pan Orient are well-positioned to withstand these unprecedented events. The Company is optimistic about a return to normal operations and less volatile market conditions but the outlook for world oil prices remains challenging.

Pan Orient is a Calgary, Alberta based oil and gas exploration and production company with operations currently located in Thailand and Western Canada.

This news release contains forward-looking information. Forward-looking information is generally identifiable by the terms used, such as "expect", "believe", "estimate", "should", "anticipate" and "potential" or other similar wording. Forward-looking information in this news release includes, but is not limited to, references express or implied to renewal, extension or termination of oil concessions and production sharing contracts; other regulatory approvals; well drilling programs and drilling and testing; estimates of reserves and potentially recoverable resources, information on future production and project start-ups, and the negotiation, agreement, closing and financing and other terms of farmout and other transactions; potential purchases of shares under the normal course issuer bid; sufficiency of financial resources; and review of asset portfolio and defining opportunities and strategies. By their very nature, the forward-looking statements contained in this news release require approval and its management to make assumptions that may not materialize or that may not be accurate. The forward-looking information contained in this news release is subject to known and unknown risks and uncertainties and other factors, which could cause actual results, expectations, achievements or performance to differ materially, including without limitation: imprecision of reserve estimates and estimates of recoverable quantities of oil, changes in project schedules, operating and reservoir performance, effects of weather and climate change, the results of exploration and development drilling and related activities, demand for oil and gas, commercial negotiations, other technical and economic factors or revisions and other factors, many of which are beyond the control of Pan Orient. Although Pan Orient believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurances that the expectations of any forward-looking statements will prove to be correct.

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Financial and Operating Summary	Three Months Ended Six Months Ended			
	June 30,	June 30,	June 30,	June 30,
(thousands of Canadian dollars except where indicated)	2020	2019	2020	2019
FINANCIAL				
Financial Statement Results – Excluding 50.01% Interest in Thailand Joint Venture (Note 1)				
Net income (loss) attributed to common shareholders	(1,034)	1,287	(58,151)	438
Per share – basic and diluted	\$ (0.02)	\$ 0.02	\$ (1.09)	\$ 0.01
Cash flow used in operating activities (Note 2 & 3)	(591)	(321)	(990)	(1,153)
Per share – basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
Cash flow from (used in) investing activities (Note 2 & 3)	-	(174)	4,202	(275)
Per share – basic and diluted	\$ 0.00	\$ (0.00)	\$ 0.08	\$ (0.01)
Cash flow used in financing activities (Note 2 & 3)	(743)	(124)	(1,442)	(124)
Per share – basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.01)
Change in cash and cash equivalents from discontinued operations (Note 3)	(181)	(424)	(707)	214
Working capital	24,193	28,304	24,193	28,304
Working capital & non-current deposits	24,801	28,902	24,801	28,902
Long-term debt	-	-	-	-
Shares outstanding (thousands)	52,175	54,837	52,175	54,837
Capital Commitments (Note 4)	719	2,035	719	2,035
Working Capital and Non-current Deposits				
Beginning of period – Excluding Thailand Joint Venture	26,386	31,566	22,158	33,133
Adjusted funds flow used in continued operations (Note 3 & 6)	(1,523)	(967)	(464)	(2,135)
Adjusted funds flow from Indonesia discontinued operations (Note 3)	703	-	360	-
Consolidated capital expenditures (Note 7)	-	(1,213)	(85)	(1,918)
Amounts (advanced to) received from Thailand Joint Venture	(8)	56	(10)	169
Dividend received from Thailand Joint Venture	-	-	4,300	-
Finance lease payments	(10)	(28)	(131)	(54)
Normal course issuer bid	(733)	(122)	(1,422)	(122)
Effect of foreign exchange	(14)	(390)	95	(173)
End of period - Excluding Thailand Joint Venture	24,801	28,902	24,801	28,902

Pan Orient 50.01% interest in Thailand Joint Venture Working Capital and Non-Current Deposits	6,553	11,445	6,553	11,445
Economic Results – Including 50.01% Interest in Thailand Joint Venture				
Total corporate adjusted funds flow from (used in) operations by region (Note 6)				
Canada	(1,515)	(912)	(450)	(2,097)
Thailand (Note 8)	(8)	(8)	(14)	(16)
From continued operations	(1,523)	(920)	(464)	(2,107)
Indonesia – Discontinued Operations	703	(47)	360	(32)
Adjusted funds flow used in operations (excl. Thailand Joint Venture)	(820)	(967)	(104)	(2,139)
Share of Thailand Joint Venture (Note 1 & 5)	2,025	6,656	5,713	9,416
Total corporate adjusted funds flow from operations	1,205	5,689	5,609	7,277
Per share – basic and diluted	\$ 0.02	\$ 0.10	\$ 0.10	\$ 0.13
Capital Expenditures – Petroleum and Natural Gas Properties (Note 7)				
Canada	-	122	85	246
Indonesia – Discontinued Operations	-	1,091	-	1,672
Consolidated capital expenditures (excl. Thailand Joint Venture)	-	1,213	85	1,918
Share of Thailand Joint Venture capital expenditures	1,415	1,633	5,194	4,311
Total capital expenditures (incl. Thailand Joint Venture & discontinued ops)	1,415	2,846	5,279	6,229
Investment in Thailand Joint Venture				
Beginning of period	30,209	35,180	34,127	34,500
Net income (loss) from Joint Venture	(65)	1,699	491	2,353
Other comprehensive gain from Joint Venture	557	238	381	373
Dividend paid	-	-	(4,300)	-
Amounts (received from) advanced to Joint Venture	8	(57)	10	(170)
End of period	30,709	37,060	30,709	37,060

	Three Months Ended Six Months Ended % C				
	June 30,	June 30,	June 30,	June 30,	% C
(thousands of Canadian dollars except where indicated)	2020	2019	2020	2019	
Thailand Operations					
Economic Results – Including 50.01% Interest in Thailand Joint Venture (Note 5)					
Oil sales (bbls)	96,466	97,537	204,417	143,137	43%
Average daily oil sales (BOPD) by Concession L53	1,060	1,072	1,123	791	42%
Average oil sales price, before transportation (CDN\$/bbl)	\$ 40.49	\$ 81.57	\$ 52.71	\$ 81.12	-35%
Reference Price (volume weighted) and differential					
Crude oil (Brent \$US/bbl)	\$ 28.67	\$ 67.95	\$ 39.38	\$ 66.13	-40%
Exchange Rate \$US/\$Cdn	1.40	1.37	1.37	1.37	0%
Crude oil (Brent \$Cdn/bbl)	\$ 40.05	\$ 92.99	\$ 53.90	\$ 90.52	-40%
Sale price / Brent reference price	101%	88%	98%	90%	9%
Adjusted funds flow from (used in) operations (Note 6)					
Crude oil sales	3,906	7,956	10,775	11,612	-7%
Government royalty	(195)	(417)	(549)	(595)	-8%
Transportation expense	(208)	(238)	(460)	(341)	35%
Operating expense	(772)	(477)	(1,512)	(926)	63%
Field netback	2,731	6,824	8,254	9,750	-15%
General and administrative expense (Note 8)	(220)	(217)	(459)	(413)	11%
Interest income	6	22	6	22	-73%
Foreign exchange gain	23	19	29	41	-29%
Current income tax	(523)	-	(2,131)	-	0%
Thailand - Adjusted funds flow from operations	2,017	6,648	5,699	9,400	-39%
Adjusted funds flow from (used in) operations / barrel (CDN\$/bbl) (Note 6)					
Crude oil sales	\$ 40.49	\$ 81.57	\$ 52.71	\$ 81.12	-35%
Government royalty	(2.02)	(4.28)	(2.69)	(4.16)	-35%
Transportation expense	(2.16)	(2.44)	(2.25)	(2.38)	-6%
Operating expense	(8.00)	(4.89)	(7.40)	(6.47)	14%
Field netback	\$ 28.31	\$ 69.96	\$ 40.38	\$ 68.12	-41%
General and administrative expense (Note 8)					

(2.28)

(2.22)

(2.25)

Interest Income	0.06	0.23	0.03	0.15	-81%
Foreign exchange gain	0.24	0.19	0.14	0.29	-50%
Current income tax	(5.42)	-	(10.42)	-	0%
Thailand – Adjusted funds flow from operations	\$ 20.91	\$ 68.16	\$ 27.88	\$ 65.67	-58%
Government royalty as percentage of crude oil sales	5%	5%	5%	5%	0%
Income tax & SRB as percentage of crude oil sales	13%	-	20%	-	20%
As percentage of crude oil sales					
Expenses - transportation, operating, G&A and other	18%	11%	18%	14%	4%
Government royalty, SRB and income tax	28%	5%	28%	5%	23%
Adjusted funds flow from operations, before interest income	54%	84%	54%	81%	-27%
Wells drilled					
Gross	1	-	5	2	150%
Net	0.5	-	2.5	1.0	150%
Financial Statement Presentation					
Results – Excl. 50.01% Interest in Thailand Joint Venture (Note 1)					
General and administrative expense (Note 8)	(8)	(8)	(14)	(16)	-13%
Adjusted funds flow used in consolidated operations	(8)	(8)	(14)	(16)	-13%
Adjusted fund flow Included in Investment in Thailand Joint Venture					
Net income (loss) from Thailand Joint Venture	(65)	1,699	491	2,353	-79%
Add back non-cash items in net income	2,090	4,957	5,222	7,063	-26%
Adjusted funds flow from Thailand Joint Venture	2,025	6,656	5,713	9,416	-39%
Thailand – Economic adjusted funds flow from operations (Note 5)	2,017	6,648	5,699	9,400	-39%

	Three Months Ended		Six Months Ended		% Change
	June 30,	June 30,	June 30,	June 30,	
(thousands of Canadian dollars except where indicated)	2020	2019	2020	2019	
Canada Operations					
Interest income	23	86	132	153	-14%
General and administrative expenses (Note 8)	(507)	(467)	(1,069)	(1,258)	-15%
Operating expense (Note 9)	(63)	-	(63)	-	
Stock based compensation on restricted share units (note 10)	(75)	-	(75)	-	
Realized foreign exchange gain (Note 11)	1	1	1	1	0%
Unrealized foreign exchange gain (loss) (Note 11)	(894)	(532)	624	(987)	-163%
Canada – Adjusted funds flow used in operations	(1,515)	(912)	(450)	(2,091)	-85%
Indonesia - Discontinued Operations					
General and administrative expense (Note 8)	(96)	(54)	(157)	(105)	50%
Recovery of exploration expense (Note 12)	672	-	672	-	-
Unrealized foreign exchange gain (loss)	127	7	(155)	73	-312%
Indonesia – Adjusted funds flow from (used in) operations	703	(47)	360	(32)	1225%

- (1) Pan Orient holds a 50.01% equity interest in Pan Orient Energy (Siam) Ltd. as a joint arrangement where the Company shares joint control with the 49.99% equity interest holder. The resulting joint arrangement is classified as a Joint Venture under IFRS 11 and is accounted for using the equity method of accounting where Pan Orient's 50.01% equity interest in the assets, liabilities, working capital, operations and capital expenditures of Pan Orient Energy (Siam) Ltd. are recorded in Investment in Thailand Joint Venture.
- (2) As set out in the Consolidated Statements of Cash Flows in the unaudited Consolidated Financial Statements of Pan Orient Energy Corp.
- (3) The East Jabung PSC expired in January 2020 and the Company is withdrawing from operations in Indonesia. The operation in Indonesia for accounting purposes going forward is considered a discontinued operation and the amounts presented in 2019 are updated for comparative purposes.
- (4) Refer to Commitments note disclosure of the June 30, 2020 and June 30, 2019 Interim Condensed Consolidated Financial Statements.
- (5) For the purpose of providing more meaningful economic results from operations for Thailand, the amounts presented include 50.01% of results of the Thailand Joint Venture. Pan Orient has a 50.01% ownership interest in Pan Orient Energy (Siam) Ltd., but does not have any direct interest in, or control over, the crude oil reserves, operations or working capital of on-shore Concession L53.
- (6) Total corporate adjusted funds flow from (used in) operations is cash flow from operating activities prior to changes in non-cash working capital, unrealized foreign exchange gain or loss plus the corresponding amount from Pan Orient's 50.01% interest in the Thailand Joint Venture which is recorded in Joint Venture for financial statement purposes. This measure is used by management to analyze operating performance and leverage. Adjusted funds flow as presented does not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures of other entities. Adjusted funds flow is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS.
- (7) Cost of capital expenditures excluded decommissioning costs and the impact of changes in foreign exchange.
- (8) General & administrative expenses, excluding non-cash accretion on decommissioning provision and lease liabilities. The nominal amount of G&A shown in the first half of 2020 and 2019 for Thailand operations related to G&A of the holding company of Pan Orient Energy (Siam) Ltd.

- (9) Operating expense related to Andora's suspended demonstration project facility and well pair at Sawn Lake Central. These expenses were previously capitalized prior to the E&E impairment recorded during the first quarter of 2020.

- (10) On May 19, 2020, the Company granted 1,050,000 restricted share units ("RSUs") to directors, senior management, employees and a consultant. The amount represents the accrual of stock-based compensation expenses.

- (11) Realized and unrealized foreign exchange gain or loss mainly related to the U.S. dollars denominated cash balances held in Canada.

- (12) Adjustment to previously booked capital expenditures at East Jabung PSC.

- (13) Tables may not add due to rounding.

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