Sure Energy Announces Second Quarter 2013 Financial and Operating Results

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CALGARY, ALBERTA -- (Marketwired - Aug. 14, 2013) - Sure Energy Inc. (TSX:SHR) ("Sure Energy" or the "Company") today announced its financial and operating results for the quarter ended June 30, 2013.

The Company's MD&A, Financial Statements and Notes, and AIF can be viewed or downloaded at www.sureenergyinc.com or www.sedar.com.

During the second quarter of 2013, Sure Energy accomplished the following:

- Began construction of a multi-well battery and water injection facility at Hatton, which was completed in early July. This facility will dramatically reduce operating costs allowing for drilling to begin to develop the pool.

- Subsequent to the quarter the Company installed a gas pipeline to a third party gathering system at Hatton to begin gas conservation which will allow production of the current Hatton wells to be optimized.

- Negotiated the sale of a minor asset with no reserves assigned for $0.5 million. The sale closed on July 4, 2013.

Three Months Ended
June 30, Six Months Ended
June 30,
HIGHLIGHTS 2013 2012 2013 2012
($000 except share and per share amounts)
Financial
Petroleum and Natural Gas Revenues 4,387 5,587 9,461 12,460
Funds Flow from Operations (1) 1,628 2,324 3,588 5,549
Per Share, Basic and Diluted 0.03 0.04 0.06 0.09
Loss (948) (3,816) (2,015) (4,522)
Per Share, Basic and Diluted (0.02) (0.06) (0.03) (0.07)
Capital Expenditures 1,852 (711) 3,979 11,487
Total Assets 81,041 81,143
Net Debt(1) 31,988 27,230
Shareholders' Equity 42,633 46,328
Common Shares Outstanding
Basic 60,580,630 60,580,630
Diluted 66,636,464 66,372,464
Fully Diluted with Performance Rights and Warrants 71,966,464 71,702,464
Weighted Average Common Shares Outstanding
Basic and Diluted 60,580,630 60,580,630 60,580,630 60,570,256

Share Trading
High 0.30 1.12 0.58 1.50
Low 0.15 0.56 0.15 0.56
Close 0.17 0.60 0.17 0.60
Trading Volume 2,854,817 2,403,773 10,955,223 5,561,730

Three Months Ended
June 30 Six Months Ended
June 30,
HIGHLIGHTS 2013 2012 2013 2012

Operations
Production
Natural Gas (Mcf/d) 2,987 2,990 2,903 3,025
Oil (bbls/d) 311 618 385 652
Heavy Oil (bbls/d) 82 46 93 52

NGLs (bbls/d) 47 39 49 41
BOE/d 938 1,201 1,010 1,249
% Oil and NGL's 47 59 52 60
Average Selling Price
Natural Gas ($/Mcf) 3.81 2.02 3.48 2.10
Oil ($/bbl) 91.50 80.59 86.24 85.34
Heavy Oil ($/bbl) 63.91 68.15 62.74 72.00
NGLs ($/bbl) 67.24 62.65 64.85 65.43
BOE ($/BOE) 51.41 51.12 51.75 54.79

Operating Netback ($/BOE) (1) 25.55 26.59 25.43 29.74
Funds Flow Netback ($/BOE) (1) 19.08 21.26 19.63 24.38

(1) Please refer to Management's Discussion and Analysis for a definition of Non-GAAP measures.

OPERATIONAL REVIEW
Drilling

Cash expenditures for the period were as follows:
Three Months Ended
June 30, Six Months Ended
June 30,
Capital Program Summary 2013 2012 2013 2012
($000s)
Land 207 1,065 419 1,150
Geological and geophysical 71 15 387 36
Drilling 103 1,017 - 7,414
Completions (69) 2,390 101 5,159
Recompletions and workovers 188 (292) 427 410
Production equipment and facilities 1,149 2,164 1,865 3,870
Capitalized salaries 203 192 423 592
Asset acquisition (disposition) - (9,094) 357 (9,132)
Other assets - 1 - 5
1,852 (2,542) 3,979 9,504
Non-cash items
Gain on sale - 1,858 - 1,858
Decommissioning obligation - (27) - 125
1,852 (711) 3,979 11,487

Areas of Activity

Plains (Redwater)

Sure Energy's main producing area is at Redwater just north of Edmonton, Alberta where the Company produces light oil, with an API of 36-37°, from a regional Viking sand fairway. The Viking in the area produces poorly when drilled vertically but exhibits attractive production rates and economics when drilled horizontally and fracture stimulated. The Company owns 16,525 net acres of Viking rights on the trend of which 12,471 acres, over 75%, is currently undeveloped. The Company has 31 (20.7 net) producing wells in the area and has an extensive inventory of low risk drilling locations of which 33 gross (24 net) are recognized by the Company's reserves engineers. A single leg multifrac horizontal well in the area is estimated by the reserves engineers to cost $1.4 million on stream.

The Company produced an average of 330 BOE/d at Redwater for the first half of the year and 300 BOE/d in the second quarter. Production in the second quarter was 30-40 BOE/d below capacity due to compressor problems on eight 40% working interest wells, which caused the wells to produce sporadically or be shut-in completely. The light oil in the area attracts premium prices; the Company realized $87.44 for the first half of the year and $92.08 in the second quarter. Royalties averaged $9.14/BOE year to date and operating and transportation costs were $17.22/BOE. The company realized an operating netback of $52.94/BOE in the first half of the year and $58.27/BOE in the second quarter.

Hatton (SW Saskatchewan)

The Company focused most of its development capital on its heavy oil pool at Hatton in the quarter. Sure

Energy discovered the Hatton pool in the Fall of 2011 and has drilled three producing wells, one water disposal well and has shot a proprietary 3D on the pool to date. The wells produce 12-13°API oil with high watercut, which is costly to transport and dispose at 3rd party facilities. It was imperative that the Company construct a battery with water disposal in order to optimize production and significantly reduce operating costs. Excess associated gas over that required to run the facility also had to be tied in, in order for the wells to be produced under Good Production Practice. The facility construction commenced in mid-June and was completed mid-July. The producing wells were shut in intermittently during construction but since the battery has been in operation, volumes have increased from the 82 BOE/d produced in Q2, to the current level of 120-130 BOE/d. The production rates will be optimized further when the gas tie in is complete which will occur the middle of August.

The Company has approval to drill a horizontal development well, which will be positioned along the crest of the sand body, and a vertical step-out well which will evaluate the potential of a separate pool along the reservoir trend.
From its proprietary 3D seismic the Company has been able to construct a detailed model of the pool and has been able to calculate the oil in place and design an optimal drilling plan. The Company has also identified two potential satellite pools and a possible extension area. The Company owns 14,082 acres of 100% working interest land at Hatton of which only 640 acres are developed (5%).

SE Saskatchewan

The Queensdale property did not produce in the second quarter. The production from this facility is traditionally shut-in from the beginning of April to mid-May because of road bans restricting the haulage of crude oil. In addition, the Company received a Minister's Order to shut-in the battery at its current location. As a consequence components of the facility were required to be moved further from a residence. All relevant approvals are now in place to allow work to commence and the battery is expected to be back in operation mid-September. This is a mature project with associated water disposal and gas tie-in which produces around 100 barrels of light oil a day.

Virginia Hills

The Company produced 224 BOE/d from its Virginia Hills property in the quarter, up from 149 BOE/d in the first quarter. The increase is attributable to the commencement of the blow-down of the gas cap of the Sakwatamau Gething Unit, which began early in the second quarter. The volume is 25-35 BOE/d off capacity due to intermittent production problems at a third party gas facility and road conditions which interrupted the transportation of oil from the area. The Company established a position in the Virginia Hills in early 2011 to evaluate the potential of the regional Viking, using its success in Redwater as an analogy. The regional Viking in the area is oil bearing but has never been exploited horizontally. The Company owns 9.5 sections of approximately 50% working interest land and 3 sections of 100% land in the core area of the Viking prospect.

Other Properties

The Company produced 332 BOE/d in the quarter from its properties in the Peace River Arch, Southern Plains (Chinook), Tweedie and West Central Alberta. Most of the production was gas.

Production

Production for the period by major property is as follows:
Three Months Ended June 30, 2013
Gas Oil Heavy Oil NGLs Total
Mcf/d Bbls/d Bbls/d Bbls/d BOE/d
Hatton - - 82 - 82
Peace River 730 7 - 10 139
Plains 217 263 - - 300
Queensdale - - - - -
Southern Plains 263 - - 3 46
Tweedie 384 - - - 64
Virginia Hills 1,034 34 - 18 224
West Central 359 7 - 16 83
Total 2,987 311 82 47 938

Six Months Ended June 30, 2013
Gas Oil Heavy Oil NGLs Total
Mcf/d Bbls/d Bbls/d Bbls/d BOE/d
Hatton - - 93 - 93
Peace River 785 9 - 10 150
Plains 246 290 - - 331
Queensdale 7 43 - 7 51
Southern Plains 292 - - 2 51
Tweedie 386 - - - 64
Virginia Hills 821 36 - 14 187
West Central 366 7 - 16 83
Total 2,903 385 93 49 1,010

OUTLOOK

The Company produced 938 BOE/d in the second quarter. The Queensdale property which produces 110-120 BOE/d was shut-in for the whole quarter. This production will come back on stream in mid-September and as it produces light oil will add significant cashflow. At Hatton the main facilities work is complete, gas pipelines in place, and once the gas tie in is complete in mid-August, the wells will be optimized. Past experience in the pool has shown that the harder the wells are pumped the more the oil cut will increase, obviously along with increased total volumes. All wells have high fluid levels and have had larger pumps installed to more efficiently draw them down. The property is expected to produce 200-225 BOE/d when optimized, which is around 120 BOE/d higher than the second quarter production. These two projects alone will restore the Company's production levels to over 1100 BOE/d. In addition, constant production (compression) problems involving 8 non-operated wells in Redwater have reduced expected production in the area by 35-45 barrels of oil per day (plus some associated gas). New rental compressors are currently being installed and these should solve these issues. Therefore, the Company should add 200-230 barrels of oil per day to its production, spending very little capital, within the next two months, which will obviously materially impact cashflows.

The Company made the decision to limit spending in 2013 to cashflow. To date most of that cashflow has been spent on facilities, especially at Hatton, where the Company will add significant value once water injection commences, materially decreasing operating costs. The facilities will also allow for production increases from existing wells as discussed above. Now the Company is in the position to spend its cashflow on drilling new production and the Company has an extensive inventory of low risk oil locations at both Hatton and Redwater with which to boost production. Horizontal wells at Hatton are modeled to add around 100 barrels of oil per day of initial production, from 100,000 barrels of reserves for just over $1 million on stream. The type curve for single leg horizontal multi fractured Redwater well is an initial production rate of 65 BOE/d (30 day) from 50-60,000 barrels of reserves for $1.4 million on-stream. Costs at Redwater are improving as service company costs moderate and technical efficiencies improve.

The Company has debt of $32.0 million at the end of the second quarter. This was up slightly from the end of the first quarter but a subsequent sale of a minor property which had no reserves assigned reduced the debt by $0.5 million to bring it back to close to the first quarter level. The Company's production base has stabilized over the past year as the Company has only drilled 5.8 net wells in that period. The Company believes it can grow its production base by spending only cashflow for the rest of the year.

ADVISORIES

Non-GAAP Measures

Sure Energy management uses and reports certain non-GAAP measures in the evaluation of operating and financial performance. These measures do not have any standardized meanings prescribed by GAAP and therefore may not be comparable with the calculation of similar measures for other companies. Funds flow from operations, operating netbacks, cash flow netbacks, net debt and working capital are metrics used to compare Sure Energy with its peers.

Funds flow from operations is used by the Company to analyze operating performance, leverage and liquidity. Readers should refer to the "CAPITALIZATION, FINANCIAL RESOURCES AND LIQUIDITY" section of the MD&A for a reconciliation of funds flow from operations.

Sure Energy uses the terms operating netbacks and cash flow netbacks to evaluate operational performance of the Company. Operating netback, which is calculated as average unit sales price less royalties, transportation costs and operating expenses and cash flow netback, which further deducts administrative and interest expense and current income tax represents the cash margin for every barrel of oil equivalent sold. Readers should refer to the "Netbacks" section of the MD&A for the calculations of operating netbacks and cash flow netbacks.

Net debt and working capital, which is current assets less debt and current liabilities, is used to assess efficiency and financial strength. Readers should refer to the "CAPITALIZATION, FINANCIAL RESOURCES AND LIQUIDITY" section of the MD&A for a reconciliation of net debt and working capital.

Use of BOEs

In this press release the calculation of barrels of oil equivalent (BOE) is calculated at a conversion rate of 6,000 cubic feet (Mcf) of natural gas for one barrel (bbl) of oil based on an energy equivalency conversion method. BOEs may be misleading particularly if used in isolation. A BOE conversion ratio of 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.

Forward-looking Information

Certain statements contained in this press report constitute forward-looking information. These statements relate to future events or Sure Energy's future performance. The use of any of the words "could", "expect", "believe", "will", "projected", "estimated" and similar expressions and statements relating to matters that are not historical facts are intended to identify forward-looking information and are based on Sure Energy's current belief or assumptions as to the outcome and timing of such future events. Actual future results may differ materially. In particular, statements with respect to optimizing production rates at Hatton and timing for completion of the gas tie in; the timing for the Queensdale battery to be back in operation; statements in the section "Outlook" related to the expectation that upon the Queensdale battery being back in operation the production will add significant cash flow; expected production at Hatton; the impact of Queensdale and Hatton production to the Company's total daily production; expected increased oil production at Redwater and impact to cash flows and the Company's total daily oil production; the expectation to add significant value once water injection commences at Hatton; expected cost of wells at Hatton and Redwater and expected production rates per well; the Company's belief that it can grow its production base by spending only cash flow for the rest of the year and statements in the management's discussion and analysis with respect to estimated net present value of decommissioning obligations, expectations for the payment of current income tax and in the section "Outlook" are forward looking information. Sure Energy's Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describe the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference. Sure disclaims any intention or obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as may be expressly required by applicable securities laws.

Contact

Sure Energy Inc.
Mr. Jeff Boyce, Chairman and CEO
(403) 410-3100
(403) 410-3111 (FAX)

Sure Energy Inc.
Mr. Chris Baker, President and COO
(403) 410-3100
(403) 410-3111 (FAX)

Sure Energy Inc.
Mr. Lance Wirth, Vice President, Finance and CFO
(403) 410-3100
(403) 410-3111 (FAX)
info@sureenergyinc.com
www.sureenergyinc.com