

Connacher Announces Q4 2018 and Year-End 2018 Results

27.04.2019 | [CNW](#)

CALGARY, April 26, 2019 - [Connacher Oil and Gas Ltd.](#) ("Connacher" or the "Company") announces its financial and results for the quarter- and year-ended December 31, 2018 (all amounts are in Canadian dollars unless otherwise noted).

Q4 2018 and Year-End 2018 Highlights

Financial

- Q4 2018 revenue, net of royalties, decreased to \$19.6 million (Q4 2017 - \$61.2 million), primarily due to lower crude oil benchmark pricing, lower sales volumes, and a reclassification related to a fixed price revenue contract
- YTD 2018 revenue, net of royalties decreased to \$166.4 million (YTD 2017 - \$218.0 million), primarily due to lower sales volumes in Q4 2018
- Q4 2018 and YTD 2018 adjusted EBITDA decreased to a deficit of \$11.8 million (Q4 2017 – adjusted EBITDA of \$11.8 million) and a deficit of \$16.8 million (YTD 2017 – adjusted EBITDA of \$33.4 million), respectively, primarily due to decrease in revenue, net of royalties, partially offset by lower production and operating costs
- Q4 2018 and YTD 2018 funds used increased to \$22.5 million (Q4 2017 – flow of \$3.3 million) and \$64.1 million (YTD 2017 – used of \$16.5 million), respectively, primarily due to a lower adjusted EBITDA
- In Q4 2018 and YTD 2018, the Company generated net losses of \$53.3 million (Q4 2017 - \$252.2 million) and \$252.2 million (YTD 2017 - \$515.0 million), respectively. In 2017 and 2018, impairment losses totaled \$428 million and \$104 million, respectively
- Q4 2018 and YTD 2018 capital expenditures totaled \$1.4 million (Q4 2017 - \$1.7 million) and \$10.9 million (YTD 2017 - \$10.9 million), respectively, and focused primarily on well servicing required to restore and maintain production. In Q1 2018, capital expenditures included amounts related to drilling of future infill wells, which expenditures were not continued in Q2 2018
- The Company exited Q4 2018 with a cash balance of \$54.3 million (including restricted cash of \$7.1 million) (Q4 2017 - \$54.3 million)

Operational

- Q4 2018 and YTD 2018 production decreased 42% to 7,700 bbl/d (Q4 2017 – 13,320 bbl/d) and 12% to 12,566 bbl/d (YTD 2017 – 12,566 bbl/d), respectively, primarily due to the Company's strategic decision to reduce bitumen production in the low commodity price environment in Q4 2018
- Q4 2018 blending costs decreased 35% to \$9.4 million (Q4 2017 - \$14.4 million), primarily due to lower diluent volumes associated with reduced bitumen production
- YTD 2018 blending costs increased 8% to \$59.1 million (YTD 2017 - \$54.7 million), primarily due to higher diluent volumes, partially offset by lower diluent volumes associated with reduced bitumen production
- Q4 2018 transportation and handling costs decreased 25% to \$6.8 million (Q4 2017 - \$9.1 million), primarily due to lower sales associated with the decline in crude oil benchmark pricing, partially offset by the higher costs associated with transportation
- YTD 2018 transportation and handling costs increased 8% to \$37.5 million (YTD 2017 - \$34.6 million), primarily due to higher costs associated with transportation and the reduction of plant-gate sales in 2018
- Q4 2018 and YTD 2018 production and operating expenses decreased 39% to \$12.0 million (Q4 2017 - \$19.6 million) and 18% to \$67.4 million (YTD 2017 - \$82.4 million), respectively, primarily due to lower natural gas costs and a reclassification adjustment related to a fixed price revenue contract which contained a natural gas component

2018 Financial Highlights

| FINANCIAL ⁽¹⁾ | Q4 2018 | Q4 2017 | YTD 2018 | YTD 2017 |
|--------------------------------|-----------|-----------|-----------|-----------|
| Revenue, net of royalties | \$19,626 | \$61,170 | \$166,449 | \$217,970 |
| Adjusted EBITDA ⁽²⁾ | (11,796) | 15,018 | (16,781) | 33,385 |
| Net earnings (loss) | (53,268) | (252,162) | (262,608) | (515,046) |
| Basic per share | (1.88) | (8.90) | (9.27) | (18.18) |
| Diluted per share | (1.88) | (8.90) | (9.27) | (18.18) |
| Funds used ⁽³⁾ | (22,532) | 3,266 | (64,084) | (16,492) |
| Capital expenditures | 1,354 | 1,728 | 10,902 | 5,899 |
| Cash on hand ⁽⁴⁾ | 54,257 | 43,328 | | |
| Working capital deficiency | (351,147) | (246,996) | | |
| Long-term debt | - | - | | |
| Shareholders' equity | (299,470) | (36,862) | | |

(1) (\$ 000) except per share amounts

(2) Adjusted EBITDA is a non-GAAP measure and is defined in the "Advisory Section" of the 2018 MD&A and is reconciled to net loss under "Reconciliations of Net Loss to EBITDA, Adjusted EBITDA, and Bitumen Netback"

(3) Funds used is a non-GAAP measure and is defined in the "Advisory Section" of the 2018 MD&A and is reconciled to cash flow from operating activities under "Reconciliations of Cash Flow From (Used in) Operating Activities to Funds Used"

(4) Balance includes restricted cash of \$7.1 million, pursuant to the terms of the Initial Order granted in the Company's CCAA proceeding before the Court of Queen's Bench of Alberta, Judicial Centre of Calgary

2018 Operational Highlights

| OPERATIONAL | Q4 2018 | Q4 2017 | YTD 2018 | YTD 2017 |
|---|-----------|---------|----------|----------|
| Average benchmark prices | | | | |
| WTI (US\$/bbl) | \$58.79 | \$55.40 | \$64.76 | \$50.95 |
| WTI (\$/bbl) | 78.51 | 69.97 | 84.21 | 66.00 |
| Heavy oil differential (US\$/bbl) | (39.43) | (15.49) | (26.31) | (15.51) |
| WCS (\$/bbl) | 25.85 | 54.48 | 50.00 | 50.48 |
| \$/US\$ exchange rate | 1.34 | 1.26 | 1.30 | 1.30 |
| Production and sales volumes ⁽¹⁾ | | | | |
| Daily bitumen production (bbl/d) | 7,700 | 13,320 | 11,104 | 12,566 |
| Daily bitumen sales (bbl/d) | 7,621 | 13,110 | 11,095 | 12,480 |
| Bitumen netback (\$/bbl) ⁽²⁾⁽³⁾ | | | | |
| Dilbit sales | \$24.47 | \$44.21 | \$36.11 | \$41.52 |
| Blending of products sold | (9.14) | (4.70) | (8.65) | (5.06) |
| Realized bitumen sales price | 15.33 | 39.51 | 27.46 | 36.46 |
| Transportation and handling costs | (9.71) | (7.55) | (9.26) | (7.59) |
| Net realized bitumen sales price | 5.62 | 31.96 | 18.20 | 28.87 |
| Royalties | (0.71) | (0.71) | (0.95) | (0.63) |
| Net bitumen revenue price | 4.91 | 31.25 | 17.25 | 28.24 |
| Production and operating expenses | (17.13) | (16.21) | (16.63) | (18.10) |
| Bitumen netback | \$(12.22) | \$15.04 | \$0.62 | \$10.14 |

(1) The Company's bitumen sales and production volumes differ due to changes in inventory and product losses

(2) A non-GAAP measure which is defined in the "Advisory Section" of the 2018 MD&A. Bitumen netback is reconciled to net loss under "Reconciliations of Net (Loss to EBITDA, Adjusted EBITDA, and Bitumen Netback)". Bitumen netbacks per barrel amounts are calculated by dividing the total amounts presented in the "Bitumen Netback" table on page 10 by bitumen sold volumes as presented in the "Production and Sales Volumes" table on page 9, with the exception of dilbit sales (presented as dilbit sales divided by dilbit sales volume) and diluent costs (presented as the cost of diluent in excess of the dilbit selling price)

(3) Before risk management contract gains or losses

Companies' Creditors Arrangement Act ("CCAA") Proceeding and Status

On March 31, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with Credit Suisse AG, Cayman Islands Branch, as administrative agent, and certain lenders constituting the "Required Lenders" in respect of US\$153.8 million of loans made by the lenders (the "Lenders") under the credit agreement dated as of May 23, 2014 (as amended, restated, supplemented, or otherwise modified from time to time, including as amended pursuant to Amendment No. 1 dated May 8, 2015) (the "Amended Term Loan Facility"). Under the terms of the Forbearance Agreement, the Lenders agreed to, among other things, forbear from exercising enforcement rights and remedies arising from the Company's failure to pay

the cash interest and principal payments due on March 31, 2016 until the earlier of April 30, 2016; the occurrence of an event of default under the Amended Term Loan Facility, unrelated to the failure to pay principal and interest due on March 31, 2016; or the occurrence of a default or breach of representation by the Company under the Forbearance Agreement.

On April 30, 2016, the Company entered into a second forbearance agreement (the "Second Forbearance Agreement") which extended the forbearance period until May 16, 2016.

On May 17, 2016, the Company sought and obtained creditor protection under the Companies' Creditors Arrangement Act ("CCAA") pursuant to an order (the "Initial Order") granted by the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the "Court"). The Court granted CCAA stay protection for an initial period expiring on June 16, 2016. Since the Initial Order, multiple Court-ordered stay extensions have been obtained, with the most recent extending the stay of proceedings until June 28, 2019 (the "CCAA Stay Period").

Under the Initial Order, Ernst & Young Inc. was appointed by the Court as the monitor (the "Monitor").

The CCAA is a federal insolvency statute that allows an insolvent company which owes creditors in excess of \$5 million to restructure its business and financial affairs and stays creditors and others from enforcing rights against the insolvent company.

The Initial Order also approved and authorized the Company and the Monitor to conduct a sale and investment solicitation process (the "SISP"), as set out in Schedule "A" to the Initial Order, to identify one or more purchasers and/or investors in the Company's business and/or property.

As authorized and approved by the Initial Order, the Company secured interim financing in the form of a senior secured debtor-in-possession credit facility (the "Interim Financing Credit Facility" or "DIP") pursuant to a credit agreement dated as of May 15, 2016 with certain existing lenders (certain of which are or were also significant shareholders of the Company) (the "Interim Lenders") for up to US\$20 million (collectively, the "Total DIP Commitments"), with initial commitments of up to US\$11.5 million (the "Initial Commitments").

On October 26, 2016, the Company entered into a Waiver, Approval, and Modification Agreement (the "First DIP Amendment Agreement") with its Interim Lenders related to the DIP. Pursuant to the First DIP Amendment Agreement, the Interim Lenders agreed to waive certain limited defaults under the DIP related to the CCAA SISP timelines and advanced to the Company an additional amount of approximately US\$5.0 million of the Total DIP Commitments initially authorized by the Court to support the Company's continuing operations.

On December 16, 2016, the Company entered into a further Approval and Modification Agreement (the "Second DIP Amendment Agreement") with the Interim Lenders related to the DIP. The Second DIP Amendment Agreement extended the maturity date under the DIP from May 17, 2017 to December 31, 2017 and amended certain provisions of the DIP in order to provide the Company with greater flexibility to enter into hedging agreements and other long-term contracts.

On June 27, 2017, the Company entered into Approval and Modification Agreement #3 (the "Third DIP Amendment Agreement") with the Interim Lenders with respect to the DIP. The Third DIP Amendment Agreement extended the maturity date of the DIP from December 31, 2017 to January 31, 2018.

On January 30, 2018, the Company received approval from the Court in its proceeding under the CCAA to grant a royalty to Burgess Energy Holdings, L.L.C. ("Burgess") on all of the lands (the "Royalty Lands") containing bitumen together with the oil sands rights and interests owned by the Company (the "Royalty") for cash consideration of \$43.75 million. Concurrent with the closing of the Royalty transaction, the Company used a portion of the consideration to repay, in full, the US\$16.5 million owing under the DIP.

On March 28, 2018, the Court approved the Company's entry into a Support Agreement (the "Support Agreement") with Wilmington Trust, National Association (the "First Lien Agent") and certain first lien lenders (the "Consenting First Lien Lenders") holding in excess of 75% of the principal amount of debt outstanding

under the Amended Term Loan Facility and commencement of a new SISP. The Support Agreement provides the foundation for the Company's exit from CCAA protection by securing majority first lien lender support for the commencement of a new sale and investment solicitation process ("SISP") and the implementation of either a: (i) "Superior Transaction" identified during the new SISP (being a transaction that provides greater than \$90 million of cash consideration, excluding existing cash on hand, plus payment of all priority claims and assumption of certain liabilities); or, (ii) pre-negotiated credit bid transaction pursuant to which a newly formed entity on behalf of the first lien lenders ("Newco") will acquire the assets of the Company (the "Credit Bid Transaction") in the event a Superior Transaction is not identified during the new SISP.

The Support Agreement also contains a number of financial and non-financial covenants and restrictions on the Company.

The key features of the Credit Bid Transaction included: (i) formation of Newco to acquire all or substantially all of the Company's assets (ii) assumption by Newco of the Company's post-CCAA filing trade payables; (iii) offers of employment being made by Newco to all of the Company's employees; (iv) entry by Newco into a new senior secured facility (the "Newco Senior Secured Facility"); and, (v) distribution of the shares of Newco and the obligation under the Newco Senior Secured Facility to the existing first lien lenders on the terms set out in the Support Agreement and related exhibits. The Credit Bid Transaction, if implemented, would not provide a recovery to the Company's stakeholders beyond the existing first lien lenders and creditors with claims that rank in priority to the first lien lenders.

On August 2, 2018, the Company announced that East River Oil and Gas Ltd. (the "Plan Sponsor") had been selected as the "Successful Bidder" pursuant to the SISP conducted in the Company's proceeding under the CCAA.

The Company and the Plan Sponsor entered into a CCAA Acquisition and Plan Sponsorship Agreement dated August 2, 2018 (the "Plan Sponsorship Agreement") pursuant to which the Plan Sponsor would acquire the Company upon and subject to the terms and conditions set out in the Plan Sponsorship Agreement under a plan of compromise and arrangement (the "2018 CCAA Plan") under the CCAA. The Plan Sponsorship Agreement also provided that in the event that, among other things, the 2018 CCAA Plan was not approved by the Company's creditors or the Court, or if the Company and the Plan Sponsor jointly determined that it is no longer viable to implement the transactions contemplated by the 2018 CCAA Plan, the Plan Sponsor would acquire substantially all of the assets of the Company pursuant to a Purchase and Sale Agreement dated August 2, 2018 ("Sale Agreement").

On October 4, 2018, the Court granted an order (the "Sanction Order") approving and sanctioning the 2018 CCAA Plan. In the Sanction Order, the Court also extended the CCAA Stay Period to the earlier of (i) the filing of the Monitor's certificate (as defined in the Sanction Order) and (ii) January 31, 2019.

On November 7, 2018, the Plan Sponsor notified the Company that, since not all of the PRC Approvals (as defined in the Plan Sponsorship Agreement) would be obtained by November 15, 2018, the Plan Sponsor was exercising its first pre-negotiated right under the Plan Sponsorship Agreement to extend the "Outside Date" under the Plan Sponsorship Agreement and "Outside Date for Closing" under the Sale Agreement, in each case to December 15, 2018. The Plan Sponsor paid an Additional Deposit (as defined in the Plan Sponsorship Agreement) to the Monitor on November 15, 2018.

On December 18, 2018, the Company and the Plan Sponsor, with the consent of the Consenting First Lien Lenders, as defined in the 2018 CCAA Plan, and in consultation with the Monitor, agreed to amend the "Outside Date" under the Plan Sponsorship Agreement and "Outside Date for Closing" under the Sale Agreement, in each case to January 31, 2019.

On January 25, 2019, the Company obtained an order from the Court extending the period of the Court-ordered stay of proceedings against the Company under the CCAA until the earlier of (i) the filing of the Monitor's certificate under the Plan and (ii) March 15, 2019.

On February 1, 2019, the Company and the Plan Sponsor, entered into an agreement (the "Outside Date Amending Agreement No. 2") which further amended the "Outside Date" under the Plan Sponsorship Agreement and "Outside Date for Closing" under the Sale Agreement, in each case to March 29, 2019,

conditional upon the Plan Sponsor delivering to the Monitor, in trust for the Company, a further deposit in the amount of \$2 million by February 15, 2019 which was treated as an "Additional Deposit" pursuant to the terms of the Plan Sponsorship Agreement and the Sale Agreement. The parties agreed that if such payment was not received by the Monitor by February 15, 2019, the "Outside Date" would be deemed to be February 15, 2019. Further, the Plan Sponsor agreed that the \$13.5 million in previously paid deposits being held by the Monitor were immediately forfeited to the Company, but would be credited towards a transaction if timely completed by the Plan Sponsor.

The Plan Sponsor failed to deliver the further \$2 million deposit required by the Outside Date Amending Agreement No. 2, and failed to complete a transaction by February 15, 2019. On February 16, 2019, with the consent of the Consenting First Lien Lenders and in consultation with the Monitor, the Company exercised its right to terminate the Plan Sponsorship Agreement pursuant to the terms of that agreement. As a result, the Monitor paid over to the Company the forfeited deposits in the aggregate amount of \$13,500,000.

As a result of the termination of the Plan Sponsorship Agreement, under the terms of the Support Agreement, the First Lien Agent and Consenting First Lien Lenders were required to promptly take steps to implement the Credit Bid Transaction.

On March 4, 2019, the Company, the First Lien Agent and the Consenting First Lien Lenders entered into the Support Agreement Amending Agreement, which deferred the "Credit Bid Trigger Date" to March 8, 2019 and amended the definition of "Outside Date" under the Support Agreement to be May 31, 2019 or such other dates as the Majority Consenting First Lien Lenders (as defined in the Support Agreement) and the Company may agree. Subsequent to the execution of the Support Agreement Amending Agreement, the Company and the Majority Consenting First Lien Lenders have agreed to further defer the "Credit Bid Trigger Date" to May 16, 2019 and the "Outside Date" under the Support Agreement to June 28, 2019 or such other dates as the Majority Consenting First Lien Lenders (as defined in the Support Agreement) and the Company may agree, to provide additional time for the parties to continue their discussions on potential amendments to the structure and terms of the Credit Bid Transaction.

As at December 31, 2018, in connection with the CCAA proceeding, the Company identified the following obligations subject to potential compromise:

(Canadian dollars in thousands)

| | |
|--|-----------|
| Current and long-term portions of Amended Term Loan Facility | \$228,485 |
| Interest payable on Amended Term Loan Facility | 87,827 |
| Convertible Notes | 47,500 |
| Interest payable on Convertible Notes | 29,539 |
| Trade and accrued liabilities | 18,653 |
| Total liabilities subject to compromise | \$412,004 |

The liabilities that are not subject to the CCAA proceeding are excluded from the liabilities subject to potential compromise and include certain non-restructuring liabilities incurred subsequent to May 17, 2016.

About Connacher

Connacher is a Calgary-based in situ oil sands developer, producer, and marketer of bitumen. The Company's principal asset is a 100 per cent interest in the Company's Great Divide oil sands leases near Fort McMurray, Alberta. The Company operates two steam-assisted gravity drainage facilities located on these leases.

Forward Looking Information

This press release contains forward looking information including, but not limited to the transactions contemplated by the Support Agreement, as amended; the Company's CCAA proceeding; the Company's ability to manage its liquidity position and deploy the capital required to maintain existing reserve and production bases, fund maintenance capital, fund working capital requirements and meet contractual and other commitments; expectations regarding future commodity prices, foreign exchange rates, diluent blend ratio, transportation costs, and production and operating costs in future periods; expectations regarding sales and production, bitumen netbacks, general and administrative expenses, and capital expenditures in future periods; the Company's reserves; and general operational and financial performance in future periods.

Forward looking information is based on management's expectations regarding the implementation of the Credit Bid Transaction pursuant to the Support Agreement, as amended. Forward looking information involves significant known and unknown risks and uncertainties, which could cause actual results to differ materially from those anticipated. These risks include, but are not limited to: that the approvals or other conditions required to successfully implement the Credit Bid Transaction may not be obtained or satisfied; that the Company may not be able to prevent third parties from obtaining court orders or approvals that are contrary to the Company's interests, risks relating to the future co-operation of the creditors of the Company, as well as the risks associated with conducting business in the oil and gas industry (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve and resource estimates; the uncertainty of geological interpretations; the uncertainty of estimates and projections relating to production, costs and expenses; and health, safety and environmental risks), risk of commodity price and foreign exchange rate fluctuations, risks associated with the impact of general economic conditions, risks and uncertainties associated with maintaining the necessary regulatory approvals and securing the financing to continue operations and increase production to levels previously achieved.

Reported average production levels may not be reflective of sustainable production rates and future production rates may differ materially from the production rates reflected in this press release due to, among other factors, difficulties or interruptions encountered during the production of bitumen.

Although Connacher believes that the expectations in such forward looking information are reasonable, there can be no assurance that such expectations shall prove to be correct. Any forward looking information included in this press release is expressly qualified in its entirety by this cautionary statement. Any forward looking information included herein is made as of the date of this press release and Connacher assumes no obligation to update or revise any forward looking information to reflect new events or circumstances, except as required by law.

SOURCE [Connacher Oil and Gas Ltd.](#)

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