Connacher Announces Q2 2018 Results

28.08.2018 | CNW

CALGARY, Aug. 28, 2018 - Connacher Oil and Gas Ltd. ("Connacher" or the "Company") announces its financial and results for the three and six months ended June 30, 2018 ("Q2 2018") (all amounts are in Canadian dollars unless othe noted).

Q2 2018 Highlights

Financial

- Q2 2018 and YTD 2018 revenue, net of royalties, totaled $54.2 million (Q2 2017 - $54.0 million) and $88.0 millior - $100.9 million), respectively. For both periods, revenue, net of royalties was adversely affected primarily by unfa fixed price sales agreements and increased index exposure to the Western Canadian Select differential, partially higher sales volumes. In Q2 2018 and YTD 2018, fixed price sales agreements yielded an unfavourable impact to net of royalties, of $12.0 million and $24.9 million, respectively
- Q2 2018 and YTD 2018 adjusted EBITDA decreased to $3.8 million (Q2 2017 - $6.8 million) and the deficit increa million (YTD 2017 - $8.7 million), respectively, primarily due to higher gross dollar input costs associated with incr production. For both periods, revenue, net of royalties was adversely affected by unfavourable crude oil benchma
- Q2 2018 and YTD 2018 funds used increased to $8.1 million (Q2 2017 - $5.5 million) and $36.8 million (YTD 201 million), respectively, primarily due to lower adjusted EBITDA
- In Q2 2018 and YTD 2018, the Company generated net losses of $34.2 million (Q2 2017 – $15.5 million) a million (YTD 2017 - $40.1 million), respectively. For both periods, the increases are primarily due to a lower adjus and foreign exchange losses
- Q2 2018 and YTD 2018 capital expenditures totaled $1.6 million (Q2 2017 - $947 thousand) and $6.9 million (YT $2.7 million), respectively, and focused primarily on well servicing required to restore and maintain production. In capital expenditures also included amounts related to drilling of future infill wells, which expenditures were not co Q2 2018
- The Company exited Q2 2018 with a cash balance of $48.8 million (including restricted cash of $7.1 million) (Q4 2 million)

Operational

- Q2 2018 and YTD 2018 production increased 4% to 12,593 bbl/d (Q2 2017 – 12,060 bbl/d) and 5% to 12,6 (YTD 2017 – 12,056 bbl/d), respectively. In 2017, the Company continued with and completed its well rest through to Q2 2017
- Q2 2018 and YTD 2018 blending costs increased 29% to $17.5 million (Q2 2017 - $13.6 million) and 22% to $33. (YTD 2017 - $27.7 million), respectively, primarily due to higher total diluent volumes associated with increased b production and higher diluent pricing
- Q2 2018 and YTD 2018 transportation and handling costs increased 19% to $10.6 million (Q2 2017 - $8.9 million $20.5 million (YTD 2017 - $16.2 million), respectively, primarily due to increased dilbit sales volumes and lower pl sales in 2018 compared to the prior period

Q2 2018 Financial Highlights

FINANCIAL [1]	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Revenue, net of royalties	$54,184	$53,986	$88,039	$100,886
Adjusted EBITDA [2]	3,815	6,753	(12,572)	8,654
Net earnings (loss)	(34,193)	(15,464)	(91,359)	(40,072)
Basic per share	(1.21)	(0.55)	(3.22)	(1.41)
Diluted per share	(1.21)	(0.55)	(3.22)	(1.41)
Funds used [3]	(8,073)	(5,485)	(36,848)	(14,985)
Capital expenditures	1,614	947	6,927	2,655
Cash on hand [4]	48,831	19,861		
Working capital deficiency	(309,656)	(297,000)		
Long-term debt	-	-		
Shareholders' equity	(128,221)	438,112		

(1) ($ 000) except per share amounts

(2) Adjusted EBITDA is a non-GAAP measure and is defined in the "Advisory Section" of the Q2 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 Q2 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

Q2 2018 Operational Highlights

OPERATIONAL	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Average benchmark prices				
WTI (US$/bbl)	$67.88	$48.29	$65.37	$50.10
WTI ($/bbl)	88.13	64.62	83.85	66.59
Heavy oil differential (US$/bbl)	(19.27)	(11.13)	(21.77)	(12.85)
WCS ($/bbl)	63.11	49.73	55.92	49.51
$/US$ exchange rate	1.30	1.34	1.28	1.33
Production and sales volumes (1)				
Daily bitumen production (bbl/d)	12,593	12,060	12,631	12,056
Daily bitumen sales (bbl/d)	12,600	12,000	12,625	12,026
Bitumen netback ($/bbl) (2)(3)				
Dilbit sales	$41.74	$42.85	$33.72	$40.14
Blending of products sold	(8.57)	(5.07)	(9.25)	(5.79)
Realized bitumen sales price	33.17	37.78	24.47	34.35
Transportation and handling costs	(9.21)	(8.13)	(8.99)	(7.43)
Net realized bitumen sales price	23.96	29.65	15.48	26.92
Royalties	(1.21)	(0.77)	(0.69)	(0.72)
Net bitumen revenue price	22.75	28.88	14.79	26.20
Production and operating expenses	(15.85)	(19.79)	(16.37)	(19.06)
Bitumen netback	$6.90	$9.09	$(1.58)	$7.14

(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 Q2 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 11 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, nine Court-ordered stay extensions have been obtained, with the most recent extending the stay of proceedings until and including October 31, 2018 (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 "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. Furthermore, the Company obtained an extension of the CCAA stay of proceeding to June 29, 2018.

On March 28, 2018, the Court approved the Company's entry into a Support Agreement (the "Support

Agreement") with certain 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 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.

On August 2, 2018, the Company announced that East River Oil and Gas Ltd. (the "Plan Sponsor") was 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 will 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 under the CCAA. The Plan Sponsorship Agreement also provides that in the event that, among other things, the CCAA Plan is not approved by the Company's creditors or the Court, or if the Company and the Plan Sponsor jointly determine that it is no longer viable to implement the transactions contemplated by the CCAA Plan, the Plan Sponsor will acquire substantially all of the assets of the Company pursuant to a Purchase and Sale Agreement dated August 2, 2018 ("Purchase Agreement").

On August 22, 2018, the Court granted orders (i) approving the Plan Sponsorship Agreement; (ii) accepting for filing the amended and restated plan of compromise and arrangement dated August 13, 2018 (the "Plan"); (iii) authorizing meetings of the Company's creditors to be held on October 3, 2018 to consider approval of the Plan (the "Creditors' Meetings Order"); (iv) approving and authorizing Connacher's entry into the previously announced Purchase Agreement and, in the event that the Plan is not implemented, authorizing the Company to perform its obligations under the Purchase Agreement (the "Approval and Vesting Order"); and (v) approving a supplemental claims procedure (the "Supplemental Claims Procedure") for the identification and determination of certain priority claims, non-continuing employee claims, and certain post-filing claims against the Company, and post-CCAA filing claims against Connacher's directors and officers.

The above description is a summary only and is subject to the terms of the definitive Plan Sponsorship Agreement and Plan and the Purchase Agreement. The material terms of the Plan Sponsorship Agreement, Plan and the Purchase Agreement, including the consideration thereunder, are contained in the Plan Sponsorship Agreement, Plan and the Purchase Agreement, copies of which are available on the Monitor's website at www.ey.com/ca/connacheroilandgas and filed under the Company's profile on www.sedar.com.

As at June 30, 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	$216,245
Interest payable on Amended Term Loan Facility	68,618
Convertible Notes	46,000
Interest payable on Convertible Notes	23,499
Trade and accrued liabilities	18,653
Total liabilities subject to compromise	$373,015

The aforementioned obligations, subject to potential compromise, represent the amounts expected to be resolved through the CCAA proceeding and remain subject to future, potentially material, adjustments. On August 24, 2016, the Court granted a claims procedure order establishing a process for the filing of claims against the Company and its directors and officers by September 26, 2016 (the "Claims Bar Date"). The Company received 89 claims by the Claims Bar Date.

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 holds a 100 per cent interest in approximately 465 million barrels of proved and probable bitumen reserves and operates two steam-assisted gravity drainage facilities located on the Company's Great Divide oil sands leases near Fort McMurray, Alberta.

Forward Looking Information

This press release contains forward looking information including, but not limited to the status of the CCAA proceeding, the SISP, 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 Company's future financial position; the Company's future growth, results of operations and production, future commodity prices and foreign exchange rates; future capital and other expenditures (including the amount, nature, and sources of funding thereof), plans for and results of drilling activity; environmental matters; business prospects and opportunities; and future economic conditions. 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 Company may not obtain required approvals and successfully consummate the Plan, the Plan Sponsorship Agreement or the Purchase Agreement; obtain court orders and approvals with respect to applications filed from time to time, including maintaining the CCAA stay of proceedings past October 31, 2018; that the Company may not 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, including but not limited to the agreements of certain creditors to vote in favour of the Plan, risks related to, the level of indebtedness of the Company, the implementation and impact of any reorganization or restructuring on the assets, business and financial affairs of the Company, future co-operation of the creditors of the Company, the Company's ability to generate sufficient cash flow from operations or to obtain adequate financing to fund capital expenditures and working capital needs and to maintain the Company's ongoing obligations during the CCAA process and thereafter, the ability to maintain relationships with suppliers, customers, employees, shareholders and other third parties in light of the Company's current liquidity situation and the CCAA proceeding, as well as the risks associated with 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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