Lone Pine Resources Inc. (LPR) Q2 2013 Earnings Call August 9, 2013 12:00 PM ET

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2013 Lone Pine Resources Incorporated Earnings Conference Call. My name is Dominique, and I will be your operator for today. At this time, all participants are in listen-only mode. Later we will conduct a question-and-answer session. (Operator Instructions)

I would now like to turn the conference over to Shane Abel, Vice President of Finance and CFO. Please proceed.

Shane Abel

Thank you, Dominique, and welcome everyone to our second quarter 2013 earnings conference call. I am joined today by Tim Granger, President and Chief Executive Officer of Lone Pine as well as other members of Lone Pine's management team.

Before we begin, I encourage everyone to carefully review our cautionary language regarding forward-looking statements as well as the use of certain non-GAAP measures that is contained in yesterday's press release as we will be referring some of those terms today. Also please note the quarterly results have been presented in Canadian dollars and on a net after royalty basis.

This morning's call is going to touch briefly on results from the second quarter of 2013, but we are also going to update everyone to the extent we can on where we stand on some of the initiatives that we are currently working on to address the company’s near-term challenges.

I won't go through the specific Q2 results in any great detail this morning. As everything you need to know about the quarter is in last night's press release and 10-Q that we filed. In addition, Q2 with the very light quarter for Lone Pine as spring break-up within full effect for the entire period so as planned the company didn't have an active capital program in the quarter.

Lone Pine second quarter net sales volumes were 46.7 million cubic feet equivalent per day with total liquid volumes of 2,564 barrels per day with resulted in 33% liquid weighting. While these sales volumes represent decline from the previous quarter, they were in line with expectations and when taken together with our first quarter volumes result in

http://seekingalpha.com/article/1626472-lone-pine-resources-ceo-discusses-q2-2013-resul...
I realize that many in the call will have additional questions with respect to our discussions with various parties. We understand your desire for clarity, but must respect the need for our confidential process as we continue to our discussions.

With that, I will emphasize Shane's earlier point that we are more than happy to discuss the quarter, but specifics on the current discussions will not be available through this call.

I will now turn it over to the operator and answer the questions. Thank you.

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of [Mike Shore] of Private Investor.

Mike Shore – Private Investor

Hi, Tim and Shane. Is it your belief, we are not asking specifically about any deals you guys are looking at, but it is the company and its own of insolvency?

Tim Granger

We don't believe the company in an insolvent state at the current time, no.

Mike Shore – Private Investor

And then that answer, do you Tim believe that you are then running the company on behalf of current shareholders.

Tim Granger

We believe we are running the company on behalf of all stakeholders in the company at current time.

Mike Shore – Private Investor

And so then when you just think about that if you look at how the stock is performed from when you began your work at Lone Pine is how to speak to why that's been the case and what the plan is to get from where you are today to some outcome that looks a little bit more favorable to current equity holders.

Tim Granger

Like we said, the company does have a liquidity issue and the company is to resolve its structure. We are going to a number of profitable dialogues with a number of parties and an attempt to resolve that with the solution at hand yes we believe then with successful development in Evi drilling and waterflood. As I said the share price should have some positive momentum, but we need to go through a series of steps to get there.

So, I guess the answer to your question that we believe there is a solution. We are not prepared to discuss with that solution here or in any details here today. But the management team and the board are keenly focused on effecting a solution would have a positive impact on the share price going forward in the future.

Operator

Your next question comes from the line of [Greg Zamora] of Federated Investors.

Greg Zamora – Federated Investors

What is your PD 10 value of your reserves ICC PD at the beginning of the year?

Shane Abel

I don’t have that number. Off the top of my head Greg, but if you refer to our press releases from March that PD 10 is contained in our SEC reserve press release.

Greg Zamora – Federated Investors

Okay. What also the PDP, PV10 been in there as well.

Shane Abel
Yes, it is.

**Greg Zamora – Federated Investors**

Okay.

**Shane Abel**

And we haven't update those external reserves since year end 2012 so those numbers running in the most current.

**Greg Zamora – Federated Investors**

Okay. What would be the rough amount of CapEx you would meet in the Evi field to keep production flat?

**Shane Abel**

We have said in the past that it would require somewhere between 20 to 25 wells to keep production flat at Evi. So, it is not on our $3 million short horizontal capital cost that's somewhere in and around the $75 million.

**Greg Zamora – Federated Investors**

Okay. Well, great. Thank you.

**Operator**

Your next question comes from the line of Ken Kamon of Pacific Rim Investments.

**Ken Kamon – Pacific Rim Investments**

Hi, Tim I wanted to see if we could get an update on the sway point waterflood projects. I don't know if it's premature to be speculating on the resource or probable or possible reserves, but it not maybe just some indication or response and perhaps what you think the majority of the acreage that you developed at Evi will ultimately be waterflooded?

**Tim Granger**

That is certainly the direction that us and all the operators in here are moving forward. So, from a response point of view, we have well that been on injection and we are seeing the response on the producing side. We are also seeing responses and other people test namely Pinecrest and PrimeWest. So, definitely people are seeing when they inject we do expect a positive response on our production in surrounding wells.

So, that's a positive. It's still uncertain as we mount of increased in the ultimate recovery of waterfloods will bring the one touch case out there, which would be with harvest you have a vertical pool on flood and had it on flood for a long period of time. We have seen about 100% increase in Evi waters. So, that's the ultimate goal that everybody looking forward.

On a broad range we see based on the modern event to date on that the horizontal well, we see Evi are increases somewhere between 40% and 100%, but we can be no more defendant on that. So, very, very positive about the waterflood. We think it will be a very positive outcome or the company and the shareholders going forward.

Our plans if we can resolve our capital structure and get enough liquidity to start moving forward in the development side. We will be to implement some of the floods through 2014 and hopefully have more meaningful data as we go through 2014 and on in to 2015.

**Operator**

(Operator Instructions) And your next question comes from the line of Evan Templeton of Jefferies.

**Evan Templeton – Jefferies**

Hi, first of all, can you just clarify I think I maybe missed part of that. It was hit the whole production flat at Evi was $75 million.

**Shane Abel**

Yes, that's right. Just as the Evi above.

**Evan Templeton – Jefferies**
Okay, great. And just kind of conceptual what’s sort of capital do you think you like to deploy at Evi over the next
couple of years primarily this 2014 in order to really drive production and hopefully become kind of more self
sustaining on that.

Shane Abel

Well, it would be at least that level. If not a higher number it would allow us to grow production and then we want to
put some money in to horizontal waterflood pilots. So, we don’t have a board approved capital budget for the second
half of this year and in to 2014. So, I don’t want to put any definitive numbers out there. But the objective if we were
free of our liquidity constraints would clearly be to grow that asset, not just hold that production level flat.

Evan Templeton – Jefferies

Right, okay. And then also just in terms of cash on hand can you tell us what the compound is today/

Shane Abel

The last we disclosed in our 10-Q was $11 million.

Evan Templeton – Jefferies

And then also just in terms of the upcoming coupon payment I think it was on the 15s. What are the current plans
regarding that?

Tim Granger

That would fall under our overall discussions with vis-à-vis restructuring. So, we would rather not answers any
questions on those lines in this call.

Evan Templeton – Jefferies

Okay. Fair enough. That’s it. Thank you.

Operator

This ends today’s question-and-answer session. I would like to hand the call back over to Mr. Shane Abel for closing
remarks.

Shane Abel

Thanks Dominique and I guess that concludes our conference call. Thanks for everyone’s time in this morning. Have
a good day.

Operator

Thank you for your participation in today’s conference. This concludes the presentation. You may now disconnect
and have a wonderful day.

Copyright policy: All transcripts on this site are the copyright of Seeking Alpha. However, we view them as an
important resource for bloggers and journalists, and are excited to contribute to the democratization of financial
information on the internet. (Until now investors have had to pay thousands of dollars in subscription fees for
transcripts.) So our reproduction policy is as follows: You may quote up to 400 words of any transcript on the
condition that you attribute the transcript to Seeking Alpha and either link to the original transcript or to
www.SeekingAlpha.com. All other use is prohibited.

THE INFORMATION CONTAINED HERE IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S
CONFERENCE CALL, CONFERENCE PRESENTATION OR OTHER AUDIO PRESENTATION, AND WHILE
EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS,
OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE AUDIO
PRESENTATIONS. IN NO WAY DOES SEEKING ALPHA ASSUME ANY RESPONSIBILITY FOR ANY
INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB
SITE OR IN ANY TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S AUDIO
PRESENTATION ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY
INVESTMENT OR OTHER DECISIONS.
Lone Pine second quarter net sales volumes were 46.7 million cubic feet equivalent per day with total liquid volumes of 2,564 barrels per day with resulted in 33% liquid weighting. While these sales volumes represent decline from the previous quarter, they were in line with expectations and when taken together with our first quarter volumes result in first half net sales volumes of approximately 48 million cubic feet per day, which is head of the guidance range of 45 to 47 million cubic feet per day that we provided back in March.

In addition, total capital expenditures for the first half of the year of $32.5 million were under the $35 million guidance we had previously provided. Lone Pine's average realized price before hedging in the quarter increased 12% from $6.49 per Mcfe in the first quarter of 2013 to $7.30 per Mcfe in the second quarter, which once again is the highest average realized price on record for Lone Pine.

Prices benefited in the second quarter from a 5% increase in Edmonton Par prices, which improved due to a continued narrowing of the differential relative to the WTI along with the continued increase of natural gas prices that we experienced.

From the cost perspective, Lone Pine's second quarter production expense decreased slightly $2.80 per Mcfe from $2.89 per Mcfe in the previous quarter. We continue to focus our efforts on reducing operating costs particularly at Evi, where some of the cost savings initiatives have begun to yield results as our production expense for the first half of the year was ahead of our previous provided guidance.

In total, Lone Pine generated adjusted EBITDA of $14.8 million in the second quarter with adjusted discretionary cash flow of $7 million both of which were significant increases over the previous period despite the decline in that sales volumes.

Turning to the balance sheet, at quarter end, our outstanding long-term debt stood at $383 comprised of $205 million of senior notes of the Canadian dollar figure along with $178 million of outstanding borrowings under our credit facility. Borrowings under the credit facility went up in the quarter as we worked through a large reduction in crude liabilities and accounts payable over the quarter as our capital activity slowed in previous drilling product with our cash outflow.

As we previously announced on July 26th we completed the amendment to our communicated credit facility whereby our total debt to EBITDA financial covenant which previously had a maximum permitted ratio of 4.5 to 1 to any quarterly period ending on or before June 30th was increased to 5.75 to one times. The result of this amendment is that it allow the company to remain in compliance with this financial covenant as of June 30 as our debt to LTM EBITDA ratio stood at 5.4 times.

The maximum permitted ratio under this financial covenant will revert back to its original four times level in the third quarter. This amendment resulted from an ongoing active dialogue with our syndicate of lenders, we are very pleased with the support those lenders have shown the company as we continue to work through our deleveraging initiatives. The company still maintains access to $185 million bond base, which was unchanged in this amendment.

With that I will turn the call over to

**Tim Granger - President & CEO**

Thanks Shane and good morning everybody. I would like to conclude our prepared remarks today by offering an update on the process of our restructuring process and our strategic results.

As we all aware we continue to explore solutions to resolve the liquidity and leverage issues present within our current financial structure. As we move through this process, we are looking for opportunities that can support all stakeholders within the corporation. In addition we are focused on the solution that will offer sufficient liquidity with advanced Evi development.

Clearly with continued drilling success in Evi along with the verification of the benefit inherent within the waterflood, the company's fortunes and that of its shareholders would be held in a better life. To that end, we remain in close dialogue with our banking syndicate and have their support as we look at various solutions.

In addition, we continue to look at various refinancing and restructuring options with our senior notes by discussions with the majority of the face value of these notes. Lastly, we are also evaluating the potentials to refinance our senior credit again with an eye to offer the company's both liquidity and time require to advance our Evi development.

The company is still open to the divestment some of its assets to help resolve its leverage position. That said, the market in Calgary is a buyers' market and when combined with the challenges the company faces offers we have received to-date do not reflect fair value of the asset or meaningful improvement to our leverage position.

We believe that our best course of action with respect to asset sales is to stabilize the corporation first and then evaluate offers, if any, at that time in the future.

I realize that many in the call will have additional questions with respect to our discussions with various parties. We understand your desire for clarity, but must respect the need for our confidential process as we continue to our discussions.

With that, I will emphasize Shane's earlier point that we are more than happy to discuss the quarter, but specifics on the current discussions will not be available through this call.

I will now turn it over to the operator and answer the questions. Thank you.

**Question-and-Answer Session**

Operator
(Operator Instructions). Your first question comes from the line of [Mike Shore] of Private Investor.

Mike Shore - Private Investor

Hi, Tim and Shane. Is it your belief, we are not asking specifically about any deals you guys are looking at, but it is the company and its own of insolvency?

Tim Granger - President & CEO

We don’t believe the company in an insolvent state at the current time, no.

Mike Shore - Private Investor

And then that answer, do you Tim believe that you are then running the company on behalf of current shareholders.

Tim Granger - President & CEO

We believe we are running the company on behalf of all stakeholders in the company at current time.

Mike Shore - Private Investor

And so then when you just think about that if you look at how the stock is performed from when you began your work at Lone Pine is how to speak to why that’s been the case and what the plan is to get from where you are today to some outcome that looks a little bit more favorable to current equity holders.

Tim Granger - President & CEO

Like we said, the company does have a liquidity issue and the company is to resolve its structure. We are going to a number of profitable dialogues with a number of parties and an attempt to resolve that with the solution at hand yes we believe then with successful development in Evl drilling and waterflood. As I said the share price should have some positive momentum, but we need to go through a series of steps to get there.

So, I guess the answer to your question that we believe there is a solution. We are not prepared to discuss with that solution here or in any details here today. But the management team and the board are keenly focused on effecting a solution would have a positive impact on the share price going forward in the future.

Operator

Your next question comes from the line of [Greg Zamora] of Federated Investors.

Greg Zamora - Federated Investors

What is your PD 10 value of your reserves ICC PD at the beginning of the year?

Shane Abel - VP & CFO

I don’t have that number. Off the top of my head Greg, but if you refer to our press releases from March that PD 10 is contained in our SEC reserve press release.

Greg Zamora - Federated Investors

Okay. What also the PDP, PV10 been in there as well.

Shane Abel - VP & CFO

Yes, it is.

Greg Zamora - Federated Investors

Okay.

Shane Abel - VP & CFO

And we haven’t update those external reserves since year end 2012 so those numbers running in the most current.

Greg Zamora - Federated Investors

Okay. What would be the rough amount of CapEx you would meet in the Evi field to keep production flat?

**Shane Abel** - VP & CFO

We have said in the past that it would require somewhere between 20 to 25 wells to keep production flat at Evi. So, it is not on our $3 million short horizontal capital cost that's somewhere in and around the $75 million.

**Greg Zamora** - Federated Investors

Okay. Well, great. Thank you.

**Operator**

Your next question comes from the line of Ken Kamon of Pacific Rim Investments.

**Ken Kamon** - Pacific Rim Investments

Hi, Tim I wanted to see if we could get an update on the swai point waterflood projects. I don't know if it's premature to be speculating on the resource or probable or possible reserves, but it not maybe just some indication or response and perhaps what you think the majority of the acreage that you developed at Evi will ultimately be waterflooded?

**Tim Granger** - President & CEO

That is certainly the direction that us and all the operators in here are moving forward. So, from a response point of view, we have well that has been on injection and we are seeing the response on the producing side. We are also seeing responses and other people test namely Pinecrest and PrimeWest. So, definitely people are seeing when they inject we do expect a positive response on our production in surrounding wells.

So, that's a positive. It's still uncertain as we mount of increased in the ultimate recovery of waterfloods will bring the one touch case out there, which would be with harvest you have a vertical pool on flood and had it on flood for a long period of time. We have seen about 100% increase in Evi waters. So, that's the ultimate goal that everybody looking forward.

On a broad range we see based on the modern event to date on that the horizontal well, we see Evi are increases somewhere between 40% and 100%, but we can be no more defendant on that. So, very, very positive about the waterflood. We think it will be a very positive outcome or the company and the shareholders going forward.

Our plans if we can resolve our capital structure and get enough liquidity to start moving forward in the development side. We will be to implement some of the floods through 2014 and hopefully have more meaningful data as we go through 2014 and on in to 2015.

**Operator**

(Operator Instructions) And your next question comes from the line of Evan Templeton of Jefferies.

**Evan Templeton** - Jefferies

Hi, first of all, can you just clarify I think I maybe missed part of that. It was hit the whole production flat at Evi was $75 million.

**Shane Abel** - VP & CFO

Yes, that's right. Just as the Evi above.

**Evan Templeton** - Jefferies

Okay, great. And just kind of conceptual what's sort of capital do you think you like to deploy at Evi over the next couple of years primarily this 2014 in order to really drive production and hopefully become kind of more self sustaining on that.

**Shane Abel** - VP & CFO

Well, it would be at least that level. If not a higher number it would allow us to grow production and then we want to put some money in to horizontal waterflood pilots. So, we don't have a board approved capital budget for the second half of this year and in to 2014. So, I don't want to put any definitive numbers out there. But the objective if we were free of our liquidity constraints would clearly be to grow that asset, not just hold that production level flat.
Right, okay. And then also just in terms of cash on hand can you tell us what the compound is today?

The last we disclosed in our 10-Q was $11 million.

And then also just in terms of the upcoming coupon payment I think it was on the 15s. What are the current plans regarding that?

That would fall under our overall discussions with vis-à-vis restructuring. So, we would rather not answer any questions on those lines in this call.

Okay. Fair enough. That's it. Thank you.

This ends today's question-and-answer session. I would like to hand the call back over to Mr. Shane Abel for closing remarks.

Thanks Dominique and I guess that concludes our conference call. Thanks for everyone's time in this morning. Have a good day.

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect and have a wonderful day.

Copyright policy: All transcripts on this site are the copyright of Seeking Alpha. However, we view them as an important resource for bloggers and journalists, and are excited to contribute to the democratization of financial information on the Internet. (Until now investors have had to pay thousands of dollars in subscription fees for transcripts.) So our reproduction policy is as follows: You may quote up to 400 words of any transcript on the condition that you attribute the transcript to Seeking Alpha and either link to the original transcript or to www.SeekingAlpha.com. All other use is prohibited.

THE INFORMATION CONTAINED HERE IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL, CONFERENCE PRESENTATION OR OTHER AUDIO PRESENTATION, AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE AUDIO PRESENTATIONS. IN NO WAY DOES SEEKING ALPHA ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S AUDIO PRESENTATION ITSELF AND THE APPLICABLE COMPANY'S SEC FilINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

If you have any additional questions about our online transcripts, please contact us at: transcripts@seekingalpha.com. Thank you!

This transcript was sent to 447 people who get email alerts on LPRI.OB.
Get email alerts on LPRI.OB »