Ikkuma Resources Corp. Announces Second Quarter 2018 Financial and Operating Results

CALGARY, Aug. 29, 2018 /CNW/ - Ikkuma Resources Corp. ("Ikkuma" or the "Corporation") (TSXV: IKM) is pleased to report its financial and operating results for the three and six months ended June 30, 2018. Financial and operational information is set out below and should be read in conjunction with Ikkuma's June 30, 2018 unaudited interim financial statements and the related management's discussion and analysis ("MD&A"). Ikkuma's condensed unaudited interim financial statements and MD&A are available for review at www.sedar.com and on the Corporation's website at www.ikkumarescorp.com.

HIGHLIGHTS

- Achieved average production of 18,276 boe per day for the six months ended June 30, 2018, an increase of 194% compared to 6,214 boe per day for the same period in 2017.
- Increased revenue by 109% to $41.1 million for the six months ended June 30, 2018 compared to $19.7 million for the six months ended June 30, 2017.
- In line with Ikkuma's field optimization initiatives, net operating expenses per boe were reduced 5% from $11.38/boe in the first quarter of 2018 to $10.79/boe in the second quarter of 2018.
- Decreased general and administrative expense per boe by 59% to $0.84/boe for the six months ended June 30, 2018 as compared to $2.06/boe for the six months ended June 30, 2017.
- On July 4, 2018, announced the purchase and sale agreement to sell certain midstream assets in the Alberta Foothills for a total cash consideration of $23.0 million, subject to customary adjustments.
- On August 24, 2018, announced that Ikkuma and Pieridae Energy Limited ("Pieridae") entered into a definitive agreement ("Arrangement Agreement") providing for the acquisition by Pieridae of all of the issued and outstanding shares of Ikkuma by way of a plan of arrangement.

(Expressed in thousands of Canadian dollars except per boe and share amounts)	Three Months Ended June 30, **2018**	2017	Six Months Ended June 30, **2018**	2017
OPERATIONS				
Average daily production				
Natural gas (mcf/d)	100,252	34,259	106,592	36,243
Light oil (bbl/d)	244	27	219	53
NGLs (bbl/d)	318	125	292	121
Total equivalent (boe/d)	17,271	5,861	18,276	6,214
Average prices				
Natural gas ($/mcf)	**$** 1.18	$ 2.82	**$** 1.57	$ 2.77
Light oil ($/bbl)	76.12	56.26	73.15	59.17
NGLs ($/bbl)	59.85	30.21	55.04	35.09
Operating netback				
Revenue ($/boe)	**$** 10.47	$ 17.55	**$** 12.43	$ 17.48
Realized gain on risk management contracts ($/boe)	1.20	0.36	0.97	0.24
Royalties ($/boe)	(0.40)	(0.01)	(0.73)	(0.30)
Net operating expenses ($/boe)	(10.79)	(8.36)	(11.10)	(8.22)
Transportation expenses ($/boe)	(1.06)	(2.03)	(1.04)	(2.01)
Operating netback (1) ($/boe)	**$** (0.58)	$ 7.51	**$** 0.53	$ 7.19
FINANCIAL				
Petroleum and natural gas revenues (2)	**$** 16,462	$ 9,362	**$** 41,128	$ 19,657
Cash provided by (used in) operating activities	**$** (3,176)	$ 2,204	**$** 2,435	$ 5,474
Per share – basic and diluted	**$** (0.03)	$ 0.02	**$** 0.02	$ 0.06
Funds flow from (used in) operations (1)	**$** (3,323)	$ 2,045	**$** (3,083)	$ 4,774
Per share – basic and diluted	**$** (0.03)	$ 0.02	**$** (0.03)	$ 0.05
Adjusted funds flow (1)	**$** (3,255)	$ 2,064	**$** (2,928)	$ 4,892
Per share – basic and diluted	**$** (0.03)	$ 0.02	**$** (0.03)	$ 0.05
Net income (loss) and comprehensive income (loss)	**$** (9,182)	$ (898)	**$** (14,279)	$ 1,566
Per share – basic and diluted	**$** (0.08)	$ (0.01)	**$** (0.13)	$ 0.02

Capital expenditures	$	1,544	$	2,388	$	2,365	$	11,157
Property acquisitions	$	-	$	-	$	2,711	$	-
Net debt [1,3]	$	66,114	$	39,511	$	66,114	$	39,511
Shares outstanding ('000s)		109,334,987		94,243,766		109,334,987		94,243,766
Weighted average shares outstanding basic and diluted ('000s)		109,334,987		94,243,766		109,334,987		94,243,766

[1] Operating netback, funds flow from (used in) operations, adjusted funds flow, net operating expenses and net debt are non-IFRS measures. See "Non- IFRS Measures".

[2] Before royalties.

[3] Net debt includes Bank debt under its Credit Facilities (as hereinafter defined), Term debt (as hereinafter defined) and working capital deficiency (surplus), excluding fair value of risk management contracts.

FINANCIAL AND OPERATING RESULTS

Average production for the six months ended June 30, 2018 was 18,276 boe per day, an increase of 194% compared to 6,214 boe per day for the same period in 2017. The increase was primarily due to production volumes related to the acquisition of assets located in the Alberta Foothills and British Columbia Deep Basin (the "Foothills Acquisition"), which closed on December 21, 2017. Due to the current low natural gas price environment, Ikkuma shut-in a portion of its gas production during the second quarter of 2018. Total production reported for the second quarter of 2018 of 17,271 boe/d was impacted by shut in gas production decisions that reduced production expected in the quarter by approximately 2,000 boe/d. The impact of the shut-in decisions was less than expected as the Corporation brought a portion of the shut-in gas back on production throughout the quarter.

Petroleum and natural gas revenues increased 109% to $41.1 million for the six months ended June 30, 2018 compared to $19.7 million for the six months ended June 30, 2017. The increase was primarily due to increased production volumes associated with the Foothills Acquisition.

Net operating expenses per boe decreased 5% quarter over quarter, from $11.38 per boe for the three months ended March 31, 2018 to $10.79 per boe for the three months ended June 30, 2018. Ikkuma anticipates that field optimization initiatives will continue to reduce net operating costs per boe throughout the remainder of 2018 and into 2019.

Operating netbacks for the six months ended June 30, 2018 were $0.53 per boe compared to $7.19 per boe for same period in 2017. The decrease in operating netbacks was primarily due to a 43% reduction in realized natural gas prices and increased operating costs associated with properties acquired with the Foothills Acquisition.

With increased production, general and administrative expense per boe decreased by 59% to $0.84 per boe for the six months ended June 30, 2018 compared to $2.06 per boe for the six months ended June 30, 2017.

Adjusted funds flow for the six months ended June 30, 2018 of negative $2.9 million included realized gains of $3.2 million associated with the Corporation's risk management program. In comparison, adjusted funds flow for the six months ended June 30, 2017 was $4.9 million and included $0.3 million of realized gains on risk management contracts. For the remainder of 2018, approximately 17% of the Corporation's expected average daily natural gas production has been hedged at an average price of $2.55/GJ.

Capital expenditures for the six months ended June 30, 2018 were $2.4 million compared to $11.2 million for the six months ended June 30, 2017.

Net debt, which includes the Corporation's syndicated credit facility (the "Credit Facilities"), second lien senior secured term debt facility ("Term debt") and working capital deficiency (excluding fair value of risk management contracts) was $66.1 million as at June 30, 2018 compared to $58.0 million as at December 31, 2017. Bank debt was $8.1 million as at June 30, 2018 compared to $10.4 million as at December 31, 2017.

ACQUISITION BY PIERIDAE & FORMATION OF EXPLORECO

As previously announced on August 24, 2018, Ikkuma entered into a definitive agreement (the "Arrangement Agreement") providing for the acquisition by Pieridae of all of the issued and outstanding shares of Ikkuma to be effected by way of a plan of arrangement ("Arrangement"). The acquisition of Ikkuma provides Pieridae with ownership of an extensive area of producing and gas-prone reserve and resource properties situated primarily in the central Alberta Foothills area. The Arrangement

Agreement also provides for the transfer, prior to the effective date of the Arrangement, by Ikkuma of certain interests in Cardium light oil-focused Alberta Foothills properties (the "Crude Oil Properties") to a newly formed private corporation ("ExploreCo"), contingent on customary regulatory approvals by the Alberta Energy Regulator (the "AER"). On completion of the Arrangement, each shareholder of Ikkuma will receive, for each common share of Ikkuma, 0.1926 of a common share of Pieridae and 0.1 of a share of ExploreCo (with Ikkuma shareholders holding 100% of ExploreCo upon completion of the Arrangement), subject to AER approval of the transfer of the Crude Oil Properties. If such AER approval is not received by December 31, 2018, no shares of ExploreCo will be distributed to shareholders of Ikkuma and those shareholders will not receive any further consideration. The exchange ratio values the shares of Ikkuma at $0.86 per share (excluding the value of ExploreCo shares), representing a premium of 188% to the closing price of $0.30 per share as of August 23, 2018 of Ikkuma common shares on the TSX Venture Exchange. The Arrangement remains subject to customary conditions, including receipt of applicable court, Ikkuma shareholder and regulatory approvals, and is expected to close in the fourth quarter of 2018.

Upon completion of the transfer of assets, the receipt of regulatory approval and the completion of the acquisition by Pieridae, ExploreCo will be an Alberta Foothills Cardium light oil focussed company, with undeveloped land, a production base and associated infrastructure. Estimated production on closing will be approximately 400 - 600 BOE per day. More details on ExploreCo's operations, directors and management team will be disclosed at a later date.

LIQUIDITY

On May 28, 2018, the Corporation entered into an Amending Agreement with respect to its existing Credit Facilities with its banking syndicate, whereby the borrowing base was re-determined and remained at $25.0 million. The Credit Facilities include $15.0 million, which is available at full discretion of the Corporation and $10.0 million that is restricted by the lenders. The Credit Facilities include a restriction that prevents the funds from being used for capital spending related to the CEE flow-through share obligations and related commitments. The renewal term out date for the Credit Facilities was extended to May 30, 2019.

Ikkuma is actively pursuing several options to fund its 2018 flow-through share obligations. On July 4, 2018, the Corporation signed a purchase and sale agreement to sell certain midstream assets in the Alberta Foothills for a total cash consideration of $23.0 million, subject to customary adjustments. The sale is expected to close during the third quarter of 2018.

ABOUT IKKUMA

Ikkuma Resources Corp. is a diversified growth-oriented public oil and gas company listed on the TSX Venture Exchange under the symbol "IKM", with holdings in both conventional and unconventional projects in Western Canada. The Company is focused in the Foothills Region of Western Canada with a team that has extensive experience in the area with the unique skills at successfully exploiting a complex and potentially prolific play type. Corporate information can be found at: www.ikkumarescorp.com.

Forward-Looking Statements and Information and Cautionary Statements

This press release contains forward-looking statements and forward-looking information within the meaning of applicable securities laws including, without limitation, those listed under "Risk Factors" and "Forward-looking Statements and Information" in Ikkuma's Annual Information Form and in its other filings available on SEDAR at www.sedar.com. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking statements or information. Forward-looking statements and information in this press release includes, but is not limited to, the anticipated reduction of net operating expenses per boe throughout the remainder of 2018 and into 2019, the expected closing of the Arrangement and the expected maintenance of an interest in the Crude Oil Properties resulting from the receipt of shares in ExploreCo. Although Ikkuma believes that the expectations and assumptions on which the forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because Ikkuma cannot give any assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include but are not limited to the risks associated with the oil and gas industry in general (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 estimates; the uncertainty of estimates and projections relating to production, costs and expenses; failure to obtain necessary regulatory approvals for planned operations; health, safety and environmental risks; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; volatility of commodity prices, currency exchange rate fluctuations; imprecision of reserve estimates; and competition from other explorers) as well as general *economic conditions, stock market volatility, and the ability to access sufficient capital. We caution that the foregoing list of risks and uncertainties is not exhaustive.*

In addition, the reader is cautioned that historical results are not necessarily indicative of future performance. The forward-looking statements and information contained in this press release are made as of the date hereof and Ikkuma undertakes no obligation to update publicly or revise any forward-looking statement or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

Certain information set out herein may be considered as "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Ikkuma's reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the financial outlook may not be appropriate for other purposes.

Non-IFRS Measures

This press release provides certain financial measures that do not have a standardized meaning prescribed by IFRS. These non-IFRS financial measures may not be comparable to similar measures presented by other issuers. Funds flow from operations, operating netback, net operating expenses and net debt are not recognized measures under IFRS. Management believes that in addition to net income (loss), funds flow from operations, operating netback and net debt are useful supplemental measures that demonstrate the Corporation's ability to generate the cash necessary to repay debt or fund future capital investment. Investors are cautioned, however, that these measures should not be construed as an alternative to net income (loss), determined in accordance with IFRS, as an indication of Ikkuma's performance. Funds flow from operations is calculated by adjusting net income (loss) for depletion and depreciation, exploration and evaluation expense, impairment, gain (loss) on sale of petroleum, natural gas and equipment, share-based payments, unrealized gain (loss) on financial instruments and accretion. Operating netback equals the total of petroleum and natural gas sales, realized gains or losses on commodity contracts, less royalties, transportation and operating expenses. Net operating expense is a non-IFRS measure calculated as operating expenses less other income. Other income includes gas processing income earned from fees charged to third parties at facilities where Ikkuma has an ownership interest. Net debt is the total of cash and cash equivalents plus accounts receivable, plus prepaids and deposits, less accounts payable and accrued liabilities and bank debt.

Oil and Gas Advisory

In this press release, the abbreviation boe means a barrel of oil equivalent derived by converting gas to oil in the ratio of 6 Mcf of gas to 1 bbl of oil (6 Mcf:1 bbl). Boe 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. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf:1 bbl, utilizing a conversion ratio on a 6 Mcf of gas to 1 bbl of oil basis may be misleading as an indication of value.

SOURCE Ikkuma Resources Corp.

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