

Hemisphere Energy Announces 2017 Fourth Quarter and Year-End Financial and Operating Results

26.04.2018 | [CNW](#)

TSX-V: HME

VANCOUVER, April 26, 2018 /CNW/ - [Hemisphere Energy Corp.](#) (TSX-V: HME) ("Hemisphere" or the "Company") is pleased to announce its financial and operating results for the fourth quarter and year ended December 31, 2017.

Last year was a transformational year as Hemisphere transitioned from strategic investment to aggressive growth. In 2017 Hemisphere entered into a five-year term loan that allows the Company to draw up to US\$35 million to fund the development of its low-risk oil assets in the Atlee Buffalo and Jenner properties in southeast Alberta. Prior to last fall, the Company had been limited by access to capital and was focused on optimizing existing production and proving waterflood reserves with minimal capital outlay. Subsequent to this financing however, Hemisphere drilled six wells, built a key processing facility, and expanded an existing facility in the fourth quarter. This activity led to a 57% reserves increase year over year in both the Proved (1P) and Proved plus Probable (2P) categories, created significant growth in corporate production, and has set the Company up for a substantial drilling program in 2018.

2017 Highlights

- Achieved annual average production rate of 659 boe/d (93% oil), a 25% increase over 2016.
- Realized December 2017 average exit rate of approximately 850 boe/d (94% oil).
- Generated \$11.0 million in annual revenue, a 76% increase from the previous year.
- Increased operating netback by 109% to \$4.9 million.
- Generated \$2.5 million of funds flow from operations, a 367% increase from 2016.
- Executed a strategic five-year term loan agreement with a borrowing base of up to US\$35 million.
- Increased 2P net present value before tax of future net revenue (discounted at 10%) by 77% to \$116.6 million.
- Increased 2P reserve volumes by 57% to 7.2 MMboe (97% oil).
- Increased net asset value by 68% to \$1.12 per basic share.

Fourth Quarter 2017 Highlights

- Achieved average production rate of 770 boe/d (94% oil), a 31% increase over the fourth quarter of 2016.
- Generated \$3.5 million in revenue, a 60% increase over the same quarter in 2016.
- Increased operating netback by 92% to \$1.7 million.
- Generated \$0.7 million of funds flow from operations, a 162% increase over the fourth quarter of 2016.
- Drilled six development wells in Atlee Buffalo area, of which two are designated water injectors.
- Expanded the Atlee Buffalo F pool facility with a SKUD (inclined free water knockout).
- Constructed the Atlee Buffalo G pool facility to separate and reinject produced water.
- Acquired 7,433 acres of new land in the immediate vicinity of its Atlee Buffalo operations.

Selected financial and operational highlights should be read in conjunction with Hemisphere's audited annual financial statements and related Management's Discussion and Analysis for the year ended December 31, 2017. These reports, including the Company's Annual Information Form for the year ended December 31, 2017, are available on SEDAR at www.sedar.com and Hemisphere's website at www.hemisphereenergy.ca. All amounts are expressed in Canadian dollars unless otherwise stated.

Financial and Operating Summary

	Three Months Ended December 31		Year Ended December 31	
	2017	2016	2017	2016
FINANCIAL				
Petroleum and natural gas revenue	\$ 3,528,565	\$ 2,206,835	\$ 10,974,634	\$ 6,221,497
Operating netback ⁽¹⁾	1,650,446	860,849	4,913,240	2,347,747
Funds flow from operations ⁽²⁾	714,801	273,181	2,476,049	530,567
Per share, basic and diluted	0.01	0.00	0.03	0.01
Net loss	(3,308,520)	(620,027)	(3,796,175)	(2,680,647)
Per share, basic and diluted	(0.04)	(0.01)	(0.04)	(0.03)
Capital expenditures	4,663,442	715,762	8,689,240	2,722,376
Net debt ⁽³⁾	18,558,361	11,827,170	18,558,361	11,827,170
Bank indebtedness	-	11,247,537	-	11,247,537
Term loan	\$ 18,868,500	\$ -	\$ 18,868,500	\$ -
Operating				
Average daily production				
Oil (bbl/d)	725	534	612	450
Natural gas (Mcf/d)	259	330	270	452
NGL (bbl/d)	2	1	2	2
Combined (boe/d)	770	590	659	527
Oil and NGL weighting	94%	91%	93%	86%
Average sales prices				
Oil (\$/bbl)	\$ 52.02	\$ 42.91	\$ 47.94	\$ 35.67
Natural gas (\$/Mcf)	2.05	3.05	2.33	1.96
NGL (\$/bbl)	53.01	46.32	47.69	29.08
Combined (\$/boe)	\$ 49.80	\$ 40.63	\$ 45.62	\$ 32.23
Operating netback (\$/boe)				
Petroleum and natural gas revenue	\$ 49.80	\$ 40.63	\$ 45.62	\$ 32.23
Royalties	7.61	4.64	7.56	3.57
Operating costs	13.10	17.52	14.66	12.46
Transportation costs	3.02	2.61	2.90	4.04
Operating field netback ⁽⁴⁾				

26.07

20.50

Realized commodity hedging loss	2.78	-	0.08	-
Operating netback ⁽¹⁾	\$ 23.29	\$ 15.85	\$ 20.42	\$ 12.16

Notes:

- (1) Operating netback is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) per barrel of oil equivalent. Operating netback per boe is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) per barrel of oil equivalent.
- (2) Funds flow from operations is a non-IFRS measure that represents cash generated by operating activities, before changes in non-cash working capital and may not be comparable to measures used by other companies.
- (3) Net debt is a non-IFRS measure calculated as current assets minus current liabilities including term loan or bank indebtedness and excluding fair value of financial instruments and any flow-through share premium.
- (4) Operating field netback per boe is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties, operating expenses and transportation costs per barrel of oil equivalent.

As at December 31

	2017	2016
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Share Information

Common shares outstanding	89,793,302	85,745,102
Stock options outstanding	8,169,000	4,385,000
Warrants outstanding	13,750,000	-
Fully diluted shares outstanding	111,712,302	90,130,102
Weighted-average shares outstanding – basic and diluted	88,495,660	80,672,032

Outlook

Hemisphere kicked off 2018 with a three well drilling program, including two wells that are awaiting approval for injection in order to expand waterflood productivity into new areas of the Atlee Buffalo pools. With continued improvements in price and more consistent WCS differentials, the Company is planning an extensive drilling program through the summer aimed specifically at increasing production and cash flow, while proving up significant unbooked reserves.

Annual General and Special Meeting of Shareholders

Hemisphere's Annual General and Special Meeting of Shareholders is being held in the Pender Room of Oceanic Plaza, 1035 West Pender Street, Vancouver, British Columbia on Friday, June 22, 2018 at 9:30 a.m. (Pacific Daylight Time).

About Hemisphere Energy Corporation

[Hemisphere Energy Corp.](#) is a producing oil and gas company focused on developing conventional oil assets with low risk drilling opportunities. Hemisphere plans continual growth in production, reserves, and cash flow by drilling existing projects and executing strategic acquisitions. Hemisphere has the oil weighted assets to develop, the team to deliver results, and the access to capital required to move projects forward while providing top tier economics. Hemisphere trades on the TSX Venture Exchange as a Tier 1 issuer under the symbol "HME".

Forward-looking Statements

Certain statements included in this news release constitute forward-looking statements or forward-looking information (collectively, "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular, but without limiting the generality of the foregoing, this news release includes forward-looking statements regarding the Company's plans for an extensive drilling program through the summer of 2018 aimed specifically at increasing production and cash flow, while proving up significant unbooked reserves. In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

Forward-looking statements are based on a number of material factors, expectations or assumptions of Hemisphere which have been used to develop such statements and information but which may prove to be incorrect. Although Hemisphere believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because Hemisphere can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified herein, assumptions have been made regarding, among other things: that Hemisphere will continue to conduct its operations in a manner consistent with past operations; results from drilling and development activities are consistent with past operations; the quality of the reservoirs in which Hemisphere operates and continued performance from existing wells; the continued and timely development of infrastructure in areas of new production; the accuracy of the estimates of Hemisphere's reserve volumes; certain commodity price and other cost assumptions; continued availability of debt and equity financing and cash flow to fund Hemisphere's current and future plans and expenditures; the impact of increasing competition; the general stability of the economic and political environment in which Hemisphere operates; the general continuance of current industry conditions; the timely receipt of any required regulatory approvals; the ability of Hemisphere to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects in which Hemisphere has an interest in to operate the field in a safe, efficient and effective manner; the ability of Hemisphere to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and exploration; the timing and cost of pipeline, storage and facility construction and expansion and the ability of Hemisphere to secure adequate product transportation; future commodity prices; currency, exchange and interest rates; regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Hemisphere operates; and the ability of Hemisphere to successfully market its oil and natural gas products.

The forward-looking statements included in this news release are not guarantees of future performance and should not be unduly relied upon. Such information and statements, including the assumptions made in respect thereof, involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Hemisphere's products, the early stage of development of some of the evaluated areas and zones; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Hemisphere or by third party operators of Hemisphere's properties, increased debt levels or debt service requirements; inaccurate estimation of Hemisphere's oil and gas reserve volumes; limited, unfavourable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Hemisphere's public disclosure documents, (including, without limitation, those risks identified in this news release and in Hemisphere's Annual Information Form).

The forward-looking statements contained in this news release speak only as of the date of this news release, and Hemisphere does not assume any obligation to publicly update or revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Non-IFRS Measures

This news release contains terms that are non-IFRS measures and commonly used in the oil and gas

industry which are not defined by or calculated in accordance with International Financial Reporting Standards ("IFRS"), such as: (i) funds flow from operations; (ii) net debt; and (iii) operating netback. These terms should not be considered an alternative to, or more meaningful than the comparable IFRS measures (as determined in accordance with IFRS) which in the case of funds flow from operations and operating netback, are cash provided by operating activities and cash flow from operating activities or net income or net loss, respectively. There is no IFRS measure that is reasonably comparable to net debt. These measures are commonly used in the oil and gas industry and by Hemisphere to provide shareholders and potential investors with additional information regarding: (i) in the case of funds flow from operations, the Company's ability to generate the funds necessary to support future growth through capital investment and to repay any debt; (ii) in the case of operating netback, the indication of the Company's profitability relative to current commodity prices; and (iii) in the case of net debt, the capital structure of the Company.

Hemisphere's determination of these measures may not be comparable to that reported by other companies. Funds flow from operations is calculated as cash generated by operating activities, before changes in non-cash working capital; operating netback is calculated as the Company's oil and gas sales, less royalties, operating expenses, and transportation costs per barrel of oil equivalent; and net debt is calculated as current assets minus current liabilities including bank indebtedness and excluding flow-through premium. The Company has provided information on how these measures are calculated in the Management's Discussion and Analysis for the year ended December 31, 2017, which is available under the Company's SEDAR profile at www.sedar.com.

Oil and Gas Advisories

All estimated reserve volumes and the estimated net present values of the future net revenues of such reserve estimates included in this news release are as attributed by McDaniel Associates & Consultants Ltd., the Company's independent reserve evaluators in its report dated effective as of December 31, 2017 and prepared in accordance with the COGE Handbook and National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

A barrel of oil equivalent ("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. In addition, 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 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

It should not be assumed that the net present value of the estimated net revenues of the reserves presented in this news release represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions upon which such estimates are made will be attained and variances could be material. The reserve estimates of Hemisphere's crude oil, natural gas liquids and natural gas reserves and any estimated recovery factors provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.

Definitions and Abbreviations

bbl	Barrel	Mcf	thousand cubic feet
bbl/d	barrels per day	Mcf/d	thousand cubic feet per day
\$/bbl	dollar per barrel	\$/Mcf	dollar per thousand cubic feet
boe	barrel of oil equivalent	NGL	natural gas liquids
boe/d	barrel of oil equivalent per day	NPV10 BT	Net Present Value discounted at 10%, before tax
\$/boe	dollar per barrel of oil equivalent	IFRS	International Financial Reporting Standards
WCS	Western Canadian Select	G&A	General and Administrative Costs
US\$			

United States Dollar

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this news release.

SOURCE [Hemisphere Energy Corp.](#)

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