

Hemisphere Energy Announces 2018 Fourth Quarter and Year-End Financial and Operating Results

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TSX-V: HME

VANCOUVER, April 24, 2019 - [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, 2018.

During 2018, Hemisphere achieved record operational success with significant reserve, production, and revenue growth. The Company executed a \$16.1 million capital expenditure program to drill 14 wells and expand both its Atlee Buffalo facility and development activity led to a 55% increase in reserves year over year in the Proved (1P) category, created substantial corporate production, and has set the Company up for a considerable capital program in 2019.

2018 Highlights

- Achieved annual average production rate of 1,111 boe/d (96% oil), a 69% increase over 2017.
- Realized fourth quarter average rate of 1,378 boe/d (95% oil).
- Generated \$17.8 million in annual revenue, a 62% increase from the previous year.
- Increased operating netback by 31% to \$6.4 million.
- Reduced operating and transportation costs by 21% over 2017 to \$13.85 per boe.
- Generated \$2.0 million of funds flow from operations.
- Increased Proved plus Probable (2P) net present value before tax of future net revenue (discounted at 10%) by 7% to \$197.9 million.
- Increased 2P reserve volumes by 48% to 10.6 MMboe (98% oil).
- Increased 2P net asset value by 63% to \$1.83 per basic share.

Hemisphere remains financially flexible for continued growth in 2019 with its planned expenditures of approximately \$110 million being funded by cashflow and additional debt within the currently approved limit of its term loan. During the fourth quarter in response to historically wide Canadian crude oil differentials experienced in November and December 2018, the Company announced that it had proactively entered into an agreement with its lender to temporarily waive the application of and enforcement of certain covenants for the fiscal quarter ended December 31, 2018. This included its two financial covenants (being the coverage ratio and total leverage ratio covenants) and two reserve-based covenants (being the PDP coverage ratio and proved reserve coverage ratio covenants) that are included in the credit agreement with the lender.

Hemisphere is committed to the goal of strengthening its balance sheet while further growing production, reserves, and funds flow to generate greater shareholder value in the coming year. The Hemisphere team looks forward to a busy year ahead in response to its tremendous technical success proving up asset value through 2018.

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, 2018. These reports, including the Company's Annual Information Form for the year ended December 31, 2018, 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	
	2018	2017	2018	2017

FINANCIAL				
Petroleum and natural gas revenue	\$ 2,886,840	\$ 3,528,565	\$ 17,756,439	\$ 10,974,634
Operating netback ⁽¹⁾	651,962	1,650,446	6,415,532	4,913,240
Cash flow provided by operating activities	231,079	166,400	2,230,071	1,915,248
Funds flow from operations ⁽²⁾	(725,431)	714,801	2,012,847	2,476,049
Per share, basic and diluted	(0.01)	0.01	0.02	0.03
Net loss	25,334	(3,308,520)	(4,853,569)	(3,796,175)
Per share, basic and diluted	0.00	(0.04)	(0.05)	(0.04)
Capital expenditures	1,469,284	4,663,442	16,057,316	8,689,240
Net debt ⁽³⁾	35,446,384	18,558,361	35,446,384	18,558,361
Term loan	\$ 35,458,800	\$ 18,868,500	\$ 35,458,800	\$ 18,868,500
Operating				
Average daily production				
Oil (bbl/d)	1,313	725	1,062	612
Natural gas (Mcf/d)	377	259	287	270
NGL (bbl/d)	2	2	2	2
Combined (boe/d)	1,378	770	1,111	659
Oil and NGL weighting	95%	94%	96%	93%
Average sales prices				
Oil (\$/bbl)	\$ 23.20	52.02	45.26	47.94
Natural gas (\$/Mcf)	2.19	2.05	1.76	2.33
NGL (\$/bbl)	47.65	53.01	54.75	47.69
Combined (\$/boe)	\$ 22.78	\$ 49.80	\$ 43.78	\$ 45.62
Operating netback (\$/boe)				
Petroleum and natural gas revenue	\$ 22.78	\$ 49.80	\$ 43.78	\$ 45.62
Royalties	3.03	7.61	7.60	7.56
Operating costs	8.91	13.10	11.15	14.66
Transportation costs	2.76	3.02	2.70	2.90
Operating field netback ⁽⁴⁾	8.07	26.07	22.34	20.50
Realized commodity hedging loss				

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2.78

6.52

0.08

Operating netback ⁽¹⁾	\$ 5.14	\$ 23.29	\$ 15.82	\$ 20.42
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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	
	2018	2017
Share Information		
Common shares outstanding	89,793,302	89,793,302
Stock options outstanding	8,419,000	8,169,000
Warrants outstanding	13,750,000	13,750,000
Fully diluted shares outstanding	111,962,302	111,712,302
Weighted-average shares outstanding – basic and diluted	89,793,302	88,495,660

Outlook

The first quarter of 2019 has seen continued improvements in WTI price with consistent WCS differentials. The Company is planning an extensive drilling program through the summer of 2019 aimed specifically at increasing production and cash flow, while proving up significant additional unbooked reserves.

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 expenditures of approximately \$15 million in 2019 being funded by cashflow and new additional debt within the currently approved limit of its term loan and Hemisphere's plans for continual growth in production, reserves, and cash flow by drilling existing projects and executing strategic acquisitions. 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, operating netback per boe and operating field netback per boe. 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 is cash provided by operating activities and cash flow from operating activities and in the case of operating field netback and operating netback are net income or net loss. 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, operating netback per boe and operating field netback per boe 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 field netback is calculated as the Company's oil and gas sales, less royalties, operating expenses, and transportation costs; operating field netback per boe is calculated as operating field netback divided by production for the applicable period on a per barrel of oil equivalent basis; operating netback and operating netback per boe adjusts operating field netback and operating field netback per boe, respectively, for any realized gains or losses on commodity hedges and net debt is calculated as current assets minus current liabilities including bank indebtedness and excluding fair value of financial instruments and any flow-through share premium. The Company has provided additional information on how these measures are calculated in the Management's Discussion and Analysis for the year ended December 31, 2018, 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

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SOURCE [Hemisphere Energy Corp.](#)

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