

Hemisphere Energy Announces Second Quarter 2019 Financial and Operating Results

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TSX-V: HME

VANCOUVER, Aug. 21, 2019 - [Hemisphere Energy Corp.](#) (TSX-V: HME) ("Hemisphere" or the "Company") announces financial and operating results for the three months and six months ended June 30, 2019.

Q2 2019 HIGHLIGHTS

- Achieved record revenue of \$7.4 million, an increase of 32% over the second quarter of 2018.
- Realized quarterly funds flow from operations of \$2.6 million, a 105% increase over the same respective quarter of 2018.
- Increased average quarterly production by 30% to 1,367 boe/d (96% oil), as compared to the second quarter of 2018.
- Improved operating netback by 28% to \$31.10/boe, over the same quarter in 2018.
- Reduced net general and administration costs to \$3.43/boe, which represents a 33% reduction from the second quarter of 2018.
- Increased corporate Liability Management Ratio (LMR) with the Alberta Energy Regulator to 9.65 as of August 2019.

CORPORATE UPDATE

Hemisphere's recent growth can be shown year over year when comparing the first half of 2019 to that of 2018. The Company has increased its production by 44% to 1,373 boe/d, revenue by 53% to over \$13.8 million, operating netback by 63% to \$30.99/boe, and funds flow from operations by 285% to \$5.2 million. During the first six months of the year, Hemisphere focused on operating and corporate efficiencies attained from adding new stable production in the latter half of 2018. These combined achievements have helped Hemisphere to reduce its net debt from year-end 2018 by 8% while funding the start of Hemisphere's summer drilling program.

In the second quarter of 2019 the Company commenced an 11 well drilling program in the Atlee Buffalo area of southern Alberta. This development drilling program was completed successfully in August and was executed ahead of schedule and on budget. Hemisphere anticipates that all new production from these wells will be on-stream by the end of September 2019. Facility upgrades at the Atlee Buffalo G pool battery are finished and already in operation in anticipation of the new well start-up dates.

Hemisphere's corporate strategy through the remainder of 2019 is to focus on strengthening its balance sheet while optimizing new production and reducing per barrel operating and corporate costs. Hemisphere plans to keep its 2019 capital expenditures within corporate cash flow, and any additional funds are anticipated to be used to purchase shares under Hemisphere's previously announced normal course issuer bid, fund the next phase of development drilling, or pay down debt. The Company will continue to move forward its development plans of the Atlee Buffalo oil pools as more information is gathered on the productivity levels of the recent drill program. Hemisphere has drawn US\$26 million on its US\$35 million multi-draw, non-revolving, 5-year term loan facility with an expiry date of September 2022, and continues to satisfy all financial and performance covenants set forth in the credit agreement.

The Company would like to thank its employees, contractors, and consultants for the smooth execution of this recent development campaign. With the commitment, hard work, and dedication of everyone involved, Hemisphere has achieved excellent technical success in the field and management looks forward to sharing the operational results of this program as they become available.

Q2 2019 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
OPERATING				
Average daily production				
Oil (bbl/d)	1,317	1,012	1,323	911
Natural gas (Mcf/d)	295	235	291	258
NGL (bbl/d)	1	2	1	2
Combined (boe/d)	1,367	1,053	1,373	956
Oil and NGL weighting	96%	96%	96%	96%
Average sales prices				
Oil (\$/bbl)	\$62.15	\$ 60.64	\$57.17	\$54.07
Natural gas (\$/Mcf)	(2.14)	⁽⁶⁾ 1.17	2.41	1.67
NGL (\$/bbl)	32.29	61.48	40.51	58.02
Combined (\$/boe)	\$59.44	\$ 58.64	\$55.65	\$52.09
Operating netback (\$/boe)				
Petroleum and natural gas revenue	\$59.44	\$ 58.64	\$55.65	\$52.09
Royalties	8.99	10.39	7.15	8.73
Operating costs	12.84	11.08	11.25	12.85
Transportation costs	2.59	2.95	2.52	2.79
Operating field netback ⁽¹⁾	35.02	34.23	34.73	27.73
Realized commodity hedging loss	3.92	9.96	3.74	8.74
Operating netback ⁽²⁾	\$31.10	\$ 24.27	\$30.99	\$ 18.99
FINANCIAL				
Petroleum and natural gas revenue	\$7,396,095	\$ 5,618,915	\$13,831,347	\$9,012,836
Operating field netback ⁽¹⁾	4,357,767	3,279,840	8,632,028	4,797,818
Operating netback ⁽²⁾	3,869,440	2,325,838	7,701,665	3,284,934
Cash flow provided by (used in)				
operating activities	2,536,247	413,990	3,162,906	(193,833)
Funds flow from operations ⁽³⁾	2,559,898	1,251,089	5,194,882	1,350,810
Per share, basic and diluted	0.03	0.01	0.06	0.02
Net income (loss)				

2,812,582

(2,253,163)

1,923,356

(4,642,556)

Per share, basic and diluted	0.03	(0.03)	0.02	(0.05)
Capital expenditures	2,980,445	2,532,877	3,952,240	5,402,941
Net debt ⁽⁴⁾	32,553,820	23,734,580	32,553,820	23,734,580
Gross term Loan ⁽⁵⁾	\$ 34,036,600	\$ 23,637,600	\$ 34,036,600	\$ 23,367,600

Notes:

- (1) 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 on an absolute and per barrel of oil equivalent basis.
- (2) Operating netback is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) on an absolute and per barrel of oil equivalent basis.
- (3) 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.
- (4) 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.
- (5) Gross term loan is calculated as the total USD draws on the term loan translated to Canadian Dollars at the period end exchange rate.
- (6) This price decrease is due to an overpayment on the Company's non-operated joint interest in British Columbia in March 2019, which was subsequently reversed in April 2019.

About Hemisphere Energy Corporation

[Hemisphere Energy Corp.](#) is a producing oil and gas company focused on developing low risk conventional oil assets for minimal capital exposure through developing known pools of oil and optimizing waterflood projects. Hemisphere plans continual growth in production, reserves, and cash flow by drilling existing projects and executing strategic acquisitions. 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 Hemisphere's anticipation that the new production from the 11 wells drilled in the second quarter of 2019 will be placed on production prior to the end of September 2019; Hemisphere's planned corporate strategy through the remainder of 2019; Hemisphere's plans to keep its 2019 capital expenditures within corporate cash flow and Hemisphere's plans for the use and allocation of any additional funds; and Hemisphere's plans to continue to move forward its development plans as more information is gathered by the Company from its recent drill program.

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 information and 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 information or 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 information and 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 or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Non-IFRS Measures

The press 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 and funds flow from operations on a per share basis; (ii) net debt; and (iii) operating netback, operating netback per boe, operating field back 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 and funds flow from operations per share, 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, operating field netback 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 those measures reported by other companies. Funds flow from operations is calculated as cash generated by operating activities, before changes in non-cash working capital; funds flow from operations per share is calculated as funds flow from operations divided by the applicable number of diluted or fully-diluted shares of the Company outstanding; 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

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.

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

Contact

boe/d barrel of oil equivalent per day IFRS International Financial Reporting Standards
please visit our website at www.hemisphereenergy.ca to see our presentation or contact: Don Simmons,
President & Chief Executive Officer, Telephone: (604) 685-9255 Email: simmons@hemisphereenergy.ca
\$/boe dollar per barrel of oil equivalent WTI West Texas Intermediate Oil price

WCS Western Canada Select Oil Price

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