

Petroshale Inc. Announces First Quarter 2022 Financial & Operating Results

18.05.2022 | [CNW](#)

CALGARY, May 18, 2022 - [PetroShale Inc.](#) ("PetroShale" or the "Company") (TSXV: PSH) (OTCQB: PSHIF) is pleased to announce financial and operating results for the three months ended March 31, 2022. The associated Management's Discussion and Analysis ("MD&A") and unaudited financial statements as at and for the quarter ended March 31, 2022 can be found on www.sedar.com or www.petroshaleinc.com.

All dollar amounts in this news release are stated in Canadian dollars unless otherwise noted.

Highlights	Three months ended		
	March 31 2022	December 31 2021	March 31 2021
(in thousands, except share data)			
Financial			
Funds flow ⁽¹⁾	\$33,601	\$19,962	\$12,432
Per share basic	\$0.06	\$0.04	\$0.07
Per share diluted	\$0.05	\$0.04	\$0.06
Funds flow, excluding transaction costs ⁽¹⁾	\$35,701	\$19,962	\$12,432
Per share basic	\$0.06	\$0.04	\$0.07
Per share diluted	\$0.06	\$0.04	\$0.06
Adjusted EBITDA ⁽¹⁾	\$35,664	\$22,409	\$15,067
Per share basic	\$0.06	\$0.04	\$0.08
Per share diluted	\$0.06	\$0.04	\$0.08
Net cash from operating activities	\$38,242	\$17,449	\$15,893
Net income (loss)	\$5,888	\$25,065	(\$44,424)
Per share basic	\$0.01	\$0.05	(\$0.24)
Per share diluted	\$0.01	\$0.05	(\$0.24)
Exploration and development expenditures ⁽¹⁾	\$11,062	\$29,547	\$2,005

Net debt ⁽¹⁾	\$121,092	\$196,067	\$318,285
Common shares			
Shares outstanding, end of period	659,638	523,388	188,556
Weighted average shares (basic)	609,679	521,800	188,544
Weighted average shares (diluted)	623,170	532,491	197,304
Operations			
Production			
Tight oil (Bbls per day)	7,065	7,342	6,376
Shale gas (Mcf per day)	11,138	11,615	11,288
NGL (Bbls per day)	1,760	1,628	1,851
Barrels of oil equivalent (Boepd, 6:1)	10,681	10,906	10,108
Average realized price			
Tight oil (\$ per Bbl)	\$119.28	\$94.72	\$69.37
Shale gas (\$ per Mcf)	\$4.87	\$4.71	\$1.67
NGL (\$ per Bbl)	\$27.30	\$25.81	\$11.41
Barrels of oil equivalent (\$ per Boe, 6:1)	\$88.26	\$72.64	\$47.71
Operating netback per Boe (6:1)			
Operating netback ⁽¹⁾	\$41.11	\$23.77	\$18.57
Operating netback (prior to hedging) ⁽¹⁾	\$56.01	\$43.74	\$26.62
⁽¹⁾ Management uses these non-GAAP financial measures to analyze operating performance, leverage and investing activity. These measures do not have a standardized meaning under GAAP and therefore may not be comparable with the calculation of similar measures for other companies. See Non-GAAP Measures within this document for additional information.			
Funds flow netback per Boe (6:1) ⁽¹⁾	\$34.95	\$19.90	\$13.67
Excluding transaction related costs ⁽¹⁾	\$37.14	\$19.90	\$13.67

MESSAGE TO SHAREHOLDERS

The first quarter of 2022 marked the beginning of PetroShale's transition to a new business strategy with a focus on the long-term objectives of delivering disciplined growth, while enhancing financial flexibility.

During the quarter, PetroShale appointed a new management team (the "New Management Team"), led by Brett Herm President & Chief Executive Officer, Jason Skehar as Chief Operating Officer, Marvin Tang as Vice President, Finance Financial Officer, Anthony Baldwin as Vice President, Business Development, Sandy Brown as Vice President, Geosci Kristine Lavergne as Vice President, Engineering, and Shane Manchester as Vice President, Operations. The New Management has a successful track record of creating long-term shareholder value through the execution of a disciplined and strategy of acquiring and developing assets.

Concurrent with the appointment of the New Management Team, PetroShale successfully raised total gross proceeds of

million from an equity offering, which included a direct investment of \$9.5 million by the New Management Team. Proceeds from the financing were used to reduce debt levels, positioning the Company to execute on a disciplined corporate strategy of strategic acquisitions and responsibly developing PetroShale's high-quality light oil-weighted assets in North Dakota.

PetroShale maintained a disciplined approach to operations, capital allocation and cost control in the first quarter amid a strengthening commodity price environment. The Company invested \$11.1 million in exploration and development expenditures during the period which was largely directed to the construction of a multi-well oil facility and completion of one gross well and was designed to manage the pace of development while targeting free funds flow¹ generation for continued debt repayment.

The Company's achievements in the first quarter of 2022 include:

- Realized average production of 10,681 boepd compared to 10,906 boepd in the fourth quarter of 2021 and 10,108 boepd in the first quarter of 2021;
- Increased operating netback¹ prior to hedging by 28% to \$56.01 per Boe compared to \$43.74 in the fourth quarter of 2021 and 110% compared to \$26.62 per Boe in the first quarter of 2021;
- Generated quarterly funds flow¹ of \$33.6 million, relative to \$20.0 million in the fourth quarter of 2021 and \$12.4 million in the first quarter of 2021;
- Generated funds flow per share of \$0.06 compared to \$0.04 in the fourth quarter of 2021 and \$0.07 in the first quarter of 2021;
- Invested \$11.1 million in exploration and development expenditures¹ on funds flow¹ of \$33.6 million, representing a payout ratio¹ of 33%;
- Successfully raised total gross proceeds of \$54.5 million from a private placement equity offering; and
- Reduced net debt¹ to \$121.1 million at March 31, 2022, from \$196.1 million at December 31, 2021 and \$318.3 million at March 31, 2021.

OPERATIONAL UPDATE

In the first quarter of 2022, the Company invested \$11.1 million, which resulted in the completion of one gross (0.5 net) well that was drilled in 2021, along with the construction of a multi-well oil facility that will support ongoing operations.

PetroShale's production averaged 10,681 boepd in the first quarter, a 6% increase from 10,108 boepd during the same period in 2021 and a reduction of 2% from fourth quarter 2021 production of 10,906 boepd, reflecting the Company's efforts to stabilize its overall corporate decline rate.

As a result of the average production volumes coupled with higher operating netbacks, the Company generated \$33.6 million of funds flow¹ during the first quarter of 2022, of which \$11.1 million was invested in exploration and development expenditures, driving a conservative payout ratio¹ of 33%. Free funds flow¹ was allocated to debt repayment and strengthening the balance sheet.

PetroShale exited the first quarter of 2022 with net debt of \$121.1 million, a reduction of 38% compared to the fourth quarter of 2021 and a decrease of 62% from the first quarter of 2021.

PetroShale's lower-risk North Dakota assets are characterized by compelling rates of return driven by robust operating production rates and high estimated ultimate recoveries. With a corporate production decline profile estimated at approximately 30% for 2022, coupled with high operating netbacks, the Company's assets yield significant free funds flow¹ in the current commodity price environment. Consistent with the corporate strategy, PetroShale intends to allocate free funds flow¹ to continued debt repayment, positioning for ongoing expansion of the Company's production, reserves base and overall asset quality.

¹ See "Non-GAAP Measures" within this press release.

OUTLOOK AND SUSTAINABILITY

The New Management Team is pleased with the Company's achievements year to date in 2022 and the ongoing performance of PetroShale's high-quality asset base. The Company's assets offer stable production volumes, robust operating netbacks and

funds flow¹ generation in the current price environment that can be directed to strengthening the balance sheet. The Company will continue to execute a disciplined development program by investing within funds flow¹, thereby positioning for longer-term sustainability. In addition, PetroShale remains committed to operational excellence and prioritizing strong environmental, social and governance ("ESG") principles as pillars of the Company's strategy.

Based on a 2022 capital expenditure budget of US\$45 million, the Company anticipates drilling 6.8 net wells, targeting opportunities where PetroShale has realized strong well performance in previous drilling programs. The budget also includes the construction of the multi-well oil facility to support ongoing operations as mentioned above.

As PetroShale establishes enhanced financial flexibility, the New Management Team has the opportunity to consider various capital allocation options, including debt repayment, accretive growth or a return of capital to shareholders. As the final step of the Company's transformation and new strategy, PetroShale's shareholders will be asked to approve a change of the Company name to "Lucero Energy Corp." at the upcoming Annual General Meeting of shareholders to be held May 19, 2022. Subsequent to the shareholder meeting, the Company anticipates that the ticker symbol on TSX Venture Exchange will be changed to "LUCO" with further details to be provided.

Following are key operational, financial and guidance metrics for PetroShale:

Production Guidance	2022E Average: 10,500 - 11,000 boepd (85% light oil and liquids) 2022E Exit: 11,000 boepd (85% light oil and liquids)
Total Proved plus Probable Reserves ⁽¹⁾	~72 MMboe (85% light oil and liquids)
Development Inventory	>45 net undrilled locations
Sustainability Assumptions	Corporate Production Decline: 30% (2022E) Capital Efficiency ^{(2),(3)} : ~C\$17,000/boepd (IP 365)
2022 Capital Program ⁽³⁾	US\$45 million (~C\$58 million)
Net Debt as at March 31, 2022	C\$121 million
Common Shares Outstanding (basic)	660 million

⁽¹⁾ All reserves information in this press release are gross Company reserves, meaning PetroShale's working interest reserves before deductions of royalties and before consideration of PetroShale's royalty interests. The reserve information for PetroShale in the foregoing table is derived from the independent engineering report effective December 31, 2021 prepared by NSAI evaluating the oil, NGL and natural gas reserves attributable to all of the Company's properties.

⁽²⁾ Capital efficiency is a measure of all-in corporate forecast capital expenditures divided by forecast production additions.

⁽³⁾ Assumes a foreign exchange rate of US\$1.00 = CDN\$1.29.

¹ See "Non-GAAP Measures" within this press release.

READER ADVISORIES

Forward Looking Statements

This press release contains forward-looking statements and forward-looking information (collectively "forward-looking information").

information") within the meaning of applicable securities laws relating to the Company's plans, strategy, business model, objectives and other aspects of PetroShale's anticipated future operations and financial, operating and drilling and development plans and results, including, expected future production, production mix, reserves, drilling inventory, net debt, funds flow, netbacks, decline rate and decline profile, product mix, capital expenditure program, capital efficiencies, and commodity prices, addition, and without limiting the generality of the foregoing, this press release contains forward-looking information regarding the focus and allocation of PetroShale's 2022 capital budget; anticipated average and exit production rates, available free cash flow; management's view of the characteristics and quality of the opportunities available to the Company; PetroShale's dividend policy and plans; and other matters ancillary or incidental to the foregoing.

Forward-looking information typically uses words such as "anticipate", "believe", "project", "target", "guidance", "expect", "plan", "intend" or similar words suggesting future outcomes, statements that actions, events or conditions "may", "will" or "could" be taken or occur in the future. The forward-looking information is based on certain key expectations and assumptions made by PetroShale's management, including expectations concerning prevailing commodity prices, exchange rates, applicable royalty rates and tax laws; capital efficiencies; decline rates; future production rates and estimates of operating performance of existing and future wells; reserve and resource volumes; anticipated timing and results of capital expenditures; success obtained in drilling new wells; the sufficiency of budgeted capital expenditures in carrying out planned activities; location and extent of future drilling operations; the state of the economy and the exploration and production business; operations; performance; business prospects and opportunities; the availability and cost of financing, labor and services; and the risk of increasing competition; ability to market oil and natural gas successfully and PetroShale's ability to access capital.

Statements relating to "reserves" are also 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 that the reserves can be profitably produced in the future.

Although the Company believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because PetroShale can give no assurance that they will prove to be correct. Since forward-looking information addresses future events and conditions, by its very nature, it involves inherent risks and uncertainties. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that all the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits that the Company will derive there from. Management has included the above summary of assumptions and risks related to the forward-looking information provided in this press release in order to provide security holders with a more complete picture of PetroShale's future operations and such information may not be appropriate for other purposes. Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect PetroShale's operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

These forward-looking statements are made as of the date of this press release and PetroShale disclaims any intent or obligation to update publicly any forward-looking information, whether as a result of new information, future events or results or otherwise other than as required by applicable securities laws.

Non-GAAP Measures

This document includes non-GAAP measures commonly used in the oil and natural gas industry. These non-GAAP measures do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS", or alternatively, "GAAP"), and therefore may not be comparable with the calculation of similar measures by other companies. For details, descriptions and reconciliations of these and other non-GAAP measures, see the Company's Management's Discussion and Analysis ("MDA") for the three months ended March 31, 2022.

"Funds flow" represents cash from operating activities prior to changes in non-cash operating working capital, including depreciation and finance expenses, and is a measure of the Company's ability to generate funds to service its debt and other obligations related to its operations, without the impact of changes in non-cash working capital, which can vary based solely on timing of settlement of accounts receivable and accounts payable. "Funds flow, excluding transaction related costs" represents funds flow prior to transaction related costs. "Funds flow netback per Boe" represents funds flow divided by production volumes for the reporting period, and is presented including and excluding transaction related costs.

"Net debt" represents total liabilities, excluding decommissioning obligation, deferred tax liability, lease liability and financial derivative liability, less current assets, excluding financial derivative assets. PetroShale believes net debt is a key measure to assess the Company's liquidity position at a point in time. Net debt is not a standardized measure and may not be comparable

similar measures for other entities.

"Operating netback" represents petroleum and natural gas revenue, plus or minus any realized gain or loss on financial derivatives, less royalties, lease operating costs, workover expense, production taxes, and transportation expense. "Operating netback prior to hedging" represents operating netback prior to any realized gain or loss on financial derivatives. PetroShale believes that, in addition to net income (loss) and cash provided by operating activities, operating netback, operating netback prior to hedging, and Adjusted EBITDA are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage, and liquidity. Operating netback is commonly used by investors to assess performance of oil and gas property and the possible impact of future commodity price changes on energy producers.

"Exploration and development expenditures" represents additions to property, plant and equipment in the cash flow used in investing activities, less capitalized general and administrative expenses. Exploration and development expenditures represent a portion of the Company's investments in property, plant and equipment.

"Free funds flow" represents funds flow, less exploration and development expenditures. Management considers this measure to be useful in determining its available discretionary cash to fund capital expenditures, acquisitions or returns of capital to shareholders.

"Payout ratio" represents exploration and development expenditures as a percentage of funds flow.

Oil and Gas Disclosures

The term "boe" or barrels of oil equivalent may be misleading, particularly if used in isolation. A boe conversion ratio of 6:1 (thousand cubic feet of natural gas to one barrel of oil equivalent (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. Additionally, 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 ratio of 6:1 may be misleading as an indication of value.

This press release discloses drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unproved locations. Proved locations and probable locations are derived from the reserves evaluation prepared by NSAI as of December 31, 2021 and account for drilling locations that have associated proved and/or probable reserves, as applicable. Unbooked locations are internal estimates prepared by a qualified reserves evaluator based on PetroShale's prospective acreage and an assessment as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves. Of the 45 net drilling locations identified herein, 27 are proved locations, 6 are probable locations, and 12 are unbooked locations. Unbooked locations have been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that PetroShale will drill all unbooked drilling locations and, if drilled, there is no certainty that such locations will produce additional oil and gas reserves or production. The drilling locations on which we actually drill wells will ultimately depend on the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been derived from existing wells in relative close proximity to such unbooked drilling locations, some of other unbooked drilling locations are not. Brett Hawan, President and Chief Executive Officer, info@petros hale.com, Telephone: (825) 509-4488, Email: info@petros hale.com; Marvin Tved, Vice President, Finance and Chief Financial Officer, mtved@petros hale.com, Telephone: (825) 509-4488, Email: mtved@petros hale.com.

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Die URL für diesen Artikel lautet:

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