

Hemisphere Energy Provides Operations Update and 2023 Corporate Guidance

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Vancouver, January 24, 2023 - [Hemisphere Energy Corp.](#) (TSXV: HME) (OTCQX: HMFNF) ("Hemisphere" or the "Company") is pleased to announce an update on its operations and provide corporate guidance for 2023.

Corporate Update

Over the past year Hemisphere has achieved a number of significant corporate milestones, including the elimination of bank debt, initiation of a quarterly dividend, start-up of a tertiary enhanced oil recovery scheme, and new record production levels. These financial and operational accomplishments in 2022 have set the Company on firm footing for continued growth and success in 2023.

Last year, Hemisphere's annual production increased by 55% over that of 2021 to a record 2,825 boe/d (99% Heavy Oil). This was below guidance by 6% due to a number of factors that included unplanned facility outages in August and October, and extreme weather-related production downtime in December. Production was also lost from two producers that were shut-in for injector conversion during the latter half of the year.

Since the start of the new year Hemisphere's production has averaged approximately 3,200 boe/d (99% Heavy Oil, based on field estimates between Jan 1st - Jan 22nd). This number includes one week of production from two new Atlee F pool wells that Hemisphere drilled in December. Initial production from the new wells is encouraging and will continue to be optimized over the coming weeks. During the year it is expected that one of these wells will be converted to an injector for the pool.

In the field, Hemisphere is currently commissioning a new treater at its Atlee F pool which is anticipated to increase production capacity and limit downtime as new wells are drilled and put on production this year. At the Atlee G pool, the Company has just recently started up polymer injection into the second of its 2022 injector conversions. This injector is considered key to pressure maintenance in the northwestern area of the pool and is expected to increase pressure and production at the offsetting wells.

2023 Corporate Guidance

Hemisphere's Board of Directors has approved a 2023 capital expenditure² program of \$14 million, which is planned to be entirely funded by Hemisphere's estimated 2023 Adjusted Funds Flow² (AFF) of \$45 million, and is expected to grow annual production by 17%. The majority of capital will be allocated to 9 drilling locations and additional facility upgrades at the Company's Atlee F and G oil batteries. Hemisphere will also tie-in a single well battery that was used to test production capability from one of its fall drilling locations, which stepped out into a reservoir extension to the southwest of its Atlee F pool.

After capital expenditures, free funds flow² is budgeted to be \$31 million, of which approximately 30% is planned to be paid in quarterly dividends as shown in the table below. The balance of cash will be used for discretionary purposes, which may include potential acceleration of other development or exploration projects, acquisitions, and additional return of capital to shareholders through Hemisphere's Normal Course Issuer Bid (NCIB) program and/or special dividends.

Highlights and assumptions of Hemisphere's guidance are as follows:

- Annual average production of 3,300 boe/d (99% heavy crude oil), a 17% increase over 2022
- WTI average price of US\$85/bbl WTI, with sensitivities shown at US\$70/bbl and US\$100/bbl

- WCS differential of US\$20.00/bbl and quality adjustment of \$5.50/bbl
- CAD/US FX of 1.35
- Operating and transportation costs of \$15.00/boe
- Royalties and GORRs of 20% of gross revenue
- Net G&A of \$3.40/boe and Interest & other fees of \$0.40/boe

2023 Corporate Guidance ⁽¹⁾		\$70 WTI	\$85 WTI	\$100 WTI
Adjusted Funds Flow (AFF) ⁽²⁾	\$ million	33	45	56
AFF per Basic Share ^(2,3)	\$/share	0.32	0.44	0.55
Capital & ARO Expenditures ⁽²⁾	\$ million	14	14	14
Free Funds Flow ⁽²⁾	\$ million	19	31	42
Dividends	\$ million	10	10	10
Working Capital - exit	\$ million	9	21	32

Notes:

(1) See assumptions noted above within "2023 Corporate Guidance".

(2) Adjusted Funds flow, Capital Expenditures, and Free Funds Flow are non-IFRS financial measures that are forward looking and do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. AFF per basic share is a non-IFRS financial ratio that is forward looking and does not have any standardized meaning under IFRS and therefore may not be comparable to similar ratios presented by other entities and includes a non-IFRS financial measure component of adjusted funds flow. See "Non-IFRS Measures".

(3) Using a 2023 weighted average of 102 million basic shares issued and outstanding.

(4) The amounts above do not include potential future purchases through the Company's NCIB program.

Return of Capital

Hemisphere is committed to protecting its existing return of capital program, while ensuring long-term sustainable growth from its low-risk, low-cost, and high free funds flow² yielding asset base. The Company's dividend policy was instated in June 2022 and targets a payout of approximately 30% of annual free funds flow² to shareholders through quarterly variable dividends. Additional funds may be allocated to strategic share buybacks and special dividends.

About Hemisphere Energy Corporation

Hemisphere is a Canadian oil company focused on sustainable growth of its high netback, low decline conventional heavy oil assets through water and polymer flood enhanced recovery methods. Hemisphere trades on the TSX Venture Exchange as a Tier 1 issuer under the symbol "HME" and on the OTCQX Venture Marketplace under the symbol "HMENF".

For further information, please visit the Company's website at www.hemisphereenergy.ca to view its corporate presentation or contact:

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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 expectation that it is expected that one of the new Atlee F pool wells will be converted to an injector for the pool, a new treater at its Atlee F pool may increase production capacity and limit downtime as new wells are drilled and put on production this year, a new injector at the Atlee G pool is expected to add pressure and production at the offsetting wells, anticipated adjusted funds flow, that the majority of the Company's capital will be allocated to 9 drilling locations and additional facility upgrades at the Company's Atlee F and G oil batteries, expectation to grow annual production by 15-20%; Hemisphere's expectations that it will tie-in a single well battery that was used to test production capability from one of its fall drilling locations, Hemisphere's anticipation that approximately 30% of estimated \$31 million in free funds flow will be paid in quarterly dividends with the balance of cash being used for discretionary purposes, which may include potential acceleration of other development or exploration projects, acquisitions, and additional return of capital to shareholders through Hemisphere's NCIB program and/or special dividends, expected timing for new wells to be online; the expected manner in which the Corporation's 2023 capital budget will be spent, including the timing of such expenditures and any discretionary amounts, which may include potential acceleration of other development or exploration projects, acquisitions, and return of capital to shareholders through Hemisphere's NCIB program and/or dividends, and the anticipated effects thereof, including as set forth under "2023 Corporate Guidance" and the Company's dividend policy. .

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 (including the assumptions noted in respect of "2023 Corporate Guidance"), assumptions have been made regarding, among other things: the current and go-forward oil price environment; that Hemisphere will continue to conduct its operations in a manner consistent with past operations; that 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; inflationary pressure and related costs; that the Company's dividend policy will remain the same and the Company will continue to be able to declare dividends; 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 accuracy of the Company's reservoir modelling; 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; regulatory risks, including penalties or other remedial actions, the ability of the Company to maintain legal title to its properties; 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; results of Hemisphere's waterflood operations; the ability of Hemisphere to, pending future events, return capital to shareholders as a result of any required third party approvals; changes in budgets; 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.

Forward Looking Financial Information

This news release may contain future oriented financial information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Company's activities and results. The FOFI has been prepared based on a number of assumptions including the assumptions discussed and disclosed above, including in relation to "2023 Corporate Guidance" above and "Forward Looking Statements" above and that the Company will be cash taxable in 2023. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits the Company will derive therefrom. The Company has included the FOFI in order to provide readers with a more complete perspective on the Company's future operations and such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any FOFI statements, whether as a result of new information, future events or otherwise, except as required by law.

Non-IFRS Measures

This news release contains terms that are non-IFRS measures or ratios that are forward looking 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) adjusted funds flow (ii) adjusted funds flow per basic share; (iii) capital expenditures and (iv) free funds flow. 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 is cash provided by operating activities, in the case of adjusted funds flow (and adjusted funds flow per share) is cash provided by operating activities and in the case of capital expenditures is cash flow used in investing activities. There is no IFRS measure that is reasonably comparable to free funds flow. 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 adjusted funds flow and free funds flow, the Company's ability to generate the funds necessary to support future growth through capital investment and to repay any debt.

Hemisphere's determination of these measures may not be comparable to that reported by other companies. Adjusted funds flow is calculated as cash generated by operating activities, before changes in non-cash working capital and adjusted for any decommissioning expenditures; Adjusted funds flow per share is calculated using the outstanding basic shares of the company as footnoted in the 2023 Corporate Guidance table; and Free Funds Flow is calculated as Adjusted Funds Flow less capital expenditures. The Company has provided additional information on how these measures are calculated, including a reconciliation of such measures to their comparable IFRS measure, in the Management's Discussion and Analysis for the year ended December 31, 2021 and the interim period ended September 30, 2022, which are available under the Company's SEDAR profile at www.sedar.com.

Oil and Gas Advisories

Any references in this news release to recent production rates (including as a result of recent waterflood activities) which may be considered to be initial rates and are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter and are not necessarily indicative of long-term performance or ultimate recovery. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. Such rates are based on field estimates and may be based on limited data available at this time.

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
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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