



## HEMISPHERE ENERGY ANNOUNCES Q2 2016 FINANCIAL AND OPERATING RESULTS

TSX-V: HME

Vancouver, British Columbia, August 25, 2016 – Hemisphere Energy Corporation (TSX-V: HME) ("Hemisphere" or the "Company") announces its financial and operating results for the three months ended June 30, 2016.

### Q2 2016 Highlights

- Averaged quarterly production of 492 boe/d (83% oil).
- Realized an operating netback of \$580,876, or \$12.97/boe, for a \$10.24/boe improvement over the first quarter of 2016 with an average WTI price of \$45.59 US/bbl.
- Attained aggregate funds flow from operations of \$159,894.
- Significantly decreased general and administration costs by 45% from the second quarter of 2015, resulting in G&A of \$6.35/boe.
- Announced and closed the first tranche of a private placement financing with gross proceeds of \$1,041,435.
- Started injection at the third pilot well in the Atlee Buffalo Upper Mannville F pool, which has started to exhibit a positive production response.
- Confirmed credit facility of \$12.5 million.

### Corporate Update

During the second quarter of 2016, Hemisphere announced a private placement of a combination of common shares and CDE flow-through common shares. Total gross proceeds from the financing, which closed in two tranches extending over quarter-end, were \$1,921,055.

Hemisphere subsequently drilled its first horizontal development well into the Atlee Buffalo Upper Mannville G pool at the end of July. Total costs to drill, complete, equip and tie-in the well are estimated to be \$685,000 which is 10% under budget and 45% less than the average cost of the 10 Atlee Buffalo wells drilled by Hemisphere in 2014. During drilling operations the well exhibited excellent reservoir quality and oil shows. The well has now been placed on production and Hemisphere intends to release its 30 day stabilized production rate when available. The reservoir, which has undergone water injection since November 2015, has shown a threefold increase in pressure as a result of the pilot waterflood program. This well was essential in proving the economic viability of the remaining reserves in this pool, which has to date produced only 3% of its estimated 38 MMbbl of original oil in place, as mapped by McDaniel & Associates Consultants Ltd., Hemisphere's independent engineers.

The Company is currently injecting water at all four of its planned waterflood pilots in Atlee Buffalo and is continuing to see an increase in oil rates and reservoir pressure at its producing wells. Production from the Atlee Buffalo Upper Mannville F pool declined to a low of under 100 boe/d during the second quarter, however, has since climbed to over 225 boe/d and is trending upwards as the reservoir is re-energized. A water handling facility is planned for construction in mid-September, at which point production rates are expected to increase as injection rates are doubled.

Hemisphere has endeavoured to keep its decommissioning liabilities to a minimum by focusing on organic growth through drilling and targeted strategic acquisitions. Recent changes by the Alberta Energy Regulator (AER) require a minimum corporate Liability Management Ratio (LMR) of 2.0 to be eligible for certain transactions involving the transfer of existing AER licences. As of August 2016, the Company's LMR is 4.68, which is among the top 15% of operating companies in Alberta. This ratio reflects Hemisphere's deemed assets to deemed liabilities and puts the Company in a strong position for acquiring additional assets.

Since the first quarter, oil prices have gradually improved, differentials have been stable, and exchange rates have remained high. With these positive impacts to realized oil prices, Hemisphere adjusted its focus from capital preservation to strategic investment in key projects that will add production, increase reserves, and achieve long-term shareholder value and growth for the Company.

For the remainder of 2016, Hemisphere will continue to monitor market conditions and optimize its Atlee Buffalo waterfloods and Jenner base production, with the goals of continued reduction in operating costs and net debt. The Atlee Buffalo water handling facility planned for the third quarter is expected to significantly decrease transportation and operating costs in the area due to third party processing, trucking, and water disposal fees.

## Financial and Operating Summary

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
<b>FINANCIAL</b>				
Petroleum and natural gas revenue	\$ 1,448,722	\$ 3,284,020	\$ 2,384,557	\$ 6,212,284
Petroleum and natural gas netback	580,876	1,954,246	706,932	3,782,232
Funds flow from operations <sup>(1)</sup>	159,894	1,320,981	(87,620)	2,577,514
Per share, basic and diluted	0.00	0.02	(0.00)	0.03
Net income (loss)	(580,725)	(575,484)	(1,647,281)	(1,221,830)
Per share, basic and diluted	(0.01)	(0.01)	(0.02)	(0.02)
Capital expenditures, including property acquisitions	204,407	829,495	549,083	962,783
Net debt <sup>(2)</sup>	11,062,899	9,938,019	11,062,899	9,938,019
Bank indebtedness	\$ 10,983,696	\$ 9,438,835	\$ 10,983,696	\$ 9,438,835
<b>OPERATING</b>				
<b>Average daily production</b>				
Oil (bbl/d)	407	655	408	743
Natural gas (Mcf/d)	499	1,149	540	1,055
NGL (bbl/d)	2	3	2	3
Combined (boe/d)	492	849	500	922
Oil and NGL weighting	83%	77%	82%	81%
<b>Average sales prices</b>				
Oil (\$/bbl)	\$ 37.59	\$ 50.49	\$ 29.97	\$ 42.43
Natural gas (\$/Mcf)	1.13	2.57	1.52	2.60
NGL (\$/bbl)	26.73	22.56	23.16	22.02
Combined (\$/boe)	\$ 32.34	\$ 42.49	\$ 26.19	\$ 37.24
<b>Operating netback (\$/boe)</b>				
Petroleum and natural gas revenue	\$ 32.34	\$ 42.49	\$ 26.19	\$ 37.24
Royalties	2.38	2.77	2.37	2.73
Operating costs	12.18	11.51	11.81	8.98
Transportation costs	4.81	2.92	4.25	2.85
Operating netback <sup>(3)</sup>	\$ 12.97	\$ 25.28	\$ 7.76	\$ 22.67

Notes:

- (1) Funds flow from operations is an additional 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. See "Non-IFRS and Additional IFRS Measures".
- (2) Net debt is a non-IFRS measure calculated as current assets minus current liabilities including bank indebtedness and excluding flow-through share premium. See "Non-IFRS and Additional IFRS Measures".
- (3) Operating netback 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. See "Non-IFRS and Additional IFRS Measures".

## About Hemisphere Energy Corporation

Hemisphere Energy Corporation 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 trades on the TSX Venture Exchange as a Tier 1 issuer under the symbol "HME".

For further information, please visit our website at [www.hemisphereenergy.ca](http://www.hemisphereenergy.ca) to see our corporate presentation or contact:

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## Forward-looking Statements

*This news release contains forward-looking statements and/or forward-looking information (collectively, "forward-looking statements") that are based on Hemisphere's current expectations, estimates, forecasts and projections. The words "estimates", "projects", "expects", "intends", "believes", "plans", or their negatives or other comparable words and phrases are intended to identify forward-looking statements and include statements regarding Hemisphere's outlook for our future operations, plans, and timing for the commencement or advancement of exploration and development activities on our properties; Hemisphere's plans to announce a 30 day stabilized production rate when available for its recently drilled Atlee Buffalo Upper Mannville G pool oil well; Hemisphere's expectation that production rates from the Atlee Buffalo Mannville F pool will increase following the construction of a water handling facility and the rate of reservoir water injection; Hemisphere's expectation that transportation and operating costs will decrease following the construction of the water handling facility and other expectations, intentions, and plans that are not historical fact.*

*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 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 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 and Additional IFRS Measures**

The press release contains terms 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, which is an additional IFRS measure; (ii) net debt, which is a non-IFRS measure; and (iii) operating netback, which is a non-IFRS measure. 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, 2015, which is available under the Company's SEDAR profile at [www.sedar.com](http://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
boe/d	barrel of oil equivalent per day	IFRS	International Financial Reporting Standards
\$/boe	dollar per barrel of oil equivalent	G&A	General and Administrative Costs

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