HEMISPHERE ENERGY ANNOUNCES FINANCIAL AND OPERATING RESULTS FOR Q2 2020

TSX-V: HME

Vancouver, British Columbia, August 27, 2020 – Hemisphere Energy Corporation (TSX-V: HME) ("Hemisphere" or the “Company") announces its financial and operating results for the three and six months ended June 30, 2020.

Q2 2020 Highlights

- Achieved revenue of $2.5 million.
- Realized an operating netback of $2.7 million, including hedging gains of $1.4 million.
- Attained quarterly adjusted funds flow from operations of $1.4 million or $0.02 per share (basic).
- Increased quarterly production by 20% to 1,645 boe/d (100% heavy crude oil), over the second quarter of 2019.
- Reduced operating and transportation expenses to $7.64/boe, a 50% decrease from the second quarter of 2019.
- Achieved an operating netback of $17.74/boe, including a $9.33/boe hedging gain.
- Lowered net debt to $30.9 million, a $2.3 million decrease from the end of the first quarter 2020.
- Increased corporate Liability Management Ratio (LMR) with the Alberta Energy Regulator to 12.19 as of the end of the second quarter of 2020.

Corporate Update

During the second quarter of 2020, Hemisphere was impacted by the significant drop in oil prices due to the demand reduction caused by the COVID-19 pandemic. Despite these challenges, Hemisphere managed to achieve positive operating netback of $17.74/boe and funds flow from operations of $1.4 million by adapting quickly to the changing market conditions. The Company shut-in its highest operating cost wells, deferred all but essential capital spending, and took on additional oil hedges to keep the majority of its operations running while protecting against the risk of negative oil prices.

Hemisphere’s production averaged 1,645 boe/d (100% heavy crude oil) through the second quarter, after shutting in some of its higher cost wells. With a sharp focus on maximizing netbacks, Hemisphere was able to lower its operating and transportation costs for the second quarter to $7.64/boe. This reduction is a result of diligent work by the operations team and proactive rate reductions from our core vendors and service providers. Since bringing most of its wells back on, Hemisphere’s corporate production to date in August is currently averaging approximately 1,725 boe/d (field estimate for Aug 1-24, 99% heavy crude oil and 1% conventional natural gas). Fuel gas issues in Atlee Buffalo have impacted the ability to fully optimize production, and plans to construct a small pipeline to connect into a gas system are underway.

With limited capital spending, the Company was able to lower net debt at the end of the second quarter by $2.3 million or 7% as compared to the end of the first quarter. Hemisphere also proactively entered into an agreement with its lender in April 2020 to temporarily waive the application of and compliance with its two financial covenants (being the interest coverage ratio and total leverage ratio covenants), two reserve-based covenants (being the PDP coverage ratio and total proved reserve coverage ratio covenants), and production covenant that are included in the credit agreement with the lender, in each case for the fiscal quarter ending June 30, 2020. Hemisphere continues to have a very positive relationship with its lender and still has over two years remaining of its five-year term loan, with a maturity date of September 15, 2022.

Corporate Outlook

Hemisphere intends to continue its conservative approach to capital spending during the second half of 2020 with a focus on maximizing cash flow, minimizing capital spending, and lowering net debt. Should commodity pricing and volatility significantly improve, Hemisphere will be ready to quickly execute development plans on its existing assets. Hemisphere is currently moving forward applications which, if approved, will allow for conversion of its Atlee Buffalo waterflood assets into polymer flood projects. The Company is encouraged by the higher WCS oil prices experienced to date during the third quarter and the oil supply versus oil demand outlook heading into 2021.

Financial and Operating Summary

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	**2020**	2019
OPERATING				
Average daily production				
Oil (bbl/d)	**1,645**	1,317	**1,793**	1,323
Natural gas (Mcf/d)	**0**	295	**96**	291
NGL (bbl/d)	**0**	1	**0**	1
Combined (boe/d)	**1,645**	1,367	**1,809**	1,373
Oil and NGL weighting	**100%**	96%	**99%**	96%
Average sales prices				
Oil ($/bbl)	**$ 16.38**	$ 62.15	**$ 22.62**	$ 57.17
Natural gas ($/Mcf)	**0** (6)	(2.14)	**1.97**	2.41
NGL ($/bbl)	**0**	32.29	**68.84**	40.51
Combined ($/boe)	**$ 16.38**	$ 59.44	**$ 22.52**	$ 55.65
Operating netback ($/boe)				
Petroleum and natural gas revenue	**$ 16.38**	$ 59.44	**$ 22.52**	$ 55.65
Royalties	**(0.33)**	(8.99)	**(1.59)**	(7.15)
Operating costs	**(5.25)**	(12.84)	**(6.40)**	(11.25)
Transportation costs	**(2.39)**	(2.59)	**(2.53)**	(2.52)
Operating field netback(1)	**8.41**	35.02	**12.00**	34.73
Realized commodity hedging gain (loss)	**9.33**	(3.92)	**6.77**	(3.74)
Operating netback(2)	$ **17.74**	$ 31.10	**$ 18.77**	$ 30.99
FINANCIAL				
Petroleum and natural gas revenue	**$ 2,452,793**	$ 7,396,095	**$ 7,415,993**	$ 13,831,347
Operating field netback(1)	**1,259,856**	4,357,767	**3,950,664**	8,632,028
Operating netback(2)	**2,656,703**	3,869,440	**6,181,341**	7,701,665
Cash flow provided by operating activities	**826,988**	2,536,247	**4,194,249**	3,162,906
Adjusted funds flow from operations(3)	**1,363,913**	2,559,898	**3,528,406**	5,194,882
Per share, basic and diluted	**0.02**	0.03	**0.04**	0.06
Net income (loss)	**(3,187,206)**	2,812,582	**(1,034,211)**	1,923,356
Per share, basic and diluted	**(0.04)**	0.03	**(0.01)**	0.02
Capital expenditures	**240,386**	2,980,445	**675,173**	3,952,240
Net debt(4)	**30,891,234**	32,553,820	**30,891,234**	32,553,820
Gross term Loan(5)	**$ 33,940,000**	$ 34,036,600	**$ 33,940,000**	$ 34,036,600

Notes:

(1) Operating field netback 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) Adjusted Funds Flow From operations is a non-IFRS measure that represents cash generated by operating activities, before changes in non-cash working capital and adjusted for any decommissioning expenditures, 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 gross term loan, and excluding fair value of financial instruments and lease liabilities.

(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.

About Hemisphere Energy Corporation

Hemisphere Energy Corporation 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".
For further information, visit our website at www.hemisphereenergy.ca to see our 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 Hemisphere's outlook for future commodity pricing, the Company's intention to continue its conservative approach to capital spending during the second half of 2020 with a focus on maximizing cash flow, minimizing capital spending, and lowering net debt; Hemisphere's expectation that it will be ready to quickly execute development plans on its existing assets should pricing and volatility significantly improve; Hemisphere's intentions to move forward preparations to convert its Atlee Buffalo waterflood assets into polymer projects; and Hemisphere plans for continual growth in production, reserves, and cash flow by drilling existing projects and executing strategic acquisitions

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 (including no acceleration of the maturity date, or other requirements for repayment, of indebtedness under the Company's credit facility); 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 defer 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 or debt facilities; increased costs; the impact of COVID-19 of the Company's operations, including the safe and efficient production of its oil and gas reserves and marketing and sales arrangements with respect to the same and continued demand for the Company's production; 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) adjusted funds flow from operations and adjusted funds flow from operations on a per share basis; (ii) net debt; and (iii) operating netback and operating field netback. 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 adjusted 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 and operating field 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 and adjusted for any decommissioning expenditures and in the case of adjusted funds flow from operations on a per share basis, divided by the basic number of shares outstanding at the applicable time; operating field netback is calculated as the Company's oil and gas sales, less royalties, operating expenses, and transportation costs; and operating netback adjusts operating field netback 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, 2019, 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.

Short-term and peak production rates disclosed herein are not determinative of the rates at which the wells will continue to produce and decline thereafter and may not necessarily be indicative of the long term performance or estimated ultimate recovery.

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*	*WTI*	*West Texas Intermediate Oil price*
WCS	*Western Canada Select Oil Price*		

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