



HEMISPHERE ENERGY ANNOUNCES RECORD QUARTERLY RESULTS AND DECLARES DIVIDEND

TSX-V: HME OTCQX: HMEF

Vancouver, British Columbia, August 18, 2022 – Hemisphere Energy Corporation ("Hemisphere" or the "Company") provides its financial and operating results for the second quarter ended June 30, 2022.

During the second quarter of 2022, Hemisphere achieved record adjusted funds flow from operations (AFF)¹ of \$14 million and lowered net debt¹ to \$3.7 million. Hemisphere was also active in the field with five new wells drilled in the Atlee Buffalo area, which were brought onstream throughout July. The Company continues to optimize both production and injection operations at its polymer and water flood pools in the area and anticipates further production growth through the year. A second drilling program will take place in September with up to four additional wells planned.

Quarterly Dividend

With significant free funds flow¹ of over \$8 million in the quarter, Hemisphere's board of directors has approved a quarterly dividend of \$0.025 per share, to be paid on September 7, 2022 to shareholders of record as of the close of business on August 31, 2022. The dividend is designated as an eligible dividend for income tax purposes.

Q2 2022 Highlights

- Produced a record quarterly average of 2,883 boe/d, a 61% increase over the second quarter of 2021.
- Attained record quarterly revenue of \$30.6 million, a 203% increase over the second quarter of 2021.
- Delivered an operating field netback¹ of \$71.25/boe, 82% higher than in the second quarter of 2021.
- Realized record adjusted funds flow from operations (AFF)¹ of \$14.0 million (\$0.14 per diluted share), a 232% increase over the comparable period in 2021.
- Achieved free funds flow¹ of \$8.2 million, (\$0.08 per diluted share), representing a 250% increase over the comparable period in 2021.
- Lowered net debt¹ at the end of the quarter to \$3.7 million from \$18.5 million at the end of June 2021, representing an 80% reduction year-over-year.
- Exited the quarter with a net debt to annualized AFF ratio¹ of 0.07.
- Paid Hemisphere's inaugural quarterly variable dividend of \$0.025 per share.
- Acquired 656,500 Hemisphere shares as part of the corporate NCIB at an average price of \$1.62.

Corporate Update

Since the second quarter of 2021, Hemisphere has organically grown production by approximately 75% to an average of 3,150 boe/d in July 2022 (99% heavy crude oil). Over the same period, Hemisphere reduced its net debt to annualized AFF ratio¹ to less than 0.1. In June, Hemisphere commenced a variable dividend program targeting approximately 30% of annual free cash flow to be paid to shareholders quarterly.

¹ See "Non-IFRS and Other Financial Measures".

Additionally, over a million total shares have been purchased under Hemisphere's Normal Course Issuer Bid (NCIB) to date in 2022.

Financial and Operating Summary

(\$000's except per unit amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
FINANCIAL				
Petroleum and natural gas revenue	\$ 30,608	10,087	\$ 53,463	\$ 17,976
Operating field netback ⁽¹⁾	18,695	6,375	34,156	11,773
Operating netback ⁽¹⁾	16,148	5,579	28,145	10,877
Cash flow provided by operating activities	14,926	4,741	23,136	7,944
Adjusted funds flow from operations (AFF) ⁽¹⁾	14,031	4,230	25,070	8,272
Per share, basic ⁽¹⁾	0.14	0.05	0.26	0.09
Per share, diluted ⁽¹⁾	0.14	0.05	0.25	0.09
Free funds flow ⁽¹⁾	8,249	2,356	17,493	5,316
Net income (loss)	4,131	(3,594)	8,749	(1,826)
Per share, basic and diluted (\$/share)	0.04	(0.04)	0.09	(0.02)
Capital expenditures ⁽¹⁾	5,782	1,874	7,577	2,956
Net debt ⁽¹⁾	3,662	18,529	3,662	18,529
Net debt to annualized AFF ⁽¹⁾	0.1	1.1	0.1	1.1
Bank debt	3,529	-	\$ 3,529	-
Gross Term loan ⁽²⁾	\$ -	21,999	-	\$ 21,999
OPERATING				
Average daily production				
Heavy oil (bbl/d)	2,856	1,758	2,741	1,698
Natural gas (Mcf/d)	165	169	153	131
Combined (boe/d)	2,883	1,786	2,766	1,720
Oil weighting	99%	98%	99%	99%
Average sales prices				
Heavy oil (\$/bbl)	\$ 117.37	62.78	\$ 107.45	58.25
Natural gas (\$/Mcf)	6.93	2.93	5.81	2.90
Combined (\$/boe)	\$ 116.65	62.06	\$ 106.78	57.73
Operating netback (\$/boe)				
Petroleum and natural gas revenue	\$ 116.65	62.06	\$ 106.78	57.73
Royalties	(34.14)	(10.73)	(27.31)	(8.58)
Operating costs	(8.88)	(9.46)	(8.91)	(8.85)
Transportation costs	(2.39)	(2.65)	(2.33)	(2.49)
Operating field netback ⁽¹⁾	71.25	39.22	68.22	37.81
Realized commodity hedging loss	(9.71)	(4.90)	(12.01)	(2.88)
Operating netback ⁽¹⁾	\$ 61.54	34.32	56.21	34.93
Adjusted funds flow from operations⁽¹⁾				
(\$/boe)	\$ 53.47	26.03	50.07	26.57

Notes:

(1) Non-IFRS and other financial measure. Refer to "Non-IFRS and Other Financial Measures" section below.

(2) Gross term loan is calculated as the total USD draws on the term loan translated to Canadian Dollars at the period end exchange rate.

Selected financial and operational highlights should be read in conjunction with Hemisphere's Financial Statements and related Management's Discussion and Analysis for the quarter ended June 30, 2022. These reports for the quarter ended June 30, 2022, are available on SEDAR at www.sedar.com and on Hemisphere's website at www.hemisphereenergy.ca. All amounts are expressed in Canadian dollars unless otherwise noted.

About Hemisphere Energy Corporation

Hemisphere is a Canadian oil company focused on maximizing value per share growth with the sustainable development 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 including in respect of the record and payment date of its dividend, that the Company anticipates further production growth through the year, and that a second drilling program will take place in September with up to four additional wells planned.

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: the length of time that oil and gas operations will be impaired by the outbreak of Covid-19; 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; 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 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: the dates in respect of the Company's dividend; 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 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.

Non-IFRS and Other Financial Measures

This news release contains the terms adjusted funds flow from operations, free funds flow, operating field netback and operating netback, capital expenditures and net debt, which are considered "non-IFRS financial measures" and any of these measures calculated on a per boe or share basis,

which are considered “non-IFRS financial ratios”. These terms do not have a standardized meaning prescribed by IFRS. Accordingly, the Company’s use of these terms may not be comparable to similarly defined measures presented by other companies. Investors are cautioned that these measures should not be construed as an alternative to net income (loss) or cashflow from operations determined in accordance with IFRS and these measures should not be considered to be more meaningful than IFRS measures in evaluating the Company’s performance.

- a) **Adjusted funds flow from operations “AFF” (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** The Company considers AFF to be a key measure that indicates the Company’s ability to generate the funds necessary to support future growth through capital investment and to repay any debt. AFF is a measure that represents cash flow generated by operating activities, before changes in non-cash working capital and adjusted for decommissioning expenditures, and may not be comparable to measures used by other companies. The most directly comparable IFRS measure for AFF is cash provided by operating activities. AFF per share is calculated using the same weighted-average number of shares outstanding as in the case of the earnings per share calculation for the period.

A reconciliation of AFF to cash provided by operating activities is presented as follows:

<i>(\$000s, except per share amounts)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Cash provided by operating activities	\$ 14,926	\$ 4,741	\$ 23,136	\$ 7,944
Change in non-cash working capital	(906)	(512)	1,819	290
Adjust: Decommissioning obligation expenditures	11	1	115	38
Adjusted funds flow from operations	\$ 14,031	\$ 4,230	\$ 25,070	\$ 8,272
Per share, basic and diluted	\$ 0.14	\$ 0.05	\$ 0.25	\$ 0.09

- b) **Free funds flow (Non-IFRS Financial Measure):** is calculated by taking adjusted funds flow and subtracting capital expenditures, excluding acquisitions and dispositions. Management believes that free funds flow provides a useful measure to determine Hemisphere’s ability to improve returns and to manage the long-term value of the business.

<i>(\$000s, except per share amounts)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Adjusted funds flow	\$ 14,031	\$ 4,230	\$ 25,070	\$ 8,272
Capital expenditures	(5,782)	(1,874)	(7,577)	(2,956)
Free funds flow	\$ 8,249	\$ 2,356	\$ 17,493	\$ 5,316
Per share, basic and diluted	\$ 0.08	\$ 0.03	\$ 0.18	\$ 0.06

- c) **Capital Expenditures (Non-IFRS Financial Measure):** Management uses the term “capital expenditures” as a measure of capital investment in exploration and production assets, and such spending is compared to the Company’s annual budgeted capital expenditures. The most directly comparable IFRS measure for capital expenditures is cash flow used in investing activities. A summary of the reconciliation of cash flow used in investing activities to capital expenditures is set forth below:

<i>(\$000s)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2022	2021	2022	2021
Cash used in investing activities	\$ 2,632	\$ 1,821	\$ 7,948	\$ 2,851
Change in non-cash working capital	3,150	53	(371)	105
Capital expenditures	\$ 5,782	\$ 1,874	\$ 7,577	\$ 2,956

- d) **Operating field netback (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** is a benchmark used in the oil and natural gas industry and a key indicator of profitability relative to current commodity prices. Operating field netback is calculated as oil and gas sales, less royalties, operating expenses and transportation costs on an absolute and per barrel of oil equivalent basis. These terms should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income or loss as determined in accordance with IFRS as an indicator of the Company’s performance.
- e) **Operating netback (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** 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.
- f) **Net debt (Non-IFRS Financial Measure):** is closely monitored by the Company to ensure that its capital structure is maintained by a strong balance sheet to fund the future growth of the Company. Net debt is used in this document in the context of liquidity and is calculated as the total of the Company’s current assets, less current liabilities, excluding the fair value of financial instruments, lease and warrant liabilities, and including the bank debt. There is no IFRS measure that is reasonably comparable to net debt.

The following table outlines the Company calculation of net debt:

(\$000s)	As At June 30, 2022		As at December 31, 2021	
Current assets ⁽¹⁾	\$	8,906	\$	4,813
Current liabilities ⁽¹⁾		(9,039)		(7,223)
Bank debt		(3,529)		(15,505)
Net debt	\$	(3,662)	\$	(17,915)

Notes:

(1) Excluding fair value of financial instruments and lease and warrant liabilities.

g) Supplementary Financial Measures and non-IFRS ratios

“Net debt to annualized Adjusted Funds Flow from operations” is comprised of net debt divided by adjusted funds flow from operations, for which the quarterly amount is multiplied by four to annualize the AFF.

“Adjusted Funds Flow from operations per basic share” is comprised of funds from operations divided by basic weighted average common shares.

“Adjusted Funds Flow from operations per diluted share” is comprised of funds from operations divided by diluted weighted average common shares.

“Annual Free Funds Flow” is comprised of free funds flow from the current three month period multiplied by four.

“Operating expense per boe” is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total production.

“Realized heavy oil price” is comprised of heavy crude oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's crude oil production.

“Realized natural gas price” is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas production.

“Realized combined price” is comprised of total commodity sales from production, as determined in accordance with IFRS, divided by the Company's total production.

“Royalties per boe” is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production.

“Transportation costs per boe” is comprised of transportation expense, as determined in accordance with IFRS, divided by the Company's total production.

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, 2021 and the interim period ended June 30, 2022 which is available under the Company's SEDAR profile at www.sedar.com.

Oil and Gas Advisories

Any references in this news release to initial production rates (including as a result of recent waterflood activities) 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	NGL	natural gas liquids
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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