



HEMISPHERE ENERGY ANNOUNCES 2023 FIRST QUARTER RESULTS, DECLARES QUARTERLY DIVIDEND, RENEWS CREDIT FACILITY, AND PROVIDES OPERATIONS UPDATE

TSX-V: HME OTCQX: HMENF

Vancouver, British Columbia, May 25, 2023 – Hemisphere Energy Corporation ("Hemisphere" or the "Company") provides its financial and operating results for the first quarter ended March 31, 2023, declares a quarterly dividend payment to shareholders, renews credit facility, and provides operations update.

Q1 2023 Highlights

- Produced a record quarterly average of 3,171 boe/d, a 20% increase over the first quarter of 2022.
- Attained quarterly revenue of \$18.7 million.
- Delivered an operating field netback¹ of \$11.3 million or \$39.75/boe.
- Realized quarterly adjusted funds flow from operations ("AFF")¹ of \$8.3 million or \$29.01/boe.
- Achieved free funds flow¹ of \$6.8 million or \$0.07 per share.
- Exited the first quarter with a positive working capital¹ position of \$3.0 million, compared to \$8.7 million net debt¹ at the end of March 2022.
- Distributed \$2.5 million, or \$0.025 per share, in dividends to shareholders during the quarter.
- Purchased and cancelled 202,300 shares under the Company's Normal Course Issuer Bid ("NCIB").

(1) Operating field netback, adjusted funds flow from operations (AFF), free funds flow, working capital, and net debt are non-IFRS measures that do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Non-IFRS financial ratios are not standardized financial measures under IFRS and may not be comparable to similar financial measures disclosed by other issuers. Refer to the section "Non-IFRS and Other Specified Financial Measures".

Q1 2023 Overview

In the first quarter of 2023, Hemisphere's production increased by 20% over the first quarter of 2022, achieving a record average rate of 3,171 boe/d (99% heavy oil). This was due in part to the production from two new Atlee Buffalo F pool wells that were placed on production early in the quarter.

Average sales price in the first quarter of 2023 was 32% lower than the first quarter of the previous year. This was due to a 19% decrease in the West Texas Intermediate ("WTI") crude oil price, combined with a 70% higher Western Canadian Select ("WCS") differential, which averaged US\$76.13 and US\$24.77, respectively, for the first quarter of 2023. Fortunately, WCS differentials have narrowed significantly and are trending closer to an average of US\$15.50 for the second quarter of 2023 to date.

Despite the lower oil pricing environment, Hemisphere delivered solid financial results for the quarter with \$8.3 million in adjusted funds flow from operations and a positive working capital position of \$3.0 million at quarter-end. This marks the first time the Company has been in a positive working capital position in many years. Based on current commodity price and production forecasts, management expects the Company's balance sheet to further improve throughout the year while continuing to develop its core assets, deliver shareholder returns through its dividend and NCIB programs, and look for new growth and acquisition opportunities.

Financial and Operating Summary

(\$000s except per unit and share amounts)	Three Months Ended March 31	
	2023	2022
FINANCIAL		
Petroleum and natural gas revenue	\$ 18,694	\$ 22,856
Operating field netback ⁽¹⁾	11,342	15,462
Operating netback ⁽¹⁾	11,114	11,998
Cash flow provided by operating activities	9,034	8,212
Adjusted funds flow from operations (AFF) ⁽¹⁾	8,280	11,039
Per share, basic ⁽¹⁾	0.08	0.12
Per share, diluted ⁽¹⁾	0.08	0.11
Free funds flow ⁽¹⁾	6,815	9,245
Net income	5,958	4,618
Per share, basic and diluted	0.06	0.05
Dividends	2,545	-
Per share, basic	0.025	-
Capital expenditures ⁽¹⁾	1,465	1,794
Working capital (Net debt) ⁽¹⁾	3,008	(8,681)
Bank debt	\$ -	\$ (12,514)
OPERATING		
Average daily production		
Heavy oil (bbl/d)	3,143	2,624
Natural gas (Mcf/d)	169	141
Combined (boe/d)	3,171	2,648
Oil weighting	99%	99%
Average sales prices		
Heavy oil (\$/bbl)	\$ 65.93	\$ 96.53
Natural gas (\$/Mcf)	3.08	4.49
Combined (\$/boe)	\$ 65.51	\$ 95.92
Operating netback (\$/boe)		
Petroleum and natural gas revenue	\$ 65.51	\$ 95.92
Royalties	(11.47)	(19.80)
Operating costs	(11.08)	(8.95)
Transportation costs	(3.21)	(2.27)
Operating field netback ⁽¹⁾	39.75	64.89
Realized commodity hedging gain (loss)	(0.80)	(14.54)
Operating netback⁽¹⁾	\$ 38.95	\$ 50.35
General and administrative expense	(2.88)	(2.76)
Interest expense and foreign exchange loss	(0.67)	(1.26)
Current tax expense	(6.39)	-
Adjusted funds flow from operations⁽¹⁾ (\$/boe)	\$ 29.01	\$ 46.33

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

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 March 31, 2023. These reports for the quarter ended March 31, 2023, 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.

Quarterly Dividend

Hemisphere is pleased to announce that its Board of Directors has approved a quarterly cash dividend of \$0.025 per common share in accordance with the Company's dividend policy. The dividend will be paid on June 15, 2023 to shareholders of record as of the close of business on June 1, 2023. The dividend is designated as an eligible dividend for income tax purposes.

Future quarterly payments of this variable dividend will continue to be subject to board approval, and are conditional on production performance, commodity price environment, and compliance with the terms of the Company's credit facility. Board approved dividend declarations will be disclosed in the Company's news releases highlighting the financial and operating results for the applicable quarter except for the first quarter, where timing is adjusted due to the year-end third-party financial audit.

Credit Facility

The Company has completed its annual bank review and renewed its \$35 million two-year extendible credit facility, with the next annual review date set for May 31, 2024.

Operations update

At this time, the Company is preparing its summer drilling program of up to nine wells, with drilling operations anticipated to commence in July and to be complete by the end of the third quarter. All new producing wells will be brought online after being completed and tied-in to existing facilities. Of the Company's nine planned wells, six are development production wells, two are injection wells, and one is an exploration well.

Corporate production to-date in the second quarter has averaged approximately 2,900 boe/d (99% heavy oil, based on field estimates between April 1st – May 23rd, 2023). Increased downtime at various wells, generators, and both batteries have impacted production. Additionally, overall injection rates at the G pool have decreased in the past few months due to surface injection pressure constraints at the facility. The Company has recently installed a second injection pump and subsequently increased injection rates back to previous levels. The Company is also modifying its source water piping in the G pool facility in order to increase and optimize injection rates even further over the coming months.

With its debt-free position and the anticipated free funds flow generated from its stable asset base of enhanced oil recovery operations, Hemisphere's balance sheet is capable of providing the Company with the ability to aggressively seek out and transact on meaningful new growth and development acquisition opportunities, as well as continued exploration programs.

Annual General and Special Meeting of Shareholders

Hemisphere's Annual General and Special Meeting of Shareholders will be held at 11:00 am (Pacific Daylight Time) on June 1, 2023 in the Ferguson Room of the Terminal City Club located at 837 West Hastings Street, Vancouver, British Columbia.

About Hemisphere Energy Corporation

Hemisphere is a dividend-paying 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 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:

Don Simmons, President & Chief Executive Officer

Telephone: (604) 685-9255

Email: info@hemisphereenergy.ca

Website: www.hemisphereenergy.ca

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 that management expects the Company's balance sheet to further improve throughout the year while continuing to develop its core assets, deliver shareholder returns through its dividend and NCI programs, and look for new growth and acquisition opportunities; a dividend will be paid June 15, 2023 to shareholders of record as of the close of business on June 1, 2023; the Company's expectation to pursue a summer drilling program of up to nine wells, with drilling operations anticipated to commence in July and be complete by the end of the third quarter; new producing wells will be brought online after being completed and tied-in to existing facilities; and the Company's expectation that with its debt-free position and the anticipated free funds flow generated from its stable asset base of enhanced oil recovery operations, Hemisphere's balance sheet is capable of providing the Company with the ability to aggressively seek out and transact on meaningful new growth and development acquisition opportunities, as well as continued exploration programs.

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: 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, operating field netback and operating netback, capital expenditures and working capital/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 March 31	
	2023	2022
Cash provided by operating activities	\$ 9,034	\$ 8,212
Change in non-cash working capital	(832)	2,723
Adjust: Decommissioning obligation expenditures	78	104
Adjusted funds flow from operations	\$ 8,280	\$ 11,039
Per share, basic	\$ 0.08	\$ 0.12
Per share, diluted	\$ 0.08	\$ 0.11

- 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 March 31	
	2023	2022
Adjusted funds flow	\$ 8,280	\$ 11,039
Capital expenditures	(1,465)	(1,794)
Free funds flow	\$ 6,815	\$ 9,245
Per share, basic and diluted	\$ 0.07	\$ 0.10

- 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 March 31	
	2023	2022
Cash used in investing activities	\$ 3,492	\$ 5,315
Change in non-cash working capital	(2,028)	(3,521)
Capital expenditures	\$ 1,465	\$ 1,794

- 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) **Working Capital/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. Working capital/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, decommissioning obligations, and lease liabilities, and including any bank debt. There is no IFRS measure that is reasonably comparable to working capital/net debt.

The following table outlines the Company calculation of working capital/net debt:

<i>(\$000s)</i>	As at March 31, 2023		As at December 31, 2022	
Current assets ⁽¹⁾	\$	10,022	\$	5,825
Current liabilities ⁽¹⁾		(7,014)		(6,591)
Working capital (Net debt)	\$	3,008	\$	(766)

Note:

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

g) Supplementary Financial Measures and Non-GAAP Ratios

“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, 2022 and the interim period ended March 31, 2023, which are 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

<i>bbl</i>	<i>Barrel</i>	<i>Mcf</i>	<i>thousand cubic feet</i>
<i>bbl/d</i>	<i>barrels per day</i>	<i>Mcf/d</i>	<i>thousand cubic feet per day</i>
<i>\$/bbl</i>	<i>dollar per barrel</i>	<i>\$/Mcf</i>	<i>dollar per thousand cubic feet</i>
<i>boe</i>	<i>barrel of oil equivalent</i>	<i>IFRS</i>	<i>International Financial Reporting Standards</i>
<i>boe/d</i>	<i>barrel of oil equivalent per day</i>		
<i>\$/boe</i>	<i>dollar per barrel of oil equivalent</i>		
<i>US\$</i>	<i>United States Dollar</i>		

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this news release.