

Hemisphere Energy Announces Financial and Operating Results for Q1 2020

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Vancouver, May 27, 2020 - [Hemisphere Energy Corp.](#) (TSXV: HME) ("Hemisphere" or the "Company") announces its financial and operating results for the three months ended March 31, 2020.

Q1 2020 Highlights

- Achieved revenue of \$5.0 million.
- Realized an operating netback of \$3.5 million.
- Attained quarterly adjusted funds flow from operations of \$2.2 million.
- Increased quarterly production by 43% to 1,973 boe/d (99% heavy crude oil and 1% conventional natural gas), as compared to the first quarter of 2019.
- Reduced operating and transportation expenses to \$10.00/boe, a 17% decrease from the first quarter of 2019.
- Increased corporate Liability Management Ratio (LMR) with the Alberta Energy Regulator to 11.54 as of the end of the first quarter of 2020.

Corporate Update

During the first quarter of 2020, the world began to respond to the COVID-19 pandemic with economic lockdowns and severe travel restrictions. In March 2020, oil prices collapsed due to a price war between Russia and Saudi Arabia. The combined effect of these two events has brought oil prices to levels never seen before, including into negative territory.

Hemisphere responded to these market challenges by layering in additional hedges at the start of April that allowed the Company to continue to produce at approximately 85% of its capacity through the second quarter, while avoiding potential reservoir and equipment damage that could have arisen from temporary shut-ins during winter operating conditions.

As countries attempt to reopen their economies, demand for oil is returning and pricing is slowly recovering back to economic levels for producers. Significant volatility remains in the pricing of both the WTI benchmark and WCS differential as demand, supply, storage, government policies, and behaviours change in unpredicted ways.

Given the commodity outlook and in order to maintain operational flexibility, Hemisphere proactively entered an agreement with its lender in April 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 its production covenant that are included in the credit agreement with the lender, in each case for the fiscal quarter ending June 30, 2020.

The Company will continue to produce at slightly restricted rates and limited operating costs until it feels that stability has returned to the markets as the world moves through the required phases of economic recovery. With low operating costs and efficient operations both in the field and office, Hemisphere is expected to be ready to restart its shut-in production and begin further optimization work when conditions allow.

Annual General and Special Meeting of Shareholders

Hemisphere's Annual General and Special Meeting of Shareholders is being held in the offices of Harper

Grey LLP, 3200 - 650 West Georgia Street, Vancouver, British Columbia on Wednesday, June 17, 2020 at 9:00 a.m. (Pacific Daylight Time).

Financial and Operating Summary

	Three Months Ended March 31	
	2020	2019
OPERATING		
Oil (bbl/d)	1,941	1,329
Natural gas (Mcf/d)	192	287
NGL (bbl/d)	0	2
Combined (boe/d)	1,973	1,379
Oil and NGL weighting	98%	97%
Average sales prices		
Oil (\$/bbl)	\$ 27.90	\$ 52.18
Natural gas (\$/Mcf)	1.97	7.14
NGL (\$/bbl)	68.84	43.84
Combined (\$/boe)	\$ 27.64	\$ 51.85
Operating netback (\$/boe)		
Petroleum and natural gas revenue	\$ 27.64	\$ 51.85
Royalties	(2.65) (5.30
Operating costs	(7.36) (9.65
Transportation costs	(2.64) (2.45
Operating field netback ⁽¹⁾	14.98	34.45
Realized commodity hedging gain (loss)	4.64	(3.56
Operating netback ⁽²⁾	\$ 19.63	\$ 30.89
FINANCIAL		
Petroleum and natural gas revenue	\$ 4,963,201	\$ 6,435,252
Operating field netback ⁽¹⁾	2,690,807	4,274,261
Operating netback ⁽²⁾	3,524,637	3,832,225
Cash flow provided by operating activities	3,367,261	626,659
Adjusted funds flow from operations ⁽³⁾	2,164,492	2,634,984
Per share, basic and diluted	0.02	0.03
Net income (loss)	2,152,995	(889,224
Per share, basic and diluted	0.02	(0.01
Capital expenditures	434,787	611,795
Net debt ⁽⁴⁾	33,196,190	32,771,889
Gross term Loan ⁽⁵⁾	\$ 35,855,550	\$ 34,707,400

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 any flow-through share premium.

⁽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 Corp.](#) 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 to produce at slightly restricted rates and limited operating costs until it feels that stability has returned to the markets as the world moves through the required phases of economic recovery; and Hemisphere's expectation to be ready to restart its shut-in production and begin further optimization work when market conditions allow.

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; 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 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 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 reserve 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) funds flow from operations and 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 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 in the case of 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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