Hemisphere Energy Announces Financial and Operating Results for Q3 2020

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Vancouver, November 19, 2020 - Hemisphere Energy Corp. (TSXV: HME) ("Hemisphere" or the "Company") is pleased to announce its financial and operating results for the three and nine months ended September 30, 2020.

Q3 2020 Highlights

- Achieved revenue of $5.9 million.
- Realized an operating netback of $4.7 million, including hedging gains of $0.9 million.
- Attained quarterly adjusted funds flow from operations of $3.4 million or $0.04 per share (basic).
- Maintained average quarterly production at 1,686 boe/d (99% heavy crude oil).
- Reduced operating and transportation expenses to $9.31/boe, a 21% decrease from the third quarter of 2019.
- Achieved an operating netback of $30.41/boe, including a $5.51/boe hedging gain.
- Lowered net debt to $27.4 million, an 11% decrease from the end of the second quarter 2020.
- Corporate Liability Management Ratio (LMR) with the Alberta Energy Regulator was 12.23 as of the end of the third quarter of 2020.

Corporate Update

Hemisphere had a very successful third quarter with oil prices recovering significantly from those seen during the second quarter. Combined with flat production and considerable reductions in operating costs, the Company attained adjusted funds flow from operations ("funds flow") of $3.4 million ($0.04 per basic share). With minimal capital expenditures, Hemisphere was able to focus on debt reduction. As a result, net debt was lowered to $27.4 million by the end of the third quarter, yielding an annualized net debt to funds flow ratio of 2.0.

Hemisphere's production averaged 1,686 boe/d (99% heavy crude oil) through the third quarter of 2020, up slightly by 2.5% over the second quarter. The Company has already converted one of its Atlee Buffalo G pool wells to an injector, and plans to convert three more wells in the pool to injectors over the next few months to further optimize waterflood performance. Emphasis continues to be placed on production efficiencies, which has resulted in a 21% reduction in operating and transportation costs as compared to the third quarter of 2019. Hemisphere has focused heavily on debt repayment over the past year, and has lowered its net debt position by $8.6 million, or 24% as compared to the third quarter of 2019.

Overcoming unprecedented challenges presented this year, Hemisphere has recorded $13.3 million in revenue, $10.9 million in operating netback, and $6.9 million ($0.08 per basic share) in funds flow, with capital expenditures of just under $1.1 million during the first nine months of 2020. Over this same period, average production has grown by 18% from the first three quarters of 2019 to 1,768 boe/d (99% heavy crude oil) this year, and operating and transportation costs have been reduced by 30% from the comparable period in 2019 to $9.06/boe this year.

Corporate Outlook

In the coming quarters, Hemisphere will continue to move its plans forward to convert its Atlee Buffalo G oil pool from water to polymer flood. Approval for polymer flood conversion has already been received by the Alberta Energy Regulator, and engineering design is progressing with expectations for injection start-up in mid 2021. This enhanced oil recovery project has substantial long term value potential in terms of incremental and accelerated reserve recovery, and sets the stage for follow-up polymer flood conversion in the neighboring Atlee Buffalo F oil pool.

Financial and Operating Summary

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2020	2019	2020	2019
OPERATING				
Average daily production				
Oil (bbl/d)	1,675	1,670	1,754	1,440
Natural gas (Mcf/d)	70	404	87	329
NGL (bbl/d)	-	1	-	1
Combined (boe/d)	1,686	1,738	1,768	1,496
Oil and NGL weighting	99%	96%	99%	96%
Average sales prices				
Oil ($/bbl)	$ 38.14	$ 53.21	$ 27.59	$ 55.63
Natural gas ($/Mcf)	2.13	0.80	2.01	1.74
NGL ($/bbl)	-	55.62	-	43.79
Combined ($/boe)	$ 37.96	$ 51.34	$ 27.47	$ 53.96
Operating netback ($/boe)				
Petroleum and natural gas revenue	$ 37.96	$ 51.34	$ 27.47	$ 53.96
Royalties	(3.75)	(6.95)	(2.28)	(7.07)
Operating costs	(6.79)	(9.37)	(6.53)	(10.51)
Transportation costs	(2.52)	(2.45)	(2.53)	(2.49)
Operating field netback[1]	24.90	32.57	16.13	33.88
Realized commodity hedging gain (loss)	5.51	(1.93)	6.37	(3.03)
Operating netback[2]	$ 30.41	$ 30.64	$ 22.50	$ 30.85
FINANCIAL				
Petroleum and natural gas revenue	$ 5,889,668	$ 8,207,658	$ 13,305,661	$ 22,039,005
Operating field netback[1]	3,862,969	5,206,705	7,813,633	13,838,733
Operating netback[2]	4,718,540	4,898,806	10,899,880	12,600,471
Cash flow provided by operating activities	3,097,786	3,803,907	7,292,033	6,966,814
Adjusted funds flow from operations[3]	3,416,449	3,558,673	6,944,853	8,753,556
Per share, basic and diluted	0.04	0.04	0.08	0.10
Net income (loss)	1,442,021	2,854,615	407,810	4,777,972
Per share, basic and diluted	0.02	0.03	0.00	0.05
Capital expenditures	392,199	6,386,377	1,067,373	9,978,618
Net debt[4]	27,363,336	35,934,983	27,363,336	35,934,983
Gross term Loan[5]	$ 29,967,750	$ 34,426,600	$ 29,967,750	$ 34,426,600

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, less any payments, 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

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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 the Company's plans to convert three more wells in the pool to injectors over the next few months to further optimize waterflood performance and those matters set forth under "Outlook" herein, including the Company's expectations that it will continue to move its plans forward to convert its Atlee Buffalo G oil pool from water to polymer flood, with expectations for injection start-up in mid-2021 and the Company's view that this project has substantial long term value potential in terms of incremental and accelerated reserve recovery, and sets the stage for follow-up polymer flood conversion in the neighboring Atlee Buffalo F oil pool.

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 response of the Company's assets to its planned enhanced oil recovery projects; 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, including safety considerations related to COVID-19 and the ability to perform the operations and projects contemplated herein in accordance with applicable guidelines; 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; (iii) operating netback and operating field netback; and (iv) gross term loan. 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 or gross term loan. 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; (iii) in the case of net debt, the capital structure of the Company; and (iv) in the case of gross term loan, the amount (expressed in Canadian dollars) drawn under the Company's term loan facility as at the date specified.

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; 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; and gross term loan is calculated as the total USD draws on the term loan translated to Canadian Dollars at the period end exchange rate. 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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