Hemisphere Energy Announces 2021 Second Quarter Financial and Operating Results

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Vancouver, August 17, 2021 - Hemisphere Energy Corp. (TSXV: HME) (OTCQX: HMENF) ("Hemisphere" or the "Company") is pleased to provide its financial and operating results for the second quarter ended June 30, 2021.

During the second quarter, Hemisphere achieved record revenue of $10.1 million, generated adjusted funds flow from operations (AFF) of $4.2 million ($26.03/boe), and increased average production by 8% when compared to the previous quarter. Hemisphere's capital expenditures during the quarter were $1.9 million, including the construction, installation, and start-up of the Atlee Buffalo G pool polymer skid.

Subsequent to quarter-end, Hemisphere announced that it had established a new $35 million extendible two-year committed term facility with ATB Financial and completed early payout of its 5-year US Dollar term loan with Cibolo Energy Partners. The new Credit Facility is anticipated to result in a significant reduction in corporate interest costs, provide additional flexibility to the Company, and reduce foreign exchange risk.

Highlights

- Generated record revenue of $10.1 million, a 311% improvement over the second quarter of 2020.
- Recorded production of 1,786 boe/d (98% heavy crude oil and 2% conventional natural gas), an 8% increase over the previous quarter and 9% increase over the second quarter of last year.
- Achieved operating and transportation costs of $12.11/boe, including a turn-around at one of its batteries.
- Increased operating netback by 107% to $5.6 million ($34.32/boe, or $0.06/basic share), including hedging losses of $4.90/boe, when compared to the second quarter of 2020.
- Increased AFF by 213% to $4.2 million ($26.03/boe, or $0.05/basic share), when compared to the second quarter of 2020.
- Lowered net debt to $18.5 million, a 40% reduction as compared to the second quarter of 2020.
- Lowered leverage ratio of net debt to Q2 annualized AFF to 1.1, an 81% reduction as compared to the second quarter of 2020.

Outlook

Hemisphere is currently in the process of upgrading the size of its treating facilities at the Atlee G pool battery in anticipation of increased oil production with ongoing polymer flood optimization work. The Company is also planning to start a three-well drilling program by mid-September, into what is believed to be a highly productive area of the pool.

Selected financial and operational highlights should be read in conjunction with Hemisphere's audited annual financial statements and related Management's Discussion and Analysis for the year ended December 31, 2020. These reports, including the Company's Annual Information Form for the year ended December 31, 2020, 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.

2021 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended June 30		Six Months Ended June 30	
	2021	2020	2021	2020
FINANCIAL				
Petroleum and natural gas revenue	$ 10,087,225	$ 2,452,793	$ 17,976,241	$ 7,415,993

Operating field netback[1]	6,374,868	1,259,856	11,772,819	3,950,664
Operating netback[2]	5,578,767	2,656,703	10,876,621	6,181,341
Cash flow provided by operating activities	4,741,720	816,755	7,944,220	4,174,118
Adjusted funds flow from operations (AFF)[3]	4,230,423	1,353,680	8,271,986	3,508,274
Per share, basic and diluted[3]	0.05	0.02	0.09	0.04
Net income	(3,593,747)	(2,953,424)	(1,826,412)	(1,743,125)
Per share, basic and diluted	(0.04)	(0.03)	(0.02)	(0.02)
Capital expenditures	1,874,027	240,386	2,955,610	675,173
Net debt[4]	18,528,815	30,891,234	18,528,815	30,891,234
Net debt to annualized AFF[3][4]	1.1	5.7	1.1	4.4
Gross term loan[5]	$ 21,999,350	$ 33,940,000	$ 21,999,350	$ 33,940,000
Average daily production				
Heavy oil (bbl/d)	1,758	1,645	1,698	1,793
Natural gas (Mcf/d)	169	-	131	96
Combined (boe/d)	1,786	1,645	1,720	1,809
Oil weighting	98%	100%	99%	99%
Average sales prices				
Heavy oil ($/bbl)	$ 62.78	$ 16.38	$ 58.25	$ 22.62
Natural gas ($/Mcf)	2.93	-	2.90	1.97
Combined ($/boe)	$ 62.06	$ 16.38	$ 57.73	$ 22.52
Operating netback ($/boe)				
Petroleum and natural gas revenue	$ 62.06	$ 16.38	$ 57.73	$ 22.52
Royalties	(10.73)	(0.33)	(8.58)	(1.59)
Operating costs	(9.46)	(5.25)	(8.85)	(6.40)
Transportation costs	(2.65)	(2.39)	(2.49)	(2.53)
Operating field netback[1]	39.22	8.41	37.81	12.00
Realized commodity hedging gain (loss)	(4.90)	9.33	(2.88)	(6.77)
Operating netback[2]	$ 34.32	$ 17.74	$ 34.93	$ 18.77
Adjusted funds flow from operations[3] ($/boe)	$ 26.03	$ 9.04	$ 26.57	$ 10.65

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, excluding fair value of financial instruments, lease and warrant liabilities, plus gross term loan.

(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 is a Canadian oil company focused on sustainable growth 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 updated 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 new Credit Facility is anticipated to result in a significant reduction in corporate interest costs, provide additional flexibility to the Company, and reduce foreign exchange risk, anticipation of increased oil production with ongoing polymer flood optimization work, planning to start a three-well drilling program by mid-September, into what is believed to be a highly productive area of the 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: Hemisphere's peer group and the information available in respect thereof; 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 defer 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 Measures

This news 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; (ii) net debt; and (iii) operating 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 adjusted 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, 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. Adjusted funds flow from operations is calculated as cash generated by operating activities, before changes in non-cash working capital; operating field netback is calculated as the Company's oil and gas sales, less royalties, operating expenses, and transportation costs;; 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, 2020 and the interim period ended June 30, 2021, which are available under the Company's SEDAR profile at www.sedar.com.

Oil and Gas Advisories

Any references in this news release to recent production rates (including as a result of recent waterflood activities) which may be considered to be initial rates and 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		
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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