

Hemisphere Energy Provides Operations Update and Corporate Guidance

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Vancouver, January 18, 2022 - [Hemisphere Energy Corp.](#) (TSXV: HME) (OTCQX: HMFNF) ("Hemisphere" or the "Company") is pleased to announce an update on its operations and provide corporate guidance for 2022.

Operations Update

During the fourth quarter of 2021 Hemisphere was very active in the field with facility expansion, production optimization, and drilling operations. Based on field estimates, corporate production for the month of December was approximately 2,400 boe/d (99% heavy crude oil). This brought the Company's average production rate during the fourth quarter up to approximately 2,150 boe/d (99% heavy crude oil), representing a 29% increase over production from the previous quarter. Hemisphere's recent production increase is mainly attributed to the success of its enhanced oil recovery projects, as well as the addition of three new wells in the Atlee G pool during the quarter.

The Company began injection of polymer into its Atlee G pool early in the third quarter with the anticipation of seeing some initial results after approximately six months. Including the addition of the three newly drilled G pool wells brought on in November, production rates from the pool in December 2021 increased by over 50% as compared to June 2021. Hemisphere is very pleased with the performance of the polymer flood to date, and will continue to focus its efforts on optimization through 2022.

Late in the fourth quarter, Hemisphere also drilled four wells in the Atlee F pool. The completion and tie-in operations of the new wells experienced delays due to lack of service rig availability before the holidays, and extremely cold weather in late December and early January. The Company expects to have all the new wells online by the end of the month.

2022 Corporate Guidance

Hemisphere's Board of Directors has approved a 2022 capital expenditure program of \$9 million. The entire capital program is expected to be funded by Hemisphere's estimated 2022 Adjusted Funds Flow (AFF) of approximately \$37 million. Nearly 50% of the estimated AFF will be used towards full debt repayment, with another 18% allocated to development projects and 7% to exploration, land, and seismic projects to identify and secure new opportunities for growth. The remaining 25% of estimated AFF will be used for discretionary purposes, which may include potential acceleration of other development or exploration projects, acquisitions, and return of capital to shareholders through Hemisphere's NCIB program and/or dividends.

Highlights and assumptions of Hemisphere's guidance are as follows:

- Capital expenditures of \$9 million.
- Annual average production of 2,600 boe/d (99% heavy crude oil), a 44% increase from 2021.
- Exit rate of 3,000 boe/d (99% heavy crude oil), a 25% increase from 2021.
- WTI price of US\$75/bbl WTI, with sensitivities shown at US\$65/bbl and US\$85/bbl.
- WCS differential of US\$17.38/bbl for Jan'22 and US\$12.50/bbl for remainder of year.
- CAD/US FX of 1.25
- Quality adjustment of \$4.50/bbl
- Operating and transportation costs of \$12.70/boe
- Net G&A of \$3.40/boe
- Loan Interest of \$0.60/boe

2022 Corporate Guidance⁽¹⁾ \$65 \$75 \$85

Adjusted Funds Flow (AFF) ⁽²⁾	\$ million	31	37	41
AFF per Basic Share ^(2,3)	\$/share	0.32	0.39	0.43
Free Funds Flow ⁽²⁾	\$ million	22	28	32
Exit Cash	\$ million	5	11	15
Royalties and GORRs	%	18	22	25
Hedging Losses	\$ million	1	2	3

Notes:

(1) See assumptions noted above within "2022 Corporate Guidance".

(2) See "Non-IFRS Measures".

(3) Using a 2022 weighted average of 94.9 million basic shares issued and outstanding, which assumes the exercise of 10.3 million remaining warrants, on a "cash-less" exercise basis, at \$1.40/share, and the exercise of 3.9 million stock options expiring in September 2022.

As a result of current commodity price assumptions, recent drilling and operational results, and the approval of the Company's 2022 budget, the foregoing guidance and its related sensitivities updates the Company's previous 2022 corporate guidance, as last described in its news release dated November 25, 2021.

The Company is excited about the upcoming year as growth, new project generation, and debt repayment is balanced with shareholder returns. With Hemisphere's low risk, low cost, and low decline oil assets, management anticipates delivering continued shareholder value.

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 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 the Company's expectation that it will continue to focus its efforts on optimization through 2022; expected timing for new wells to be online; the expected manner in which the Corporation's 2022 capital budget will be spent, including the timing of such expenditures and any discretionary amounts, which may include potential acceleration of other development or exploration projects, acquisitions, and return of capital to shareholders through Hemisphere's NCIB program and/or dividends, and the anticipated effects thereof, including as set forth under "2022 Corporate Guidance"; the Company's excitement about the coming year as growth, new project generation, and debt repayment is balanced with shareholder returns; and the Company's anticipation of delivering continued shareholder value.

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 (including the assumptions noted under "2022 Corporate Guidance"), assumptions have been made regarding, among other things: 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 accuracy of the Company's reservoir modelling; 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; results of Hemisphere's waterflood operations; the ability of Hemisphere to, pending future events, return capital to shareholders as a result of any required third party approvals; 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.

Forward-Looking Financial Information

This news release may contain future oriented financial information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Company's activities and results. The FOFI has been prepared based on a number of assumptions including the assumptions discussed and disclosed above, including under "2022 Corporate Guidance" above and "Forward-Looking Statements" above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits the Company will derive therefrom. The Company has included the FOFI in order to provide readers with a more complete perspective on the Company's future operations and such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any FOFI statements, whether as a result of new information, future events or otherwise, except as required by law.

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 (ii) adjusted funds flow per basic share; and (iii) free funds flow. 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 is cash provided by operating activities. There is no IFRS measure that is reasonably comparable to free funds flow. 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 and free funds flow, the Company's ability to generate the funds necessary to support future growth through capital investment and to repay any debt.

Hemisphere's determination of these measures may not be comparable to that reported by other companies. Adjusted funds flow is calculated as cash generated by operating activities, before changes in non-cash working capital and adjusted for any decommissioning expenditures; Adjusted funds flow per share is calculated using the outstanding basic shares of the company as footnoted in the 2022 Corporate Guidance table; and Free Funds Flow is calculated as Adjusted Funds Flow less capital expenditures. The Company has provided additional information on how these measures are calculated, including a reconciliation of such measures to their comparable IFRS measure, in the Management's Discussion and Analysis for the year ended December 31, 2020 and the interim period ended September 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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