

Hemisphere Energy Announces Record First Quarter Results

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Vancouver, May 18, 2022 - [Hemisphere Energy Corp.](#) (TSXV: HME) (OTCQX: HMENF) ("Hemisphere" or the "Company") provides its financial and operating results for the first quarter ended March 31, 2022.

Q1 2022 Highlights

- Produced a record quarterly average of 2,648 boe/d, a 60% increase over the first quarter of 2021.
- Attained record quarterly revenue of \$22.9 million, a 190% increase over the first quarter of 2021.
- Delivered an operating field netback¹ of \$64.89/boe, 80% higher than the first quarter of 2021.
- Achieved operating and transportation costs of \$11.22/boe, only 7% higher than the first quarter of 2021 despite the addition of polymer flooding at the Upper Mannville G pool.
- Realized record quarterly adjusted funds flow from operations (AFF)¹ of \$11.0 million (\$0.11 per diluted share), a 173% increase over the comparable period in 2021.
- Achieved free funds flow¹ of \$9.2 million, a 212% increase over the comparable period in 2021, after capital expenditures¹ of \$1.8 million.
- Generated net income of \$4.6 million, a 161% increase over the comparable period in 2021.
- Lowered net debt¹ at the end of the quarter to \$8.7 million from \$21.1 million at the end of March 2021, representing a 59% reduction year-over-year.
- Exited the quarter with a net debt to annualized AFF ratio¹ of 0.2.

(1) Operating field netback, adjusted funds flow from operations (AFF), free funds flow, capital expenditures, 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. Net debt to annualized AFF ratio is a non-IFRS ratio that includes components of net debt and annualized AFF. 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 Financial Measures".

Corporate Update and Outlook

In the first quarter of 2022, Hemisphere achieved record production levels due to the continued operational success of the Company's enhanced oil recovery projects and the additional production from four new wells drilled in late 2021. Production through the first quarter averaged 22% higher than during the prior quarter, and 60% higher than the same period last year. Based on field estimates, production for the month of April has increased again by almost 10% over the first quarter to 2,900 boe/d (99% heavy oil).

During the first quarter Hemisphere realized several other record milestones with revenue of \$22.9 million, AFF of \$11.0 million, and free funds flow of \$9.2 million. With strong cash flow and limited capital expenditures, Hemisphere lowered its net debt to \$8.7 million and exited the quarter with a net debt to annualized AFF ratio of only 0.2.

Hemisphere is committed to the prudent management of its long life, low decline, high netback enhanced oil projects, with the purpose of maximizing value per share from the Company's assets. With a combination of strong oil prices, production performance, balance sheet strength, and continued field execution, management believes that Hemisphere is in a favourable position to both accelerate high return projects and deliver significantly enhanced return of capital to shareholders.

The Company is currently in the process of renewing and extending its credit facility, and expects to be in a position within the next few weeks to update both its 2022 guidance and return of capital plan once the bank review is complete.

Financial and Operating Summary

	Three Months Ended March 31	
	2022	2021
FINANCIAL		
Petroleum and natural gas revenue	\$ 22,855,529	\$ 7,889,016
Operating field netback ⁽¹⁾	15,461,664	5,397,952
Operating netback ⁽¹⁾	11,997,654	5,297,855
Cash flow provided by operating activities	8,211,734	3,202,500
Adjusted funds flow from operations (AFF) ⁽¹⁾	11,039,080	4,041,562
Per share, basic ⁽¹⁾	0.12	0.05
Per share, diluted ⁽¹⁾	0.11	0.04
Free funds flow ⁽¹⁾	9,244,840	2,959,977
Net income (loss)	4,618,321	1,767,336
Per share, basic and diluted	0.05	0.02
Capital expenditures ⁽¹⁾	1,794,239	1,081,584
Net debt ⁽¹⁾	8,680,508	21,096,033
Net debt to annualized AFF ⁽¹⁾	0.2	1.3
Bank debt	\$ 12,514,202	-
Gross Term loan ⁽²⁾	-	\$ 24,174,150
OPERATING		
Average daily production		
Heavy oil (bbl/d)	2,624	1,638
Natural gas (Mcf/d)	141	92
Combined (boe/d)	2,648	1,654
Oil weighting	99%	99%
Average sales prices		
Heavy oil (\$/bbl)	\$ 96.53	53.34
Natural gas (\$/Mcf)	4.49	2.85
Combined (\$/boe)	\$ 95.92	53.00
Operating netback (\$/boe)		
Petroleum and natural gas revenue	\$ 95.92	53.00
Royalties	(19.80)	(6.23)
Operating costs	(8.95)	(8.20)
Transportation costs	(2.27)	(2.31)
Operating field netback ⁽¹⁾	64.89	36.27
Realized commodity hedging gain (loss)	(14.54)	(0.67)
Operating netback ⁽¹⁾	50.35	35.59
Adjusted funds flow from operations ⁽¹⁾ (\$/boe)	46.33	27.15

Notes:

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

(2) Gross term loan is calculated as the total USD draws on the term loan translated to Canadian Dollars at the period end exchange rate.

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, 2022. These reports for the quarter ended March 31, 2022, 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.

Annual General and Special Meeting

[Hemisphere Energy Corp.](http://www.hemisphereenergy.ca)'s Annual General and Special Meeting of Shareholders will be held at 9:00 am (Vancouver time) June 9, 2022 in the Walker Room at the Terminal City Club. The address is 837 West Hastings St, Vancouver, British Columbia.

About Hemisphere Energy Corporation

Hemisphere is a 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 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 including that management believes that Hemisphere is in a favourable position to both accelerate high return projects and deliver significantly enhanced return of capital to shareholders, that the Company will renew and extend its credit facility, and that the Company expects to be in a position within the next few weeks to update both its 2022 guidance and return of capital plan once the bank review is complete.

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 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:

Three Months Ended March 31

	2022	2021
Cash	\$ 8,211,734	\$ 3,202,500
Dividends	23,037	802,469
Adjust:	104,309	36,593
Capital expenditures	\$ 4,041,562	\$ 4,041,562
Acquisition	0.12 \$	0.05
Dispositions	0.11 \$	0.04

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.

	Three Months Ended March 31	
	2022	2021
Adjusted funds flow	\$ 11,039,080	\$ 4,041,561
Capital expenditures	(1,794,240)	(1,081,585)
Free funds flow	\$ 9,244,840	\$ 2,959,976
Per share, basic and diluted \$	0.10	\$ 0.03

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:

	Three Months Ended March 31	
	2022	2021
Cash used in investing activities	\$ 5,315,213	\$ 1,029,972
Change in non-cash working capital	(3,520,974)	51,613
Capital expenditures	\$ 1,794,239	\$ 1,081,585

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) 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. 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, lease and warrant liabilities, and including the bank debt or gross term loan. There is no IFRS measure that is reasonably comparable to net debt.

The following table outlines the Company calculation of net debt

	As at March 31, 2022	As at December 31, 2021
Current assets ⁽¹⁾	\$ 9,429,789	\$ 4,813,130
Current liabilities ⁽¹⁾	(5,596,095)	(7,223,445)
Bank debt	(12,514,202)	(15,504,836)
Net debt	\$ (8,680,508)	\$ (17,915,151)

Notes:

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

(2) Gross term loan is calculated as the total USD draws on the term loan translated to Canadian Dollars at the period end exchange rate.

g) Supplementary Financial Measures and Non-IFRS Ratios

"Net debt to annualized Adjusted Funds Flow from operations" is comprised of net debt divided by adjusted funds flow from operations, for which the quarterly amount is multiplied by four to annualize the AFF.

"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, 2021 and the interim period ended March 31, 2022, which is 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

bbbl	Barrel	Mcf	thousand cubic feet
bbbl/d	barrels per day	Mcf/d	thousand cubic feet per day
\$/bbbl	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	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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