

# Hemisphere Energy Announces Inaugural Variable Dividend, Renewed Credit Facility, Increased Guidance, and Operations Update

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Vancouver, June 7, 2022 - [Hemisphere Energy Corp.](#) (TSXV: HME) (OTCQX: HMEF) ("Hemisphere" or the "Company") is pleased to provide an update on its renewed credit facility, operations, revised annual guidance, and return to shareholder plan.

## Credit Facility

Hemisphere has completed the renewal of its extendible two year committed term facility with ATB Financial, providing for borrowings of up to \$35,000,000 (the "Credit Facility"). As was announced with the latest quarterly financials, the Company exited the first quarter with a net debt<sup>1</sup> of just \$8.7 million, and net debt to adjusted funds flow (AFF)<sup>1</sup> of 0.2. This marks a significant milestone for Hemisphere and allows the Company flexibility to move forward with additional return of capital to shareholders through a variable dividend, which complements the current Normal Course Issuer Bid (NCIB) program. Even with enhanced shareholder return, Hemisphere anticipates being debt free by the fourth quarter, based on the updated guidance described below.

<sup>1</sup> See "Non-IFRS and Other Financial Measures".

## Operations and Guidance Update

Hemisphere is pleased to announce an increase to its 2022 capital program and resulting annual guidance due to exceptionally strong commodity pricing and excellent production results in the field year-to-date. The Company is now planning to drill up to eight wells in 2022, including three that will be re-drilled from current wellbores in order to use existing equipment, minimize costs, and lower abandonment liabilities. Hemisphere recently spudded the first well of this drilling program and anticipates production to start coming onstream from the wells through July.

With continued success at Hemisphere's Atlee Buffalo G pool polymer project, the Company has also accelerated its polymer injection project at the Atlee Buffalo F pool into the summer of 2022. Preparations are already underway in the field to expand treating facilities and tie-in polymer injection equipment. While production response is expected to be slower than in the G pool, management is highly encouraged by reservoir simulation predictions and analogue performance in the area and expects to see production gains through 2023 from the project. Hemisphere views this as a strategic investment that will add long-term value to shareholders.

Hemisphere's updated guidance set out below includes an increase in capital spending of \$7 million for the year. In addition to drilling four new wells and accelerating the F pool polymer project into 2022, the Company is investing in new technologies, continuing an exploration program, improving injection, upgrading facilities and power, increasing net abandonment expenditures, and allocating capital to account for overall inflation of costs through the remainder of the year. These additional investments are anticipated to increase average production to 3,000 boe/d for the year and boost Hemisphere's estimated exit production rate to 3,300 boe/d. Run at the following pricing parameters for the remainder of the year, the Company expects to achieve record cash flows in 2022 at this updated production guidance.

2022 Corporate Guidance <sup>(1)</sup>		Previous 2022 Guidance	Revised 2022 Guidance
Pricing (WTI / WCS differential)	US\$	75 / 12.50	100 / 17
CAD / US Fx	x	1.25	1.26

Average Annual Production	boe/d	2,600	3,000
Exit Production	boe/d	3,000	3,300
Adjusted Funds Flow (AFF) <sup>(2)</sup>	\$ million	37	52
AFF per Basic Share <sup>(2)</sup>	\$/share	0.39 <sup>(3)</sup>	0.53 <sup>(4)</sup>
Capital Expenditures <sup>(2)</sup>	\$ million	9	16
Free Funds Flow <sup>(2)</sup>	\$ million	28	36
Year-end Net Working Capital <sup>(2)</sup> (pre-dividends)	\$ million	11	19

## Notes:

(1) See additional assumptions listed under "2022 Corporate Guidance Assumptions".

(2) See "Non-IFRS and Other Financial Measures".

(3) Using a 2022 weighted average of 94.9 million basic shares issued and outstanding, which assumed 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.

(4) Using a 2022 weighted average of 97.8 million basic shares issued and outstanding, which includes the actual exercise of 8.3 million warrants in April and 1.2 million stock options up to the end of May, as well as assuming the June exercise of all 3.0 million remaining stock options set to expire in September 2022.

2022 Revised Corporate Guidance with Pricing Sensitivities <sup>(1)</sup>	\$85	\$100	\$115	
Adjusted Funds Flow (AFF) <sup>(2)</sup>	\$ million	50	52	54
AFF per Basic Share <sup>(2,3)</sup>	\$/share	0.50	0.53	0.55
Free Funds Flow <sup>(2)</sup>	\$ million	33	36	38
Year-end Net Working Capital <sup>(2)</sup> (pre-dividends)	\$ million	16	19	20

## Notes:

(1) See additional assumptions listed under "2022 Corporate Guidance Assumptions".

(2) See "Non-IFRS and Other Financial Measures".

(3) Using a 2022 weighted average of 97.8 million basic shares issued and outstanding, which includes the actual exercise of 8.3 million warrants in April and 1.2 million stock options up to the end of May, as well as assuming the June exercise of all 3.0 million remaining stock options set to expire in September 2022.

## Commencement of Quarterly Variable Dividend

The Board of Directors has approved a variable dividend policy targeting approximately 30% of Hemisphere's annual free funds flow<sup>2</sup> to be paid quarterly. Accordingly, the first ever quarterly cash dividend paid to Hemisphere shareholders will be \$0.025/share on June 30, 2022, to shareholders of record as of the close of business on June 15, 2022. The dividend is designated as an "eligible dividend" for income tax purposes. Using the mid-point of guidance, this would return an annualized 6% dividend yield to shareholders on Hemisphere's current market capitalization of approximately \$180 million<sup>3</sup>.

Further quarterly payments of this variable dividend will be subject to board approval, and be conditional on continued production performance, commodity price environment, and compliance with the terms of the Company's credit facility. The remaining 70% of free funds flow may be used for additional spending on Hemisphere's Normal Course Issuer Bid (NCIB) and/or other special dividends, in addition to possible strategic acquisitions and accelerated investments in the Company's long-term development program.

<sup>2</sup> See "Non-IFRS and Other Financial Measures".

<sup>3</sup> Using 101.4 million current outstanding shares and June 6, 2022 share price of \$1.77/share.

## Annual General and Special Meeting

[Hemisphere Energy Corp.](#)'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](http://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 the Company's belief that the renewal of the credit facility will allow the Company flexibility to move forward with additional return of capital to shareholders through a variable dividend, which complements the current Normal Course Issuer Bid (NCIB) program; Hemisphere's anticipation of being debt free by the fourth quarter; Hemisphere's plans to drill up to eight wells, including three that will be re-drilled from current wellbores in order to use existing equipment, minimize costs, and lower abandonment liabilities; Hemisphere's anticipation for production to start coming onstream from the wells through July; the Company's belief that F pool polymer production response will be slower than in the G pool; management's encouragement by reservoir simulation predictions and analogue performance in the area and subsequent expectation of F pool production gains through 2023 from the polymer project; Hemisphere's view of the F pool polymer project as a strategic investment that will add long-term value to shareholders; Hemisphere's belief that their annual capital investments are anticipated to help production average 3,000 boe/d through the year and boost Hemisphere's estimated exit production rate to 3,300 boe/d; the Company's expectation that at it will achieve record cash flows in 2022 at this updated production guidance; Hemisphere's estimated 2022 guidance numbers for average production, exit production, adjusted funds flow, adjusted funds flow per basic share, capital expenditures, free funds flow, and year-end working capital; that further quarterly payments of this variable dividend will be subject to board approval and be conditional on continued production performance and commodity price environment; and that Hemisphere's remaining 70% of free funds flow may include additional spending on Hemisphere's Normal Course Issuer Bid (NCIB) and/or other special dividends, in addition to possible strategic acquisitions and accelerated investments in the Company's long-term development program.

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 impacts of inflation and increases to costs; 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, 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. Below are definitions of these terms and corresponding reconciliations to IFRS, where applicable, as at March 31, 2022.

Adjusted funds flow "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 set forth below as at March 31, 2022:

	Three Months Ended March 31	
	2022	2021
Cash provided by operating activities	\$ 2,111,734	\$ 3,202,500
Change in non-cash working capital	2,723,037	802,469
Adjust: Decommissioning obligation expenditures	104,309	36,593
Adjusted funds flow	\$ 1,039,080	\$ 4,041,562
Per share, basic	\$ 0.12	\$ 0.05
Per share, diluted	\$ 0.11	\$ 0.04

a) 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. A summary of the reconciliation of free funds flow is set forth below as at March 31, 2022:

	Three Months Ended March 31	
	2022	2021
Adjusted funds flow	\$ 11,039,080	\$ 4,041,562
Capital expenditures	(1,794,239 )	(1,081,584 )
Free funds flow	\$ 9,244,841	\$ 2,959,977
Per share, basic and diluted	\$ 0.10	\$ 0.03

b) 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 as at March 31, 2022:

	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

c) Net debt or Net working capital (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 or net working capital 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 or net working capital. The following table outlines the Company calculation of net debt as at March 31, 2022:

	As At March 31, 2022	As At December 31, 2021
Current assets <sup>(1)</sup>	\$ 9,429,792	\$ 4,813,130
Current liabilities <sup>(1)</sup>	(5,596,095 )	(7,223,445 )
Bank debt	(12,514,202 )	(15,504,836 )
Net debt	\$ (8,680,505 )	\$ (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.

d) Supplementary Financial Measures and Non-IFRS Ratios

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

"AFF per Basic Share" is AFF divided by the 2022 weighted average of 97.8 million basic shares issued and outstanding, which includes the actual exercise of 8.3 million warrants in April and 1.2 million stock options up to the end of May, as well as assuming the June exercise of all 3.0 million remaining stock options set to expire in September 2022.

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](http://www.sedar.com).

2022 Corporate Guidance Assumptions

Assuming actual pricing and production year-to-date (Jan-May), with each of US\$85/bbl, WTI US\$100/bbl WTI, and US\$115/bbl WTI, paired with WCS Differential of US\$17/bbl, and Fx of 1.26 for the remainder of 2022 (Jun-Dec), except in the case of the June WCS differential of \$13.17, and average quality adjustment of Cdn\$4.50/bbl; Operating and Transportation costs of \$13.83/boe; Loan Interest costs of \$0.8/boe; G&A costs of \$2.57/boe; Royalties and GORRs of \$20.32/boe, \$26.54/boe, and \$33.90/boe in each respective WTI sensitivity; hedging losses of \$4.75/boe, \$6.45/boe, and \$8.59/boe in each respective WTI sensitivity; and tax provisions of \$1.85/boe, \$2.77/boe, and \$3.31/boe in each respective WTI sensitivity.

## 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.

## 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	G&A	General and Administrative Costs
WCS	Western Canadian Select	US\$	United States Dollar

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