

Hemisphere Energy Announces 2023 Second Quarter Results, Declares Quarterly Dividend, and Provides Operations Update

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Vancouver, August 24, 2023 - [Hemisphere Energy Corp.](#) (TSXV: HME) (OTCQX: HMEF) ("Hemisphere" or the "Company") provides its financial and operating results for the three and six months ended June 30, 2023, declares a quarterly dividend payment to shareholders, and provides an operations update.

Q2 2023 Highlights

- Produced an average of 2,883 boe/d for the quarter and 3,026 boe/d for the six months ended June 30, 2023, a 9% increase over the first half of 2022.
- Attained quarterly revenue of \$19.0 million.
- Delivered an operating field netback¹ of \$11.1 million, or \$42.41/boe for the quarter.
- Realized quarterly adjusted funds flow from operations ("AFF")¹ of \$8.1 million, or \$30.97/boe.
- Achieved quarterly free funds flow¹ of \$3.6 million, or \$0.04/basic share.
- Exited the second quarter with a positive working capital¹ position of \$2.6 million, compared to net debt¹ of \$3.7 million at the end of June 2022.
- Distributed \$2.5 million or \$0.025/share in dividends to shareholders during the quarter.
- Purchased and cancelled 872,400 shares under the Company's Normal Course Issuer Bid ("NCIB").

(1) Operating field netback, adjusted funds flow from operations (AFF), free funds flow, working capital, 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. 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 Specified Financial Measures".

Financial and Operating Summary

(\$000s, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2023	2022	2023	2022
FINANCIAL				
Petroleum and natural gas revenue	\$ 19,013	\$ 30,608	\$ 37,707	\$ 53,463
Operating field netback ⁽¹⁾	11,124	18,695	22,466	34,156
Operating netback ⁽¹⁾	10,944	16,148	22,058	28,145
Cash flow provided by operating activities	9,371	14,926	18,405	23,136
Adjusted funds flow from operations (AFF) ⁽¹⁾	8,123	14,031	16,403	25,070
Per share, basic ⁽¹⁾	0.08	0.14	0.16	0.26
Per share, diluted ⁽¹⁾	0.08	0.14	0.16	0.25
Free funds flow ⁽¹⁾	3,591	8,249	10,406	17,493
Net income	5,790	4,131	11,748	8,749
Per share, basic	0.06	0.04	0.12	0.09
Per share, diluted	0.06	0.04	0.11	0.09
Dividends	2,523	2,557	5,068	2,557
Per share, basic	0.025	0.025	0.050	0.025
Capital expenditures ⁽¹⁾	4,532	5,782	5,997	7,577
Working capital (Net debt) ⁽¹⁾	2,599	(3,662)	) 2,599	(3,662)
Bank debt	\$ -	\$ (3,529)	) \$ -	\$ (3,529)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2023	2022	2023	2022
OPERATING				
Average daily production				
Heavy oil (bbl/d)	2,859	2,856	3,000	2,741
Natural gas (Mcf/d)	141	165	155	153
Combined (boe/d)	2,883	2,883	3,026	2,766
Oil weighting	99%	99%	99%	99%
Average sales prices				
Heavy oil (\$/bbl)	\$ 72.96	\$ 117.37	\$ 69.30	\$ 107.45
Natural gas (\$/Mcf)	2.36	6.93	2.75	5.81
Combined (\$/boe)	\$ 72.48	\$ 116.65	\$ 68.85	\$ 106.78
Operating netback (\$/boe)				
Petroleum and natural gas revenue	\$ 72.48	\$ 116.65	\$ 68.85	\$ 106.78
Royalties	(15.42)	(34.14)	(13.36)	(27.31)
Operating costs	(11.72)	(8.88)	(11.39)	(8.91)
Transportation costs	(2.93)	(2.39)	(3.08)	(2.33)
Operating field netback ⁽¹⁾	42.41	71.25	41.02	68.22
Realized commodity hedging (loss)	(0.69)	(9.71)	(0.75)	(12.01)
Operating netback ⁽¹⁾	\$ 41.72	\$ 61.54	\$ 40.27	\$ 56.21
General and administrative expense	(3.32)	(3.30)	(3.09)	(3.04)
Interest expense and foreign exchange adj.	(0.68)	(1.06)	(0.67)	(1.16)
Current tax expense	(6.75)	(3.71)	(6.56)	(1.94)
Adjusted funds flow from operations ⁽¹⁾ (\$/boe)	\$ 30.97	\$ 53.47	\$ 29.95	\$ 50.07

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

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 June 30, 2023, which are available on SEDAR+ at www.sedarplus.ca and on Hemisphere's website at www.hemisphereenergy.ca. All amounts are expressed in Canadian dollars unless otherwise noted.

Quarterly Dividend

Hemisphere is pleased to announce that its Board of Directors has approved a quarterly cash dividend of \$0.025 per common share in accordance with the Company's dividend policy. The dividend will be paid on September 14, 2023 to shareholders of record as of the close of business on August 31, 2023. The dividend is designated as an eligible dividend for income tax purposes.

Operations update

Hemisphere's 2023 summer drilling program is currently underway. To date, four wells have been drilled in the Atlee Buffalo G pool and one in the Atlee Buffalo F pool, with three remaining F pool locations currently being drilled off a single pad. It is anticipated that half of these wells will be on production by the end of August, with the remainder producing by the end of September. Two of the new wells are also planned to be completed as or converted to injectors by the end of the year.

With two of the newly drilled G pool wells recently tied-in, August production has averaged just over 3,000 boe/d (99% heavy oil, based on field estimates between August 1-22, 2023). The Company's polymer (G Pool) and polymer-surfactant (F Pool) floods are continuing to perform effectively, with relatively stable oil rates and lower water cuts being seen across both pools. As the remaining new wells are brought online, Hemisphere will further optimize injection and polymer concentration levels across its pools, as well as use additional treating and pumping capacity added during the year.

To date in 2023, Hemisphere has strategically invested approximately \$1 million in the acquisition of over 10

sections of new land that management believes to be prospective enough to become an additional core area for the Company. This resource is characterized by high oil in place and low recovery factor, and reservoir simulation supports its significant potential as an application for Hemisphere's expertise in Enhanced Oil Recovery ("EOR") techniques. Current plans include drilling and testing a pilot flood into this new asset as part of Hemisphere's 2024 development capital budget.

About Hemisphere Energy Corporation

Hemisphere is a dividend-paying Canadian oil company focused on maximizing value per share growth with the sustainable development of its high netback, low decline conventional heavy oil assets using EOR techniques. 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 a dividend will be paid September 14, 2023 to shareholders of record as of the close of business on August 31, 2023; timing to place recently completed wells on production and/or convert them into injectors; Hemisphere's expectation to continue to optimize injection and polymer concentration levels across its pools, as well as use additional treating and pumping capacity added during the year; the potential to develop a new core area and the Company's plans to drill and test the same.

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 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 perspective of recently acquired properties and the timing and manner to explore and develop the same; 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 working capital/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 June 30		Six Months Ended June 30	
(\$000s, except per share amounts)	2023	2022	2023	2022
Cash provided by operating activities	\$ 9,371	\$ 14,926	\$ 18,405	\$ 23,136
Change in non-cash working capital	(1,462)	(906)	(2,294)	1,819
Adjust: Decommissioning obligation expenditures	214	11	292	115
Adjusted funds flow from operations	\$ 8,123	\$ 14,031	\$ 16,403	\$ 25,070
Per share, basic	\$ 0.08	\$ 0.14	\$ 0.16	\$ 0.26
Per share, diluted	\$ 0.08	\$ 0.14	\$ 0.16	\$ 0.25

b) 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 June 30		Six Months Ended June 30	
(\$000s, except per share amounts)	2023	2022	2023	2022

Adjusted funds flow from operations	\$ 8,123	\$ 14,031	\$ 16,403	\$ 25,070
Capital expenditures	(4,532)	(5,782)	(5,997)	(7,577)
Free funds flow	\$ 3,591	\$ 8,249	\$ 10,406	\$ 17,493
Per share, basic	\$ 0.04	\$ 0.08	\$ 0.10	\$ 0.18
Per share, diluted	\$ 0.03	\$ 0.08	\$ 0.10	\$ 0.18

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 June 30		Six Months Ended June 30	
(\$000s)	2023	2022	2023	2022
Cash used in investing activities	\$ 4,321	\$ 2,632	\$ 7,814	\$ 7,948
Change in non-cash working capital	211	3,150	(1,817)	(371)
Capital expenditures	\$ 4,532	\$ 5,782	\$ 5,997	\$ 7,577

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) Working Capital/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. Working capital/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, decommissioning obligations, and lease liabilities, and including any bank debt. There is no IFRS measure that is reasonably comparable to working capital/net debt.

The following table outlines the Company calculation of working capital/net debt:

(\$000s)	As at June 30, 2023	As at December 31, 2022
Current assets ⁽¹⁾	\$ 10,149	\$ 5,825
Current liabilities ⁽¹⁾	(7,550)	(6,591)
Working capital (Net debt)	\$ 2,599	\$ (766)

Note:

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

g) Supplementary Financial Measures and Non-GAAP Ratios

"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, 2022 and the interim period ended June 30, 2023, which are available under the Company's SEDAR+ profile at www.sedarplus.ca.

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

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	IFRS	International Financial Reporting Standards
boe/d	barrel of oil equivalent per day		
\$/boe	dollar per barrel of oil equivalent		
US\$	United States Dollar		

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