MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

Management is responsible for the preparation of the financial statements and the consistent presentation of all other financial information that is publicly disclosed. The financial statements have been prepared in accordance with the accounting policies detailed in the notes to the financial statements and in accordance with IFRS and include estimates and assumptions based on management's best judgment. Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner. Independent auditors appointed by the shareholders have examined the financial statements. Their report is presented with the financial statements. The Audit Committee, consisting of independent members of the Board of Directors, has reviewed the financial statements with management and the independent auditors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Vancouver, British Columbia
April 20, 2022

(signed) *"Don Simmons"*
Don Simmons, President & CEO

(signed) *"Dorlyn Evancic"*
Dorlyn Evancic, Chief Financial Officer

INDEPENDENT AUDITORS’ REPORT

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To the Shareholders of Hemisphere Energy Corporation

Opinion

We have audited the financial statements of Hemisphere Energy Corporation (the “Company”), which comprise:

- the statements of financial position as at December 31, 2021 and December 31, 2020
- the statements of income (loss) and comprehensive income (loss) for the years thenended
- the statements of changes in shareholders’ equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accountingpolicies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects,the financial position of the Company as at December 31, 2021 and December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance withInternational Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “*Auditors’Responsibilities for the Audit of the Financial Statements*” section of our auditors’ report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to providea basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevantCanadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do notand will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the otherinformation identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the auditand remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements thatare free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters relatedto going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternativebut to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issuean auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or inthe aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, weexercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design auditprocedures that are appropriate in the circumstances, but not for the purpose ofexpressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in thefinancial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlyingtransactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, theplanned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is JJ Iacuone.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

April 20, 2022

STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

	Note	**December 31, 2021**	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents		**$ -**	$ 435,350
Accounts receivable		**4,220,709**	1,932,663
Prepaid expenses		**592,421**	633,598
Fair value of financial instruments	5(c)	**433,370**	193,688
		5,246,500	3,195,299
Non-current assets			
Reclamation deposits	10	**115,535**	115,535
Exploration and evaluation assets	8	**568,168**	458,199
Property and equipment	9	**61,189,134**	48,445,138
Deferred costs	13	**-**	264,878
Total assets		**$ 67,119,337**	$ 52,479,049
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 7,223,445**	$ 1,334,300
Current portion of lease liabilities	15	**402,557**	82,773
Warrant liability	14	**5,145,417**	993,817
Fair value of financial instruments	5(c)	**1,782,045**	-
		14,553,464	2,410,890
Non-current liabilities			
Bank debt	12	**15,504,836**	-
Term loan	13	**-**	24,979,567
Lease liabilities	15	**2,182,156**	249,761
Decommissioning obligations	10	**9,070,408**	8,530,687
		41,310,864	36,170,905
Shareholders' Equity			
Share capital	16	**56,499,743**	54,342,488
Contributed surplus		**2,633,952**	1,208,600
Deficit		**(33,325,222)**	(39,242,944)
Total shareholders' equity		**25,808,473**	16,308,144
Total liabilities and shareholders' equity		**$ 67,119,337**	$ 52,479,049

Commitments [Note 18]
Subsequent events [Note 14 & 21]

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

(signed) *"Bruce McIntyre"*
Bruce McIntyre, Director

(signed) *"Don Simmons"*
Don Simmons, Director

STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Expressed in Canadian dollars)

	Note		Years Ended December 31 2021		2020
Revenue					
Oil and natural gas revenue	7	$	**43,139,314**	$	18,660,257
Royalties			**(7,834,413)**		(1,703,489)
			35,304,901		16,956,768
Realized gain (loss) on financial instruments			**(3,465,946)**		3,714,593
Unrealized gain (loss) on financial instruments	5(c)		**(1,542,365)**		1,323,231
Net revenue			**30,296,590**		21,994,592
Expenses					
Production and operating			**8,254,704**		6,211,670
Exploration and evaluation	8		**63,936**		258,269
Depletion and depreciation	9		**4,488,471**		4,489,811
General and administrative			**3,317,350**		1,952,558
Share-based payments	16(b)		**1,026,827**		115,664
Impairment (reversal) of property and equipment	9		**(1,912,577)**		6,020,587
			15,238,711		19,048,559
Results from operating activities			**15,057,879**		2,946,033
Finance expense	11		**(9,107,602)**		(3,570,042)
Foreign exchange gain			**(32,555)**		182,233
Gain on disposition			-		25,868
Net income (loss) before tax			**5,917,722**		(415,908)
Deferred tax recovery			**-**		-
Net income (loss) and comprehensive income (loss) for the Year		**$**	**5,917,722**	$	(415,908)
Net income (loss) per share, basic	16(c)	**$**	**0.07**	$	(0.00)
Net income (loss) per share, diluted	16(c)	**$**	**0.06**	$	(0.00)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

	Note	Number common shares		Share Capital		Contributed Surplus		Deficit		Total Equity
Balance, December 31, 2019		**88,902,302**	**$**	**54,607,961**	**$**	**1,057,734**	**$**	**(38,827,036)**	**$**	**16,838,659**
Share-based payments	16(b)	-		-		150,866		-		150,866
Shares repurchased under NCIB	16(a)	(2,120,000)		(265,473)		-		-		(265,473)
Net loss for the year		-		-		-		(415,908)		(415,908)
Balance, December 31, 2020		**86,782,302**	**$**	**54,342,488**	**$**	**1,208,600**	**$**	**(39,242,944)**	**$**	**16,308,144**
Balance, December 31, 2020		**86,782,302**	**$**	**54,342,488**	**$**	**1,208,600**	**$**	**(39,242,944)**	**$**	**16,308,144**
Stock option exercise	16(b)	2,745,000		375,700		-		-		375,500
Share-based payments	16(b)	-		-		1,425,352		-		1,425,352
Shares repurchased under NCIB	16(a)	(537,500)		(164,070)		-		-		(164,070)
Warrant exercise - cashless	14	2,299,851		1,945,625		-		-		1,945,625
Net income for the year		-		-		-		5,917,722		5,917,722
Balance, December 31, 2021		**91,289,653**	**$**	**56,499,743**	**$**	**2,633,952**	**$**	**(33,325,222)**	**$**	**25,808,473**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

	Note	Years Ended December 31 2021	2020
Operating activities			
Net income (loss) for the year		**$ 5,917,722**	$ (415,908)
Items not affecting cash:			
Accretion of debt issuance costs	11	**128,078**	491,144
Accretion of decommissioning costs	11	**102,368**	129,023
Amortization of deferred charges	11	**264,875**	136,777
Depletion and depreciation	9	**4,488,471**	4,489,811
Exploration and evaluation expense	8	**63,936**	258,269
Gain on disposition		**-**	(25,868)
Term loan settlement	11	**768,680**	-
Share-based payments		**1,026,827**	115,664
Unrealized loss (gain) on financial instruments	5(c)	**1,542,365**	(1,323,231)
Unrealized gain on foreign exchange	5(c)	**-**	(353,079)
Change in fair value of warrant liability	14	**6,097,225**	(228,256)
Impairment (reversal)	9	**(1,912,577)**	6,020,587
		18,487,970	9,294,933
Decommissioning obligation expenditures	10	**(51,441)**	(118,570)
Changes in non-cash working capital	19	**(64,918)**	213,339
Cash provided by operating activities		**18,371,611**	9,389,702
Investing activities			
Exploration and evaluation expenditures	8	**(1,056,296)**	(885,568)
Property and equipment expenditures	9	**(10,934,716)**	(799,854)
Changes in non-cash working capital	19	**3,707,191**	(189,379)
Cash used in investing activities		**(8,283,821)**	(1,874,801)
Financing activities			
Shares issued for stock option cash exercise		**375,700**	-
Shares repurchased under NCIB	16(a)	**(164,070)**	(265,472)
Change in bank debt	12	**15,504,836**	-
Repayment of term loan including fees	13	**(25,876,319)**	(7,914,175)
Payment of lease liabilities, net		**(363,287)**	(79,420)
Cash used in financing activities		**(10,523,140)**	(8,259,067)
Net change in cash		**(435,350)**	(744,166)
Cash, beginning of year		**435,350**	1,179,516
Cash, end of year		**$ -**	$ 435,350

Supplemental cash flow information (Note 19)

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2021 and December 31, 2020
(Expressed in Canadian dollars)

1. Nature and Continuance of Operations

Hemisphere Energy Corporation (the "Company") was incorporated under the laws of British Columbia on March 6, 1978. The Company's principal business is the acquisition, exploration, development and production of petroleum and natural gas interests in Canada. It is a publicly traded company listed on the TSX Venture Exchange under the symbol "HME" and on the OTCQX Best Market under the symbol "HMENF." The Company's head office is located at Suite 501, 905 Pender Street West, Vancouver, British Columbia, Canada V6C 1L6. The Company has no subsidiaries.

2. Basis of Presentation

(a) Statement of compliance

These audited annual financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These Financial Statements were authorized for issuance by the Board of Directors on April 20, 2022.

(b) Basis of valuation

These Financial Statements have been prepared on a historical cost basis, except for financial instruments and share-based payments, which are stated at their fair values.

(c) Functional and presentation currency

These Financial Statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of these Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may materially differ from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Reserve estimation including engineering data, geological and geophysical data, projected future rates of production, commodity pricing, operating costs and timing of future

expenditures, are subject to significant judgment and interpretation. These estimates are a critical part of many of the estimated amounts and calculations contained in the financial statements. These estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations. These determinations are updated at least on an annual basis.

As part of its capital management process the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company. See further discussions relating to liquidity in Note 6.

Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements include:

(i) Impairment testing – internal and external sources of information including petroleum and natural gas prices, expected production volumes, expected royalty rates and operating costs, anticipated recoverable quantities of proved and probable reserves and rates used to discount future cash flow estimates. Judgment is required to assess these factors when determining if the carrying amount of an asset is impaired, or in the case of previously impaired asset, whether the carrying amount of the asset has been restored.

(ii) Depletion and depreciation – oil and natural gas reserves, including future prices, costs and reserve base to use on calculation of depletion.

(iii) Decommissioning obligations – estimates relating to amounts, likelihood, timing, inflation and discount rates.

(iv) Share-based payments – expected life of the options, risk-free rate of return and stock price volatility

(v) Financial instruments
   i. The estimated fair values of the Company's financial derivative commodity contracts are subject to measurement uncertainty due to the estimation of future crude oil and natural gas commodity prices, foreign exchange rates and volatility.
   ii. The estimated fair value of the warrant liability, which is considered a financial instrument, uses the Black & Scholes valuation model which is based on assumptions including volatility, risk-free interest rate and the expected term.

(vi) Warrants and stock options
The estimated fair value of the warrants issued as part of the term loan and stock options issued under the Company's stock option plans were based on the Black-Scholes pricing model incorporating assumptions on volatility, risk-free interest rate, forfeiture rate and the expected term.

(vii) Determinations of cash generating units ("CGUs") – geographic location, commodity type, reservoir characteristics and lowest level of cash inflows.

(viii) Determining the technical feasibility and commercial viability of exploration and evaluation assets.

(ix) Business combinations - estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of petroleum and natural gas properties

based upon the estimation of recoverable quantities of Proved and Probable reserves being acquired

(x) Provisions - exercise of significant judgment and estimates of the outcome of future events.

(e) COVID-19 Risk

Hemisphere's business, financial condition and results of operations could be materially and adversely affected by the outbreak of epidemics, pandemics and other public health crises in geographic areas in which it has operations, suppliers, customers or employees, including the global outbreak of COVID-19. The COVID-19 pandemic, given its severity, scale, duration and rapid evolution, and actions that may be taken by governmental authorities in response thereto, has resulted, and may continue to result in, among other things: increased volatility in financial markets and foreign currency exchange rates; disruptions to global supply chains; labour shortages; reductions in trade volumes; temporary operational restrictions and restrictions on gatherings greater than a certain number of individuals, shelter in place declarations and quarantine orders, business closures and travel bans; an overall slowdown in the global economy; political and economic instability; and civil unrest. In particular, the COVID-19 pandemic has resulted in, and may continue to result in, volatility in the demand for, and prices of, commodities that are closely linked to Hemisphere's financial performance, including oil and natural gas, and also increases the risk that storage for oil could reach capacity in certain geographic locations in which Hemisphere operates. A prolonged period of uncertain demand for, and prices of, these commodities, and any applicable storage constraints, has resulted in, and may continue to result in, the Company shutting-in production, which could adversely impact the Company's business, financial condition and results of operations.

The Company is also subject to risks relating to the health and safety of its personnel, as well as the potential for a slowdown or temporary suspension of its operations in locations impacted by an outbreak, increased labour and fuel costs and regulatory changes. Hemisphere has implemented health and safety measures at Hemisphere's facilities and offices to limit the risk of transmission of COVID-19. Additionally, Hemisphere follows posted health guidelines, as and when posted, to protect the health of its employees and decrease the potential impact of serious illness, including COVID-19, on its operations. However, should an employee of, or visitor to, any of Hemisphere's facilities or offices become infected with COVID-19, it could place Hemisphere's entire workforce at risk, which could result in the suspension of operations at one or more of Hemisphere's facilities. Such a suspension in operations could also be mandated by governmental authorities in response to the COVID-19 pandemic, and outbreaks of variant strains of the virus. This would negatively impact Hemisphere's production for a sustained period of time, which could adversely impact its business, financial condition and results of operations. In addition, the disruption and volatility in global capital markets that has resulted, and may continue to result, from the COVID-19 pandemic could increase the Company's cost of capital and adversely affect the Company's ability to access the capital markets on a timely basis, or at all.

The COVID-19 pandemic continues to evolve and the full impact on the Company's business, financial condition and results of operations, as well as the Company's future capital expenditures and other discretionary items, will depend on future developments, which are

highly uncertain and cannot be predicted with any degree of confidence, including: the geographic spread of the virus; the duration and extent of the pandemic, the spread of new variant strains of the virus, further actions that may be taken by governmental authorities, including in respect of social and travel restrictions and business disruptions; the severity of the disease; the effectiveness of actions taken to contain the virus and treat the disease, including access to effective vaccines, domestic and global vaccination rates; and the ability of business to resume regular operations.

To the extent that the COVID-19 pandemic continues to adversely affect Hemisphere's business, financial condition and results of operations, it may also have the effect of heightening many of the other risks described herein and in Hemisphere's Annual Information Form for the year ended December 31, 2021.

3. Significant Accounting Policies

(a) Revenue

Revenues from the sale of heavy oil, natural gas liquids and natural gas is recognized based on the consideration specified in contracts with customers. The Company recognizes revenue when it transfers control of the product to the customer, which is generally when legal title passes to the customer which is when it is physically transferred to the pipeline or other transportation method agreed upon and collection is reasonably assured. Any revenues from processing activities are recognized over time as processing occurs, and are generally billed monthly.

The Company evaluates its arrangements with third parties and partners to determine if the Company is acting as the principal or as an agent. The Company is considered the principal in a transaction when it has primary responsibility for the transaction. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

(b) Jointly owned assets

Some of the Company's petroleum and natural gas activities involve jointly owned assets and are conducted under joint operating agreements. Accordingly, the financial statements reflect the Company's proportionate share of joint assets, liabilities, revenues and expenses.

(c) Property and equipment and exploration and evaluation assets

(i) Pre-exploration expenditures

Expenditures made by the Company before acquiring the legal right to explore in a specific area do not meet the definition of an asset and therefore are expensed as incurred.

(ii) Exploration and evaluation expenditures

Costs incurred once the legal right to explore has been acquired are capitalized as exploration and evaluation assets. These costs include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, drilling costs directly attributable to an identifiable well, and directly attributable general and administrative costs. These costs are accumulated in cost centers by property and are not subject to depletion until technical feasibility and commercial viability has been determined.

Exploration and evaluation assets are assessed for impairment at each reporting date when facts and circumstances suggest that the carrying amount exceeds the recoverable amount, and on transfer of assets from exploration and evaluation assets to property and equipment.

The technical feasibility and commercial viability are considered to be determinable when Proved and Probable reserves have been identified. A review of each exploration license or field is carried out quarterly to ascertain whether Proved and Probable reserves have been discovered. Upon determination of Proved and Probable reserves, exploration and evaluation assets attributable to those reserves are tested for impairment and reclassified from exploration and evaluation assets to petroleum and natural gas properties.

(iii) Property and equipment

Items of property and equipment, which include petroleum and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and impairment losses.

Gains and losses on disposal of an item of property and equipment, including petroleum and natural gas properties, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

(iv) Capitalization of costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas properties only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas properties generally represent costs incurred in developing Proved and/or Probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(v) Depletion and depreciation

Depletion of petroleum and natural gas properties is determined using the unit-of-production method based on production volumes in relation to total estimated Proved and Probable reserves as determined annually by independent engineers and determined in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. The calculation of depletion and depreciation is based on total capitalized costs plus estimated future development costs of Proved and Probable non-producing and undeveloped reserves.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as Proved and Probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proved component of Proved and Probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially viable if management has the intention of developing and producing them. Such intention is based upon:

- A reasonable assessment of the future economics of such production;
- A reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- Evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered Proved if supported by either actual production or conclusive formation tests. The area of reservoir considered Proved includes (a) that portion delineated by drilling and defined by as-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower Proved limit of the reservoir.

Reserves that can be produced economically through application of improved recovery techniques such as fluid injection are only included in the Proved classification when successful testing by a pilot project, the operation of an installed program in the reservoir or other reasonable evidence (such as, experience of the dame techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

Depreciation of other equipment is provided for on a 20-30% declining balance basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(vi) Impairment

Exploration and evaluation assets are grouped together with the Company's CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to developed and producing assets (petroleum and natural gas properties).

Exploration and evaluation assets are assessed for impairment when they are reclassified to developing and producing assets, as part of the petroleum and natural gas properties, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For developed and producing assets, an impairment is recorded when the recoverable amount of a CGU is less than the respective carrying amount. Recoverable amount is the higher of its fair value less cost to sell and value in use. Fair value is the price that would be received from selling an asset in an orderly transaction between market participants. Fair value less costs to sell can be determined by using observable market information or by using discounted future net cash flows of Proved and Probable reserves using forecasted prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Judgment is required to assess when indicators of impairment or reversals exist and whether calculation of the recoverable amount of an asset is necessary. Management considers internal and external sources of information including petroleum and natural gas prices, expected production volumes, anticipated recoverable quantities of proved and probable reserves and rates used to discount future cash flow estimates. Judgment is required to assess these factors when determining if the carrying amount of an asset is impaired, or in the case of previously impaired asset, whether the carrying amount of the asset has been restored.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(d) Decommissioning obligations

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is included as finance expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision.

(e) Share-based payments

The Company has a stock option plan that is described in Note 16(b). Share-based payments to officers, directors, employees and consultants are measured at the fair value of the instruments issued and are amortized over the vesting periods. The offset to the recorded cost is to Company's contributed surplus.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital. Charges for options that are forfeited before vesting are reversed from contributed surplus.

(f) Share Capital

Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(g) Flow-through shares and units

The Company, from time to time, may issue flow-through common shares to finance a portion of its petroleum and natural gas exploration activities. Canadian income tax law permits the Company to renounce to the flow-through shareholders the income tax attributes of certain petroleum and natural gas exploration and evaluation costs financed by such shares. A liability is recognized for any premium on the flow-through shares in excess of a regular common share and is subsequently reversed as the Company incurs the qualifying designated Canadian exploration or development expenses.

(h) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Per share amounts

Basic per share amounts are calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted-average number of common shares outstanding during the period. Diluted income or loss per share is determined by dividing the income or loss attributable to common shareholders by the weighted-average number of shares outstanding adjusted for the effects of dilutive instruments such as options and warrants.

The Company uses the treasury stock method to compute the dilutive effect of stock options and warrants. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding stock options and warrants. It assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(j) Finance expense

Finance expense comprises interest expense on borrowings and lease liabilities, accretion of the discount on decommissioning obligations and debt issue cost, amortization of deferred charges and change in fair value of the warrant liability, loan settlement costs, other finance expenses and impairment losses recognized on financial assets. Borrowing costs and interest income are recognized in earnings or loss using the effective interest method.

(k) Leases

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received. The right-of-use asset

is subsequently depreciated on a straight-line basis over the lease term. The carrying amount is reviewed for impairment at each reporting period.

The lease liability is initially measured at the present value of future lease payments, discounted using the interest rate implicit in the lease, if applicable, or the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option with a corresponding adjustment to the carrying amount of the right-of-use asset.

Lease payments are allocated between the lease liability and finance charges. Cash outflows for repayment of the principal portion of the lease liability is classified as cash flows provided by financing activities. The interest portion of the lease payments is classified as cash flows provided by operating activities.

The Company does not recognize assets and lease liabilities for short-term leases with a term of twelve months or less, and leases of low value assets. The lease payments associated with these leases are recognized as an expense in the Statement of Income and Comprehensive Income over the lease term.

(l) Changes in accounting policies

There are no new accounting standards for the period. Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. When the Company has not applied a new primary source of IFRS that has been issued, but is not effective, the Company will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of IFRS will have on the financial statements in the period of initial application.

(m) Future accounting pronouncements

i) On January 23, 2020, the IASB announced an amendment to IAS 1 "Presentation of financial statements" re: classification of liabilities as current or non-current which is effective for annual periods beginning on or after January 1, 2023. The amendment clarifies that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period.

The Company does not plan to early adopt any amendments issued but not yet effective.

ii) Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board has issued an exposure draft of IFRS Sustainability Disclosure Standards with the aim to develop sustainability disclosure standards that are globally consistent,

comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 - Disclosure of Climate-related Matters. The effect and cost to comply with these standards, and others that may be developed or evolve over time, has not yet been determined.

4. Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, changes in assumptions can significantly affect estimated fair values. At December 31, 2021, the Company's financial instruments include cash and cash equivalents, accounts receivable, reclamation deposits, term loan, warrant liability and accounts payable and accrued liabilities.

The fair values of cash and cash equivalents, accounts receivable, reclamation deposits and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these financial instruments. Bank debt bears a floating rate of interest and margins charged by the lender are indicative of the current credit spreads and therefore carrying value approximates fair value. The fair value of the warrant liability was determined utilizing a Black & Scholes pricing model as described in Note 14.

a) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

b) Non-derivative financial instruments

Financial assets

At initial recognition, financial assets are classified into four main categories: loans and receivables; held-to-maturity investments; available for sale financial assets; or financial assets at fair value through profit or loss. All financial assets are recognized initially at fair value, normally being the transaction price, plus any directly attributable transaction costs. Transaction costs for instruments at fair value through profit or loss are recognized immediately in earnings.

The subsequent measurement of financial assets depends on their classification.

Loans, receivables and held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Gains and

losses are recognized in earnings when the asset is derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets are subsequently measured at fair value, with changes in fair value recognized directly in other comprehensive income until the asset is derecognized or determined to be impaired, at which time the cumulative change in fair value previously reported in other comprehensive income is recognized in earnings.

Financial assets at fair value through profit or loss are subsequently measured at fair value, with changes in those fair values recognized in earnings.

Financial assets are derecognized when the contractual rights to the cash flows expire, or when substantially all the risks and rewards of ownership of the financial asset are transferred to a third party.

Financial assets and liabilities are shown separately in the statement of financial position unless the Company has a legal right to offset the amounts and intends to either settle on a net basis or to realize the asset and settle the liability simultaneously, in which case they are presented on a net basis.

Impairment of financial assets

A financial asset that is not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after initial recognition and has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant financial assets are tested for impairment on an individual basis. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. The remaining financial assets are assessed collectively for impairment in groups that share similar credit risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses are recognized in earnings.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in earnings.

Financial liabilities

At initial recognition, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities. All financial liabilities are recognized initially at fair value, normally being the transaction price less any directly attributable transaction costs. Transaction costs for instruments at fair value through profit or loss are recognized immediately in earnings.

The subsequent measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value, with changes in those fair values recognized in earnings. The estimated fair value of the warrant liability, which is considered a financial instrument, uses the Black & Scholes valuation model which is based on assumptions including volatility, risk-free interest rate and the expected term.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the contractual obligation expires, is discharged, or cancelled. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in earnings.

c) Financial derivative instruments

The Company may use financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices and foreign exchange. These instruments are not used for trading or speculative purposes.

The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all derivative contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recognized at fair value. Transaction costs are recognized in earnings when incurred.

Physical delivery contracts are entered into for the purpose of delivery of oil in accordance with the Company's expected sale requirements, and therefore are not recorded in the statement of financial position. These contracts are recorded in revenue on their settlement dates.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at

fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized in earnings.

5. Financial Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of these risks. Management sets controls to manage such risks and monitors them on an ongoing basis pertaining to market conditions and the Company's activities.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its payment obligations. This risk arises principally from the Company's receivables from joint operators and oil and natural gas marketers, and reclamation deposits. The credit risk associated with reclamation deposits is minimized substantially by ensuring this financial asset is placed with major financial institutions with strong investment-grade ratings by a primary ratings agency. The credit risk associated with accounts receivable is mitigated as the Company monitors monthly balances to limit the risk associated with collections. The Company does not anticipate any default. There are no balances over 90 days past due or impaired.

The maximum exposure to credit risk is as follows:

	December 31, 2021	December 31, 2020
Accounts receivable		
Marketing receivables	**$ 3,982,461**	$ 1,767,578
Trade receivables	**202,146**	159,776
Receivables from joint ventures	**36,102**	5,309
Reclamation deposits	**115,535**	115,535
	$ 4,336,244	$ 2,048,198

The Company sells the majority of its heavy crude oil production through two marketers and, therefore, is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. The Company's key marketers are global companies with solid reputations, which the Company considers low risk of a collection concern.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company.

The Company also prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes

authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company will also attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

In light of the current volatility in oil and gas prices, as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging. The economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's liquidity and ability to generate profits in the future (see note 12).

At December 31, 2021, the Company had net debt (current assets, less current liabilities excluding fair value of financial instruments, lease and warrant liabilities, and including bank debt) of $17,915,151. The Company funds its operations through operating cash flows and a committed $35MM two year renewable term credit facility at ATB Financial.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, other prices and interest rates will affect the value of the financial instruments. Market risk is comprised of interest rate risk, foreign currency risk, commodity price risk and other price risk.

(i) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under the Company's Term Loan are subject to variable interest rates. A one percent change in interest rates would have a $156,000 effect on the net loss for 2021.

(ii) Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar. The Company does not sell or transact in any foreign currency; except; i) the Company's commodity prices are largely denominated in United States dollars ("USD"), and as a result, the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. For the exchange rate effect, generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales, and vice versa; ii) the Company's Term Loan, which was repaid on July 27, 2021 (see note 12), was denominated in USD, and as result, the amount that the Company was obligated to repay at the term of the loan was affected by fluctuations in the exchange rate between the USD and the Canadian dollar at that time. A 100 basis points change in the foreign exchange rate would have a $279,000 effect on the net loss for 2021.

(iii) Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices

may materially impact the Company's cash flow from operations and ability to raise capital.

At December 31, 2021, the Company held derivative commodity contracts as follows:

Product	Type	Volume	Price	Index	Term	Dec. 31, 2021 Fair Value $
Crude oil	Swap	400 bbl/d	US$19.50	WCS Differential	Jan. 1, 2022 – Jan. 31, 2022	33,225
Crude oil	Swap	200 bbl/d	US$19.00	WCS Differential	Jan. 1, 2022 – Mar. 31, 2022	96,659
Crude oil	Swap	800 bbl/d	US$57.03	WTI-NYMEX	Jan. 1, 2022 – Mar. 31, 2022	(1,609,553)
Crude oil	Swap	200 bbl/d	US$12.10	WCS Differential	Jan. 1, 2022 – Jun. 30, 2022	(72,859)
Crude oil	3-Way	100 bbl/d	US$40.00(put)/US$50.00(put)/US $79(call)	WTI-NYMEX	Apr. 1, 2022 – Jun. 30, 2022	36,214
Crude oil	Put Spread	725 bbl/d	US$30.00(put sell)/US$40.00(put buy), net cost US$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	(172,492)
Crude oil	Sold Call	200 bbl/d	US$78.25(call sell), net premium US$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	113,287
Crude oil	Sold Call	100 bbl/d	US$78.70(call sell), net premium US$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	53,347
Crude oil	Sold Call	200 bbl/d	US$82.10(call sell), net premium US$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	64,262
Crude oil	Sold Call	100 bbl/d	US$86.50(call sell), net premium US$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	12,367
Crude oil	Sold Call	125 bbl/d	US$88.40(call sell), net premium US$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	7,538
Crude oil	Put Spread	575 bbl/d	US$50.00(put sell)/US$60.00(put buy), net cost US$3.55/bbl	WTI-NYMEX	Sep. 1, 2022 – Sep. 30, 2022	24,716
Crude oil	Put Spread	275 bbl/d	US$50.00(put sell)/US$60.00(put buy), net cost US$3.75/bbl	WTI-NYMEX	Oct. 1, 2022 – Dec. 31, 2022	28,154
Crude oil	3-Way	300 bbl/d	US$50.00(put)/US$60.00(put)/US $85(call)	WTI-NYMEX	Oct. 1, 2022 – Dec. 31, 2022	36,459
					Total	($1,348,676)

At December 31, 2021, the commodity contracts were fair valued as a liability of $1,348,676 and an unrealized loss of $1,542,365. Subsequent to year end, the Company has entered into additional commodity contracts as listed in Note 21 (d).

At December 31, 2020, the Company held derivative commodity contracts as follows:

Product	Type	Volume	Price	Index	Term	Dec. 31, 2020 Fair Value $
Crude oil	Collar	275 bbl/d	US$40.00-US$65.50	WTI-NYMEX	Jan. 1, 2021 – Mar. 31, 2021	10,111
Crude oil	3-Way	350 bbl/d	US$40.00(put)/US$48.60(put)/US$60(call)	WTI-NYMEX	Jan. 1, 2021 – Mar. 31, 2021	65,243
Crude oil	3-Way	625 bbl/d	US$40.00(put)/US$48.00(put)/US$60(call)	WTI-NYMEX	Apr. 1, 2021 – Jun. 30, 2021	118,334
					Total	193,688

At December 31, 2020, the commodity contracts were fair valued as an asset of $193,688 and an unrealized gain of $1,323,231.

(iv) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

6. Capital Management

The Company manages its capital with the following objectives:

(a) To ensure sufficient financial flexibility to achieve the Company's ongoing business objectives including the replacement of production, funding of future growth opportunities and pursuit of accretive acquisitions; and

(b) To maximize shareholder return through enhancing the Company's share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is comprised of working capital, shareholders' equity, and bank debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, and issuing new debt instruments (see note 12), or other financial or equity-based instruments, adjusting capital spending, or disposing of assets. The capital structure is reviewed on an ongoing basis. There were no changes to capital management during the year.

7. Revenue

The Company sells its production pursuant to variable-price contracts. The transaction price for variable-price contracts is based on a benchmark commodity price, adjusted for quality, location or other factors whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver variable volumes of heavy oil, natural gas or natural gas liquids to the contract counterparty.

Production revenue is recognized when the Company gives up control of the unit of production at the delivery point agreed to under the terms of the contract. The amount of production revenue recognized is based on the agreed transaction price and the volumes delivered. Any variability in the transaction price relates specifically to the Company's efforts to transfer production and therefore the resulting revenue is allocated to the production delivered in the period to which the variability relates. The Company does not have any factors considered to be constraining in the recognition of revenue with variable pricing factors. Production revenues are normally collected on the business day nearest the 25th day of the month following production.

The Company's production revenues were primarily generated in its core areas of the Manville oil play in the Atlee Buffalo and Jenner areas of southeastern Alberta. The Company's customers are oil and natural gas marketers and joint operations partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by management's policies and practices related to credit risk as discussed in Note 5(a). As at December 31, 2021, production revenue sold to customers was comprised of three marketers which account for $3,982,461 of the accounts receivable balance.

The following table presents the Company's total revenues disaggregated by revenue source:

	Year Ended December 31	
	2021	2020
Heavy Crude Oil	**$ 42,986,009**	$ 18,591,726
Conventional Natural Gas	**153,305**	68,531
Total	**$ 43,139,314**	$ 18,660,257

8. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of Proved and Probable reserves. A transfer from exploration and evaluation assets to property, plant and equipment is made when reserves are assigned, or the exploration project has been completed. For the year ended December 31, 2021, the Company transferred $882,391 (December 31, 2020 - $2,969,669) to property, plant and equipment, capitalized general and administrative expenses of $nil (December 31, 2020 - $604,729) to exploration and evaluation assets, and recognized exploration and evaluation expense of $63,936 (December 31, 2020 - $258,269), which relate to expired or uneconomic properties.

Cost		
Balance, December 31, 2019	$	2,800,569
Additions		885,568
Exploration and evaluation expense		(258,269)
Transfer to property and equipment		(2,969,669)
Balance, December 31, 2020	$	458,199
Additions		1,056,296
Exploration and evaluation expense		(63,936)
Transfer to property, plant and equipment		(882,391)
Balance, December 31, 2021	**$**	**568,168**

9. Property, Plant and Equipment

Cost		Petroleum and Natural Gas		Right of Use and Other Assets		Total
Balance, December 31, 2019	$	103,094,306	$	591,099	$	103,685,405
Right-of-use assets		-		60,830		60,830
Additions		776,150		23,704		799,854
Increase in decommissioning obligations		1,189,358		-		1,189,358
Capitalized share-based payments		35,202		-		35,202
Transfer from exploration and evaluation assets		2,969,669		-		2,969,669
Balance, December 31, 2020	$	108,064,685	$	675,633	$	108,740,318
Right-of-use assets		-		2,615,466		2,615,466
Additions		10,929,286		5,430		10,934,716
Increase in decommissioning obligations (Note 10)		488,793		-		488,793
Capitalized share-based payments		398,525		-		398,525
Transfer from exploration and evaluation assets		882,391		-		882,391
Balance, December 31, 2021	**$**	**120,763,679**	**$**	**3,296,529**	**$**	**124,060,208**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance, December 31, 2019	**$**	49,576,738	$	208,044	$	49,784,782
Depletion and depreciation for the year		4,378,402		111,409		4,489,811
Impairment		6,020,587		-		6,020,587
Balance, December 31, 2020	$	59,975,727	$	319,453	$	60,295,180
Depletion and depreciation for the year		4,349,653		138,818		4,488,471
Impairment reversal		(1,912,577)		-		(1,912,577)
Balance, December 31, 2021	**$**	**62,412,803**	**$**	**458,271**	**$**	**62,871,074**
Net Book Value						
December 31, 2020	$	48,088,958	$	356,180	$	48,445,138
December 31, 2021	**$**	**58,350,876**	**$**	**2,838,258**	**$**	**61,189,134**

The Company's additions for property, plant and equipment included capitalized general and administrative expenses of $824,824 and $629,454 for the years ended December 31, 2021 and 2020, respectively.

The calculation for depletion at December 31, 2021 includes estimated future development costs of $50,721,300 (December 31, 2020 - $42,421,400) associated with the development of the Company's Proved plus Probable reserves.

At December 31, 2021, the Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units (CGUs), and management determined that there were indicators of reversal of impairment identified in the Company's Jenner oil CGU, as a result of improved forward commodity prices, and a resultant increase in proved and probable reserves as estimated in the Company's December 31, 2021 independent reserves report. As such, a reversal of $1,912,577 of historical impairment was recorded in the Company's Jenner oil CGU.

The recoverable amounts were determined based on fair value less costs to sell using a discounted cash flow method and categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, operating costs, royalties and future development costs, and discount rates specific to the underlying composition of assets residing in each CGU. The pre-tax discount rates ranged from 12% to 35% depending on the nature of the reserves. The following tables show the future commodity price estimates used by the Company's independent reserves evaluator at December 31, 2021:

	2022	2023	2024	2025	2026	2027	2028	2029	Thereafter
WTI (US$/bbl)	72.83	68.78	66.76	68.09	69.45	70.84	72.26	73.70	+2%/yr
WCS (C$/bbl)	74.42	69.17	66.54	67.87	69.23	70.61	72.02	73.46	+2%/yr
AECO(C$/MMbtu)	3.56	3.21	3.05	3.11	3.17	3.23	3.30	3.36	+2%/yr

At December 31, 2020, the Company performed an assessment of potential impairment indicators on each of its CGUs, and management determined that an impairment test on its petroleum and natural gas assets was required due to a significant reduction in one CGU's reserve value. It was determined that the carrying amount of its Jenner CGU exceeded its recoverable value of $1,211,160 as at December 31, 2020. Accordingly, the Company recognized an impairment charge of $2,161,477 as at December 31, 2020. No impairment was recognized for Atlee Buffalo as its recoverable value exceeded the carrying amount.

The recoverable amounts were determined with fair value less costs to sell using a discounted cash flow method and categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, operating costs, royalties and future development costs, and discount rates specific to the underlying composition of assets residing in each CGU. The pre-tax discount rates ranged from 12% to 30% depending on the nature of the reserves. The following tables show the future commodity price estimates used by the Company's independent reserves evaluator at December 31, 2020:

	2021	2022	2023	2024	2025	2026	2027	2028	Thereafter
WTI (US$/bbl)	47.17	50.17	53.17	54.97	56.07	57.19	58.34	59.50	+2%/yr
WCS (C$/bbl)	44.63	48.18	52.10	54.10	55.19	56.29	57.42	58.57	+2%/yr
AECO(C$/MMbtu)	2.78	2.70	2.61	2.65	2.70	2.76	2.81	2.87	+2%/yr

As at March 31, 2020 the Company performed an assessment of potential impairment indicators on each of its CGUs, and management determined that an impairment test on its petroleum and natural gas assets was required due to volatile and low commodity prices. It was determined that the carrying amount of Jenner exceeded its recoverable amount of $3,615,333 as at March 31, 2020. Accordingly, the Company recognized an impairment charge of $3,859,110 as at March 31, 2020. No impairment was recognized for Atlee Buffalo as its recoverable value exceeded the carrying amount.

The recoverable amounts were determined with fair value less costs to sell using a discounted cash flow method and categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices and discount rates specific to the underlying composition of assets residing in each CGU. The pre-tax discount rates ranged from 12% to 30% depending on the nature of the reserves. The following tables show the future commodity price estimates used by the Company's independent reserves evaluator at March 31, 2020:

	2020	2021	2022	2023	2024	2025	2026	2027	Thereafter
WTI (US$/bbl)	32.50	43.35	52.02	58.37	59.53	60.72	61.94	63.18	+2%/yr
WCS (C$/bbl)	24.43	39.56	50.15	56.82	57.95	59.11	60.30	61.50	+2.2%/yr
AECO(C$/MMbtu)	1.85	2.30	2.44	2.49	2.54	2.59	2.65	2.70	+2%/yr

10. Decommissioning Obligations

The Company's decommissioning obligation is estimated based on its net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future years. The Company uses Alberta Energy Regulator guidelines for determining abandonment and reclamation estimates.

The Company estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations as at December 31, 2021 is $7,969,897 (December 31, 2020 - $7,980,351), and $13,895,686 with inflation (December 31, 2020 - $11,270,728). These payments are expected to be made over the next 38 years with the majority of costs to be incurred between 2050 and 2060.

The discount factor, being the risk-free rate related to the liability, is 1.70% (December 31, 2020 – 1.20%). Inflation of 2.25% (December 31, 2020 – 1.50%) has also been factored into the calculation of amounts in the table below. The Company also has $115,535 (December 31, 2019 - $115,535) in various reclamation bonds for its properties held by the Alberta Energy Regulator and British Columbia Ministry of Energy, Mines and Petroleum Resources.

The change in estimates for the years ended December 31, 2021 and 2020 resulted from the decommissioning obligations being revalued at the year-end risk-free and inflation rates. The Company received $85,000 in site rehabilitation program grants for 2021, in coordination with certain vendors.

	Years Ended December 31	
	2021	2020
Decommissioning obligations, beginning of year	**$ 8,530,687**	$ 7,330,876
Increase in estimated future obligations	**430,586**	-
Change in estimate	**58,208**	1,189,358
Payment of decommissioning obligations	**(51,441)**	(118,570)
Accretion expense	**102,368**	129,023
Decommissioning obligations, end of year	**$ 9,070,408**	$ 8,530,687

11. Finance Expenses

		Years Ended December 31	
Finance expense:	Note	**2021**	2020
Loan interest		**$ 1,703,008**	$ 3,002,024
Lease interest		**43,368**	39,330
Change in fair value of warrant liability	4	**6,097,225**	(228,256)
Term loan settlement		**768,680**	-
Amortization of deferred charges	13	**264,875**	136,777
Accretion of debt issuance costs	13	**128,078**	491,144
Accretion of decommissioning liabilities	11	**102,368**	129,023
Total		**$ 9,107,602**	$ 3,570,042

12. Bank Debt

On July 27, 2021, the Company entered into a two year committed and extendible term facility with a Canadian Bank (the “Lender”) providing for borrowings of up to $35,000,000 (the "Credit Facility"). As part of entering into the Credit Facility, the Company has fully repaid and terminated its former term loan with a third-party lender (see Note 13).

The Credit Facility has an initial term date of May 31, 2022 (the “Term Date”), which is extendible at that time and on an annual basis for an additional 365 days upon request of the Company. The Company has requested an extension which will be determined upon completion of the annual review on or before May 31, 2022. The Credit Facility has a maturity date of May 31, 2023. If the term it is not extended on May 31, 2022, additional advances would not be permitted and any outstanding advances would become repayable at May 31, 2023. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At December 31, 2021 the Company had drawn $15.6 million on the Credit Facility. There are standard reporting covenants under the Credit Facility and a financial covenant for the Company to maintain working capital above a ratio of 1.00 to 1.00. Working capital for the covenant is defined as current assets, less current liabilities, excluding fair value of financial instruments and warrant liability, plus the undrawn amount available under the credit facility. The Company was in compliance with these standard reporting covenants and the financial covenant with a working capital ratio of 3.19 to 1.00 as at December 31, 2021.

Under the Credit Facility, advances can be drawn as prime rate loans and bear interest at the bank’s prime lending rate plus interest rates between 2.50% and 3.50%. Advances may also be drawn as guaranteed notes/banker’s acceptances and letters of credit, subject to Canadian interest benchmark rates plus margins ranging from 3.50% to 4.50%. Standby fees are charged on the undrawn portion of the Credit Facility at rates ranging from 0.875% to 1.125%. These interest rates, fees and margins vary based on adjusted debt to earnings metrics determined at each quarter end for the preceding 12 months.

The semi-annual renewal of the available lending limit of the Credit Facility is scheduled for May 31, 2022 and is based on the Lenders’ interpretation of the Company’s reserves and future commodity prices. There can be no assurance that the amount or terms of the Credit Facility will not be adjusted at the next semi-annual review. In the event that the lender reduces the Credit Facility’s borrowing base below the amount drawn at the time of the redetermination, the Company would have 45 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the redetermined borrowing base. Repayments

of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

13. Term Loan

On September 15, 2017, the Company entered into a first lien senior secured credit agreement (the "Credit Agreement") with a third-party lender (the "Lender") providing for a multi-draw, non-revolving term loan facility of a maximum aggregate principal amount of up to US$35.0 million. Security granted by the Company under the Credit Agreement included a demand debenture for US$75.0 million which provided for a first ranking security interest and floating and fixed charges over all of the real and personal property present and after acquired of the Company.

On July 27, 2021, the Company terminated this term loan with repayment of the full gross balance outstanding in the amount of US$17.75 million (CAD$22,471,500) from proceeds of the bank debt, as discussed above. The Company recognized $768,680 as a non-cash term loan settlement loss at that time (see note 11).

14. Warrant Liability

On September 15, 2017, the Company issued 13,750,000 warrants to the Lender in conjunction with its Term Loan (Note 13). Each warrant entitles the holder to purchase one common share of Hemisphere at an exercise price of $0.28 per share prior to September 15, 2022. The warrants are non-transferrable and are subject to a forced exercise clause which applies upon a 30-day VWAP equaling or exceeding $1.40 per share. The warrants were fully vested upon issuance. The warrants issued are classified as a financial liability as a result of a cashless exercise provision, and have been classified as a current liability.

During the fourth quarter of 2021, the holder did a cashless exercise of 25% of the warrants at a $0.846 30-day VWAP resulting in the issuance of 2,299,851 common shares for the exercise cost of 3,437,500 warrants at $0.28 per share. After this exercise the holder has 10,312,500 exercisable warrants remaining.

In no event will the Company be required to settle the warrants through a cash payment. The fair value of the warrants is revalued every quarter using the Black and Scholes pricing model. Valuations for the current and previous year were calculated with the following inputs:

		December 31, 2021		December 31, 2020
Number of warrants		10,312,500		13,750,000
Share Price	$	0.99	$	0.20
Risk-free interest rate		1.25%		0.39%
Expected life (years)		0.71		1.70
Expected volatility		58%		112%

On March 25, 2022, the 30-Day VWAP exceeded $1.40 per share, and the Company gave the warrant holder 30 days' notice under the under the forced exercise clause of acceleration of expiry date for exercise of the warrants within 30 days. The holder subsequently did a cashless exercise of the remaining 10,312,500 warrants on April 15, 2022 at a $1.4367 30-day VWAP resulting in the issuance of 8,302,686 common shares for the exercise cost of 2,009,814 warrants at $0.28 per share.

15. Lease Liabilities

The Company has lease liabilities for contracts related to financing facilities, surface leases, vehicles, field operating equipment and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

In December 2021, the Company incurred lease additions for field operating equipment acquired during the year.

The following table summarizes lease liabilities at December 31, 2021:

Balance, December 31, 2019	$	376,992
Lease additions		60,830
Lease adjustments		(25,868)
Interest expense		39,331
Lease payments		(118,751)
Balance, December 31, 2020	$	332,534
Lease additions (note 9)		2,615,466
Interest expense		43,368
Lease payments		(406,655)
Balance, December 31, 2021	$	**2,584,713**
Current Portion	$	402,557
Long-term portion	$	2,182,156

16. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at December 31, 2021 and 2020, the Company had the following common shares issued and outstanding:

Common Shares	Shares		Value
Balance, December 31, 2019	88,902,302	$	54,607,961
Shares repurchased and cancelled (NCIB)	(2,120,000)		(265,473)
Balance, December 31, 2020	86,782,302		54,342,488
Shares issued for stock option exercises	2,745,000		375,700
Shares issued for warrants exercises (note 14)	2,299,851		1,945,625
Shares repurchased and cancelled (NCIB)	(537,500)		(164,070)
Balance, December 31, 2021	**91,289,653**	**$**	**56,499,743**

On June 27, 2019, the Company announced notice of a normal course issuer bid (NCIB) to purchase and cancel, from time to time, up to 8,016,731 common shares of the Company until

July 1, 2020. The Company has since purchased and canceled 1,301,000 shares under this NCIB for $179,273 as at June 30, 2020, for an average cost of $0.14 per share. This includes 320,000 shares purchased and canceled in the first half of fiscal 2020 for $55,597 at an average cost of $0.17 per share

Further, on June 29, 2020, the Company announced the renewal of the normal course issuer bid (NCIB) to purchase and cancel, from time to time, up to 7,869,931 common shares of the Company until July 1, 2021. During the six months ended December 31, 2020, the Company has purchased and canceled 1,800,000 shares under the NCIB for $209,880 at an average cost of $0.12 per share. A further 537,500 shares were repurchased under this NCIB plan from January 1 to June 30, 2021 for $164,070, at an average price of $0.31.

Further, on July 14, 2021 the Company announced the renewal of the NCIB, to purchase and cancel, from time to time, up to 7,687,830 common shares of the Company until July 13, 2022. During the six months ended December 31, 2021, the Company did not repurchase any shares under the NCIB. Subsequent to year end, the Company has repurchased additional NCIB shares as disclosed in Note 21 (b).

During the year ended December 31, 2021, the Company issued 2,745,000 shares for stock options exercised through the Employee Stock Option Plan, at an average exercise price of $0.14 per share.

(b) Stock options

The Company has a stock option plan in place and is authorized to grant stock options to officers, directors, employees and consultants whereby the aggregate number of shares reserved for issuance may not exceed 10% of the issued shares at the time of grant and 5% of the issued shares to each optionee. Stock options are non-transferable and have a maximum term of ten years. Stock options terminate no later than 90 days (30 days for investor-related services) upon termination of employment or employment contract and one year in the case of retirement, death or disability. The grant price is determined using the closing price of the Company's shares from the day prior to the grant.

Details of the Company's stock options as at December 31, 2021 and 2020 are as follows:

				Changes in the Period				
Exercise Price	Grant Date	Expiry Date	Balance Outstanding December 31, 2020	Granted	Exercised	Expired/ Cancelled	Balance Outstanding December 31, 2021	Balance Exercisable December 31, 2021
$0.08	11-Feb-16	11-Feb-21	1,595,000	-	(1,595,000)	-	-	-
$0.08	12-Feb-16	12-Feb-21	75,000	-	(75,000)	-	-	-
$0.25	21-Sep-17	21-Sep-22	4,809,000	-	(870,000)	-	3,939,000	3,939,000
$0.28	2-Oct-17	2-Oct-22	150,000	-	-	-	150,000	150,000
$0.25	01-Jan-18	1-Jan-23	250,000	-	-	-	250,000	250,000
$0.12	01-Mar-19	1-Mar-24	50,000	-	-	-	50,000	50,000
$0.12	17-Jun-20	17-Jun-25	1,500,000	-	(205,000)	-	1,295,000	1,295,000
$0.91	17-Dec-21	17-Dec-31	-	1,740,000	-	-	1,740,000	1,740,000
			8,429,000	1,740,000	(2,745,000)	-	7,424,000	7,424,000
	Weighted-average exercise price		$0.19	$0.91	$0.08	-	$0.38	$0.38

Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2019	Changes in the Year Granted	Exercised	Forfeited/ Expired	Balance Outstanding Dec. 31, 2020	Balance Exercisable Dec. 31, 2020
$0.24	29-Jan-15	29-Jan-20	1,000,000	-	-	(1,000,000)	-	-
$0.39	1-Mar-15	1-Mar-20	100,000	-	-	(100,000)	-	-
$0.08	11-Feb-16	11-Feb-21	1,595,000	-	-	-	1,595,000	1,595,000
$0.08	12-Feb-16	12-Feb-21	125,000	-	-	(50,000)	75,000	75,000
$0.25	21-Sep-17	21-Sep-22	4,914,000	-	-	(105,000)	4,809,000	4,809,000
$0.28	2-Oct-17	2-Oct-22	150,000	-	-	-	150,000	150,000
$0.25	01-Jan-18	01-Jan-23	250,000	-	-	-	250,000	250,000
$0.12	01-Mar-19	01-Mar-24	50,000	-	-	-	50,000	50,000
$0.12	17-Jun-20	17-Jun-25	-	1,500,000	-	-	1,500,000	1,500,000
			8,184,000	1,500,000	-	(1,255,000)	8,429,000	8,429,000
Weighted-average exercise price			$0.21	$0.12	-	$0.25	$0.19	$0.19

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees and consultants of the Company. For the year ended December 31, 2021, the Company recorded total share-based payments of $1,425,352, compared $150,866 for the same periods in 2020.

In December 2021, the Company granted 1,740,000 stock options to directors, employees and consultants of the Company at an exercise price of $0.91 each, all of which vested immediately. The Company uses a Black-Scholes option pricing model to calculate the fair value of stock option grants and the factors used were; volatility 102%, risk free rate 1.32%, expected life 10 years and forfeiture rate of 5%.

The total valuation of the vested options from the December 2021 stock option grant was $1,425,352, of which $1,026,827 was expensed as stock-based compensation and $398,525 was capitalized to property, plant and equipment.

In June 2020, the Company granted 1,500,000 stock options to directors, employees and consultants of the Company at an exercise price of $0.12 each, all of which vested immediately. The Company uses a Black-Scholes option pricing model to calculate the fair value of stock option grants and the factors used were; volatility 123%, risk free rate 0.33%, expected life 5 years and forfeiture rate of 5%.

The total valuation of the vested options from the June 2020 stock option grant was $150,866, of which $115,664 was expensed as stock-based compensation and $35,202 was capitalized to property, plant and equipment.

(c) Income (Loss) per share

	Years Ended December 31 **2021**	2020
Net income (loss) for the year	$ **5,917,722**	$ (415,908)
Weighted-average number of common shares outstanding, basic	**88,551,287**	88,161,583
Dilutive stock options and warrants	**3,839,839**	-
Weighted-average number of common shares outstanding, diluted	**92,391,126**	88,161,583
Income (loss) per share, basic	$ **0.07**	$ (0.00)
Income (loss) per share, diluted	$ **0.06**	$ (0.00)

In computing the weighted average shares outstanding for the year ended December 31, 2021, the Company included 3,839,839 dilutive stock options, and nil warrants as they were anti-dilutive. For the comparable periods in 2020, incurred a loss; therefore, dilutive stock options and share purchase warrants were nil.

17. Related Party Transactions

Compensation to key executive personnel, consisting of the Company's officers, directors and Chairman, was paid as follows:

	Years Ended December 31			
		2021		2020
Salaries and wages	**$**	**2,250,500**	$	1,600,000
Share-based payments		**1,073,110**		80,462

18. Commitments

		2022		2023		2024		2025		2026		2027		2028		Total
Office lease	$	66,300	$	27,625	$	-	$	-	$	-	$	-	$	-	$	93,925
Other leases		63,664		27,508		19,466		19,466		19,466		19,466		18,216		187,252
Equipment lease		423,336		423,336		423,336		423,336		423,336		423,336		388,058		2,928,074
	$	553,300	$	478,469	$	442,802	$	442,802	$	442,802	$	442,802	$	406,274	$	3,209,251

The Company has a commitment to make monthly rental payments pursuant to the office rental agreement until May 30, 2023.

19. Supplemental Cash Flow Information

	Years Ended December 31			
		2021		2020
Provided by (used in):				
Accounts receivable	**$**	**(2,288,046)**	$	858,989
Prepaid expenses		**41,175**		(302,791)
Accounts payable and accrued liabilities		**5,889,144**		(532,238)
Total changes in non-cash working capital	**$**	**3,462,273**	$	23,960
Provided by (used in):				
Operating activities	**$**	**(64,918)**	$	213,339
Investing activities		**3,707,191**		(189,379)
Total changes in non-cash working capital	**$**	**3,462,273**	$	23,960

Cash interest paid on the Company's debts during the year ended December 31, 2021 was $1,703,006 compared to $2,935,429 for the year ended December 31, 2020.

20. Income Taxes

The reconciliation of income tax computed at the current statutory tax rate of 25.00% (year ended December 31, 2020 – 25.50%) to income tax expense is:

	Year Ended December 31	
	2021	2020
Income (loss) before tax	**$ 5,917,722**	$ 1,577,810
Statutory income tax rate	**25.00%**	26.75%
Expected income tax expense (recovery)	**1,479,431**	422,064
Non-deductible items	**1,854,965**	18,342
Effect of change in tax rate	**-**	393,426
Change in deferred tax asset	**(3,334,396)**	(833,832)
Deferred tax recovery	**$ -**	$ -

The combined deferred tax rate has decreased from 25.50% to 25.00% because of the decrease to the Alberta tax rate effected July 1, 2020.

The tax affected items that give rise to significant portions of the deferred tax asset at December 31, 2021 and 2020 are presented below:

	December 31, 2021	December 31, 2020
Deferred tax assets		
Non-capital losses	**$ 5,481,415**	$ 4,814,379
Share issue costs	**35,240**	14,790
Decommissioning obligations	**2,267,602**	1,832,719
Financial instruments	**337,169**	282,386
Lease liability	**646,178**	94,248
	8,767,604	7,038,522
Deferred income tax liability		
Property and equipment	**(8,767,604)**	(6,983,214)
Term loan	**-**	(55,308)
	$ -	$ -

The Company assessed the probability that future taxable profit will be available against which the Company can utilize the benefits of tax pools in excess of the carrying amount of assets and has not recognized a deferred tax asset in respect of the following deductible temporary differences.

	December 31, 2021	December 31, 2020
Non-capital losses	**$ 5,673,594**	$ 18,690,450
Capital losses	**557,082**	95,333
	$ 5,952,135	$ 18,785,783

As at December 31, 2021, the Company has estimated non-capital losses of $27,599,254 that may be applied to reduce future Canadian taxable income, expiring as follows:

Available to	
2035	$ 3,517,217
2036	7,644,779
2037	6,040,309
2038	9,091,551
2039	-
2040	1,305,398
2041	-
	$ 27,599,254

21. Subsequent Events

a) From January 1, 2022 to April 20, 2022 the Company has issued 1,490,000 shares for stock option exercises for proceeds of $361,450.

b) As at April 20, 2022 the Company has purchased and cancelled an additional 205,900 shares under the NCIB at an average cost of $1.37 per share.

c) On March 17, 2022 the Company granted 50,000 stock options to a consultant at an exercise price of $1.41, all of which vested immediately.

d) Subsequent to the year end, the Company entered into the following commodity price contracts:

Product	Type	Volume	Price	Index	Term
Crude oil	Sold Call	275 bbl/d	US$100.00(call sell), net premium US$3.75/bbl	WTI-NYMEX	Oct. 1, 2022 – Dec. 31, 2022
Crude oil	Put Spread	125 bbl/d	US$50.00(put sell)/US$60.00(put buy), net cost US$2.15/bbl	WTI-NYMEX	Sep. 1, 2022 – Dec. 31, 2022
Crude oil	Put Spread	750 bbl/d	US$50.00(put sell)/US$60.00(put buy), net cost US$2.50/bbl	WTI-NYMEX	Jan. 1, 2023 – Mar. 31, 2023

Hemisphere ENERGY

OFFICERS

Don Simmons, P.Geol.
President & Chief Executive Officer

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

Ashley Ramsden-Wood, P.Eng.
Vice President, Engineering

BOARD OF DIRECTORS

Charles O'Sullivan, B.Sc., *Chairman*(2)

Frank Borowicz, QC, CA (Hon)(1)(2)

Bruce McIntyre, P.Geol.(1)(3)

Don Simmons, P.Geol.(3)

Gregg Vernon, P.Eng.(2)

Richard Wyman, B.Sc., MBA(1)(3)

(1) Audit Committee
(2) Compensation & Corporate Governance Committee
(3) Reserves Committee

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