Q1 2023 HIGHLIGHTS

- Produced a record quarterly average of 3,171 boe/d, a 20% increase over the first quarter of 2022.
- Attained quarterly revenue of $18.7 million.
- Delivered an operating field netback[1] of $11.3 million or $39.75/boe.
- Realized quarterly adjusted funds flow from operations ("AFF")[1] of $8.3 million or $29.01/boe.
- Achieved free funds flow[1] of $6.8 million or $0.07 per share.
- Exited the first quarter with a positive working capital[1] position of $3.0 million, compared to $8.7 million net debt[1] at the end of March 2022.
- Distributed $2.5 million, or $0.025 per share, in dividends to shareholders during the quarter.
- Purchased and cancelled 202,300 shares under the Company's Normal Course Issuer Bid ("NCIB").

(1) Operating field netback, adjusted funds flow from operations (AFF), free funds flow, working capital, and net debt are non-IFRS measures that do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Non-IFRS financial ratios are not standardized financial measures under IFRS and may not be comparable to similar financial measures disclosed by other issuers. Refer to the section "Non-IFRS and Other Specified Financial Measures".

Q1 2023 OVERVIEW

In the first quarter of 2023, Hemisphere's production increased by 20% over the first quarter of 2022, achieving a record average rate of 3,171 boe/d (99% heavy oil). This was due in part to the production from two new Atlee Buffalo F pool wells that were placed on production early in the quarter.

Average sales price in the first quarter of 2023 was 32% lower than the first quarter of the previous year. This was due to a 19% decrease in the West Texas Intermediate ("WTI") crude oil price, combined with a 70% higher Western Canadian Select ("WCS") differential, which averaged US$76.13 and US$24.77, respectively, for the first quarter of 2023. Fortunately, WCS differentials have narrowed significantly and are trending closer to an average of US$15.50 for the second quarter of 2023 to date.

Despite the lower oil pricing environment, Hemisphere delivered solid financial results for the quarter with $8.3 million in adjusted funds flow from operations and a positive working capital position of $3.0 million at quarter-end. This marks the first time the Company has been in a positive working capital position in many years. Based on current commodity price and production forecasts, management expects the Company's balance sheet to further improve throughout the year while continuing to develop its core assets, deliver shareholder returns through its dividend and NCIB programs, and look for new growth and acquisition opportunities.

Annual General and Special Meeting of Shareholders

Hemisphere's Annual General and Special Meeting of Shareholders will be held at 11:00 am (Pacific Daylight Time) on June 1, 2023 in the Ferguson Room of the Terminal City Club located at 837 West Hastings Street, Vancouver, British Columbia.

Q1 2023 FINANCIAL AND OPERATING HIGHLIGHTS

($000s except per unit and share amounts)	Three Months Ended March 31 **2023**	2022
FINANCIAL		
Petroleum and natural gas revenue	**$ 18,694**	$ 22,856
Operating field netback[1]	**11,342**	15,462
Operating netback[1]	**11,114**	11,998
Cash flow provided by operating activities	**9,034**	8,212
Adjusted funds flow from operations (AFF)[1]	**8,280**	11,039
Per share, basic[1]	**0.08**	0.12
Per share, diluted[1]	**0.08**	0.11
Free funds flow[1]	**6,815**	9,245
Net income	**5,958**	4,618
Per share, basic and diluted	**0.06**	0.05
Dividends	**2,545**	-
Per share, basic	**0.025**	-
Capital expenditures[1]	**1,465**	1,794
Working capital (Net debt)[1]	**3,008**	(8,681)
Bank debt	**$ -**	$ (12,514)
OPERATING		
Average daily production		
Heavy oil (bbl/d)	**3,143**	2,624
Natural gas (Mcf/d)	**169**	141
Combined (boe/d)	**3,171**	2,648
Oil weighting	**99%**	99%
Average sales prices		
Heavy oil ($/bbl)	**$ 65.93**	$ 96.53
Natural gas ($/Mcf)	**3.08**	4.49
Combined ($/boe)	**$ 65.51**	$ 95.92
Operating netback ($/boe)		
Petroleum and natural gas revenue	**$ 65.51**	$ 95.92
Royalties	**(11.47)**	(19.80)
Operating costs	**(11.08)**	(8.95)
Transportation costs	**(3.21)**	(2.27)
Operating field netback[1]	**39.75**	64.89
Realized commodity hedging gain (loss)	**(0.80)**	(14.54)
Operating netback[1]	**$ 38.95**	**$** 50.35
General and administrative expense	**(2.88)**	(2.76)
Interest expense and foreign exchange loss	**(0.67)**	(1.26)
Current tax expense	**(6.39)**	-
Adjusted funds flow from operations[1] ($/boe)	**$ 29.01**	$ 46.33

(1) Non-IFRS financial measure that is not a standardized financial measure under International Financial Reporting Standards ("IFRS") and may not be comparable to similar financial measures disclosed by other issuers. Refer to "Non-IFRS and Other Financial Measures" section of the MD&A.

SHARE CAPITAL		
Common shares outstanding	**101,776,639**	92,370,653
Stock options outstanding	**6,075,000**	6,314,000
Warrants outstanding	**-**	10,312,500
Fully diluted shares outstanding	**107,851,639**	108,997,153
Weighted-average shares outstanding – basic	**101,835,965**	91,867,009
Weighted-average shares outstanding – diluted	**104,202,387**	96,116,048

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at May 24, 2022

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three months ended March 31, 2023 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the unaudited condensed interim financial statements and related notes for the three months ended March 31, 2023, and the audited annual financial statements and related notes for the year ended December 31, 2022. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.

The information in this MD&A is based on the unaudited condensed interim financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of unaudited condensed interim financial statements including IAS 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB").

This MD&A contains non-IFRS measures, additional IFRS measures and forward-looking statements. Readers are cautioned that this document should be read in conjunction with Hemisphere's disclosure under "Non-IFRS and Other Financial Measures" and "Forward-Looking Statements" included at the end of this MD&A. All figures are in Canadian dollars unless otherwise noted.

Business Overview

Hemisphere produces oil and natural gas from its Atlee Buffalo and Jenner properties in southeast Alberta. The Company is headquartered in Vancouver, British Columbia and is traded on the TSX Venture Exchange under the symbol "HME" and on the OTCQX Best Market under the symbol "HMENF".

Atlee Buffalo, Alberta

Atlee Buffalo is Hemisphere's core area, located approximately 85 kilometers north of Medicine Hat. Hemisphere made its first acquisition in the area in late 2013 and owns 15,560 gross acres (15,560 net acres) as of March 31, 2023. The property has two oil pools delineated by vertical wells and defined by 3D seismic.

Jenner, Alberta

Jenner is located 25 kilometers southwest of Atlee Buffalo. Hemisphere first entered the area in 2010 and owns 11,810 gross acres (10,799 net acres) as of March 31, 2023. The property has eight oil pools defined by 3D seismic. There is one Hemisphere-owned-and-operated oil processing and water disposal facility in Jenner with the capability for expansion.

Operating Results

The Company generated adjusted funds flow from operations[1] ("AFF") of $8.3 million ($0.08/share, basic and diluted) for the three months ended March 31, 2023, as compared to $11.0 million ($0.12/basic share and $0.11/diluted share) for the three months ended March 31, 2022. The decrease in AFF from operations for the three months ended March 31, 2023 is primarily due to the 32% decrease in realized commodity pricing, offset somewhat by a 20% increase in production over the comparable three months in 2022, as discussed below under "Production" and "Average Benchmark and Realized Prices".

The Company reported net income of $5.9 million ($0.06/share, basic and diluted) for the three months ended March 31, 2023, compared to $4.6 million ($0.05/share, basic and diluted) for the comparable quarter in 2022. This $1.3 million increase in the first quarter of 2023 is primarily the result of a $5.5 million decrease in realized and unrealized commodity hedging losses and a $2.4 million decrease in finance expenses, offset by decreases of $4.1 million in operating field netbacks and $1.9 million of current and deferred tax expenses.

Production

	Three Months Ended March 31	
By product:	**2023**	2022
Oil (bbl/d)	**3,143**	2,624
Natural gas (Mcf/d)	**169**	141
Total (boe/d)	**3,171**	2,648
Oil weighting	**99%**	99%

In the first quarter of 2023, the Company's average daily production was 3,171 boe/d (99% oil), representing a 20% increase over the comparable quarter in 2022. This increase is mainly attributed to the success of Hemisphere's enhanced oil recovery projects, as well as the capital drilling program completed in 2022, and two new wells brought on production in the Atlee F pool during the first quarter of 2023.

Average Benchmark and Realized Prices

	Three Months Ended March 31	
	2023	**2022**
Benchmark prices		
WTI ($US/bbl)[1]	**$ 76.35**	$ 94.29
WCS Diff ($US/bbl)[2]	**(24.85)**	(14.53)
Exchange rate (1 $US/$C)	**1.3514**	1.2666
WTI ($C/bbl)	**103.18**	119.43
WCS Diff ($C/bbl)	**(33.58)**	(18.40)
WCS ($C/bbl)	**69.60**	101.03
AECO natural gas ($/Mcf)[3]	**4.35**	4.77
Average realized prices		
Crude oil ($/bbl)	**65.93**	96.53
Natural gas ($/Mcf)	**3.08**	4.49
Combined ($/boe)	**$ 65.51**	$ 95.92

Notes:
(1) Represents posting prices of West Texas Intermediate Oil ("WTI").
(2) Represents posting prices of Western Canadian Select ("WCS").
(3) Represents the Alberta 30-day spot AECO posting prices.

1 *Non-IFRS financial measure. Refer to "Non-IFRS and Other Financial Measures" section of the MD&A.*

The Company's oil and natural gas revenue and financial results are significantly influenced by changes in commodity prices. The West Texas Intermediate pricing ("WTI") at Cushing, Oklahoma is the benchmark reference price for North American crude oil prices. Canadian oil prices, including Hemisphere's heavy crude oil, are based on price postings, which is WTI-adjusted for transportation, quality and the currency conversion rates from United States dollar ("US$") to Canadian dollar ("C$").

The Company's combined average realized price during the three months ended March 31, 2023 decreased by 32% to $65.51/boe from $95.92/boe during the comparable period in 2022. This decrease is primarily the result of a decrease in realized WTI pricing of US$17.94/bbl and an increase of US$10.32/bbl in the differential between WCS and WTI pricing for the three months ended March 31, 2023 over the comparable period in 2022.

As at the date of this MD&A, the Company held derivative commodity contracts as follows:

Product	Type	Volume	Price	Index	Term
Crude oil	Put Spread	500 bbl/d	US$50.00(put sell)/US$60.00(put buy), net cost US$2.95/bbl	WTI-NYMEX	Apr. 1, 2023 – Jun. 30, 2023
Crude oil	Put Spread	500 bbl/d	US$50.00(put sell)/US$60.00(put buy), net cost US$3.70/bbl	WTI-NYMEX	Jul. 1, 2023 – Sep. 30, 2023
Crude oil	Put Spread	500 bbl/d	US$50.00(put sell)/US$60.00(put buy), net cost US$2.55/bbl	WTI-NYMEX	Oct. 1, 2023 – Dec. 31, 2023
Crude oil	Swap	300 bbl/d	US$50.00(put sell) /US$60.00(put buy), net cost US$3.10/bbl	WTI-NYMEX	Jan. 1, 2024 – Mar. 31, 2024

At March 31, 2023, the commodity contracts were fair valued as a liability of $0.3 million recorded on the statement of financial position and an unrealized gain of $0.1 million for the three-month period (March 31, 2022 – unrealized loss of $2.2 million).

Revenue

	Three Months Ended March 31	
($000s)	**2023**	2022
Oil	**$ 18,647**	$ 22,799
Natural gas	**47**	57
Total	**$ 18,694**	$ 22,856

Revenue for the three months ended March 31, 2023 decreased by 18% from the comparable period in 2022. This decrease is primarily due to the $30.41/boe decrease in the Company's combined average realized price, offset somewhat by the 20% increase in production over the comparable three-month period in 2022.

Operating Netback

($000s, except per unit amounts)	Three Months Ended March 31 2023	2022
Operating netback		
Revenue	**$ 18,694**	$ 22,856
Royalties	**(3,273)**	(4,718)
Operating costs	**(3,161)**	(2,134)
Transportation costs	**(918)**	(542)
Operating field netback[1]	**$ 11,342**	$ 15,462
Realized commodity hedging gain (loss)	**(228)**	(3,464)
Operating netback[1]	**$ 11,114**	$ 11,998
Operating netback ($/boe)		
Revenue	**$ 65.51**	$ 95.92
Royalties	**(11.47)**	(19.80)
Operating costs	**(11.08)**	(8.95)
Transportation costs	**(3.21)**	(2.27)
Operating field netback[1]	**$ 39.75**	$ 64.89
Realized commodity hedging gain (loss)	**(0.80)**	(14.54)
Operating netback[1]	**$ 38.95**	$ 50.35

Note:
(1) Non-IFRS financial measure that is not a standardized financial measure under International Financial Reporting Standards ("IFRS") and may not be comparable to similar financial measures disclosed by other issuers. Refer to "Non-IFRS and Other Financial Measures" section of the MD&A.

Royalties paid in the first quarter of 2023 totaled $3.3 million, of which $3.1 million and $0.2 million were paid to Alberta Crown and Gross Over-Riding Royalty ("GORR") holders, respectively. Royalties for the three months ended March 31, 2023 were $11.47/boe, representing a 42% decrease over the three months ended March 31, 2022. These lower royalties are primarily due to the significantly lower realized commodity prices in the first quarter of 2023 over the comparable period in the prior year.

Operating costs include all costs for gathering, processing, dehydration, compression, water processing and marketing of the oil and natural gas, as well as additional costs incurred periodically for maintenance and repairs. Operating costs for the three months ended March 31, 2023 were $11.08/boe. This represented an increase of $2.12/boe, or 24% over the same period in 2022. This increase is mainly attributed to commencing a polymer-surfactant flood at the Atlee Buffalo F pool, water handling and processing fees related to the Atlee Buffalo F pool, and various workovers at both the Atlee Buffalo F and G pools in the first quarter of 2023.

Transportation costs include all costs incurred to transport emulsion, oil, and gas sales to processing and distribution facilities. Transportation costs were $3.22/boe during the first quarter of 2023, which is a $0.94/boe or 41% increase over the comparable quarter in 2022. This increase is mainly attributed to fluid hauling from a single well battery, as well as trucking of disposal water originating at the Atlee Buffalo F Pool in the first quarter of 2023. These additional transportation costs are temporary, since the single well battery was tied in, and a disposal pump was commissioned during the quarter, as discussed below in Capital Expenditures.

Operating netback for the three months ended March 31, 2023 was $38.95/boe, which is $11.40/boe or 23% lower than the comparable period in 2022. This is mainly due to the 32% decrease in the Company's combined average realized price, combined with a 27% increase in operating and transportation expenses, somewhat offset by the 20% increase in production and a 95% reduction in realized hedging losses, over the comparable three months of 2022.

Exploration and Evaluation

Exploration and evaluation expense generally consists of certain geological and geophysical costs, expiry of undeveloped lands, and costs of uneconomic exploratory wells. Exploration and evaluation expenses for the three months ended March 31, 2023 and 2022 were $29 thousand and $22 thousand, respectively.

Depletion and Depreciation

		Three Months Ended March 31		
($000s, except per boe)		**2023**		2022
Depletion expense	**$**	**2,014**	$	1,665
Depreciation expense		**198**		125
Total	**$**	**2,212**	$	1,790
$ per boe	**$**	**7.75**	$	7.51

The depletion rate is calculated using the unit-of-production method on Proved and Probable oil and gas reserves, taking into account the future development costs ("FDC") to develop and produce undeveloped and non-producing reserves.

Depletion and depreciation expenses for the three months ended March 31, 2023 increased to $7.75/boe from $7.51/boe for the same period in 2022. The slight increase in depletion expense for the three months ended March 31, 2023 over the comparable quarter in 2022 is due to allocating the 20% increase in production over the marginally larger reserve base from the Company's December 31, 2022 independent engineer's evaluation report as prepared by McDaniel and Associates Consultants Ltd.

Impairment

At March 31, 2023, the Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units, and management determined that there were no indicators of impairment or reversal identified. As such no impairment test on its petroleum and natural gas assets was required (March 31, 2022 - $nil impairment).

Capital Expenditures

		Three Months Ended March 31		
($000s)		**2023**		2022
Land and lease	**$**	**25**	$	102
Geological and geophysical		**215**		375
Drilling and completions		**154**		889
Facilities and infrastructure		**1,071**		428
Total capital expenditures(1)	**$**	**1,465**	$	1,794

Note:

(1) Non-IFRS financial measure that is not a standardized financial measure under International Financial Reporting Standards ("IFRS") and may not be comparable to similar financial measures disclosed by other issuers. Refer to "Non-IFRS and Other Financial Measures" section of the MD&A.

The capital spent during the three months ended March 31, 2023 included the completion and tie-in of two F pool wells drilled in December 2022, tie-in of a single well battery into the F pool, as well as the installation of a new treater and conversion of a producer to injector at the Company's F Pool.

General and Administrative

($000s, except per boe)		Three Months Ended March 31 **2023**		2022
Gross general and administrative	**$**	**977**	$	892
Capitalized general and administrative		**(155)**		(234)
Total	**$**	**822**	$	658
$ per boe	**$**	**2.88**	$	2.76

General and administrative ("G&A") expenses increased on an absolute basis and per boe basis by 9% and 4%, respectively, over the comparable three months in 2022. These increases in G&A are due to additional investor relations activities and higher overall costs commensurate with the Company's year-over-year growth.

The Company capitalizes some G&A expenses which can be attributed to any costs incurred during the period relating to its development and exploration activities. For the three months ended March 31, 2023, capitalized G&A expenses decreased by $80 thousand over the comparable period in 2022. This change relates to a decrease in capital activity carried out by the Company during the first quarter of 2023.

Share-based Payments

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees, and consultants of the Company.

During the first quarter of 2023, the Company did not grant any stock options to employees. However, a tranche of 25% of the options granted to an investor relations consultant during the fourth quarter of 2022 vested in the first quarter of 2023. The total valuation of the options that vested in the first quarter of 2023 was $21 thousand, which was expensed as stock-based compensation.

($000s)		Three Months Ended March 31 **2023**		2022
Share-based payments (recovery)	**$**	**22**	$	64
Total share-based payments (recovery)	**$**	**22**	$	64

Finance Expense

($000s, except per boe)		Three Months Ended March 31 **2023**		2022
Loan interest	**$**	**115**	$	248
Lease interest		**60**		41
Loss (gain) in fair value of warrant liability		**-**		2,319
Accretion of decommissioning liabilities		**49**		39
Total finance expense	**$**	**224**	$	2,647
$ per boe - Total	**$**	**0.78**	$	11.11
$ per boe - Loan & lease interest	**$**	**0.61**	$	1.21

Loan interest, including standby and facility fees, for the three months ended March 31, 2023 decreased by $0.1 million or 54%, over the comparable period in 2022. This decrease is the result of a 100% reduction in the principal of the bank debt via repayments. The Company also recorded $60 thousand of lease interest on right-of-use assets liability under IFRS 16 for the three months ended March 31, 2023. The finance expense per boe for loan and lease interest has decreased by 49% over the comparable quarter of 2022 due primarily to the aforementioned decrease in loan principal and borrowing cost, offset by an increase in the capital leases.

Accretion of decommissioning liabilities represents the adjusted present value of the Company's decommissioning obligations which include the abandonment and reclamation costs associated with wells and facilities. During the three months ended March 31, 2023, accretion expenses increased by 27% over the comparable periods in 2022, due to growth in the number of wells and production assets.

In the comparable three months ended March 31, 2022, the Company recognized a remeasurement loss of $2.3 million in the fair value of its warrant liability. This was with respect to the 13,750,000 warrants issued to a third-party lender on September 15, 2017 and in conjunction with the Company's term loan at the time. There were no warrants outstanding as of April 2022 following a final cashless exercise, and full disclosure of the warrants can be found in the Company's audited annual financial statements for the year ended December 31, 2022.

Taxes and Tax Pools

The Company had approximately $28 million of tax pools available to be applied against future income for tax purposes, as per its tax filings at December 31, 2022. Based on the Company's increased taxable income, available pools and current commodity prices, the Company has recorded current tax expense of $1.8 million and deferred tax expense of $0.1 for the three months ended March 31, 2023 (March 31, 2022 - $nil). The Company expects to incur additional income tax payable in 2023 and any taxes payable beyond this will primarily be a function of commodity prices, capital expenditures and production volumes.

Income Taxes

	Three Months Ended March 31	
($000s, except per boe)	**2023**	2022
Current tax expense	**$ 1,823**	$ -
Deferred tax expense	**124**	-
$ per boe – Current tax expense	**$ 6.39**	$ -

Tax Pools

($000s)	Deduction Rate	**December 31, 2022**	December 31, 2021
Canadian exploration expense (CEE)	100%	**$ -**	$ 3,337
Canadian development expense (CDE)	30%	**22,620**	18,235
Canadian oil and gas property expense (COGPE)	10%	**3,720**	3,995
Non-capital losses carry forwards (NCL)	100%	-	27,600
Undepreciated capital cost (UCC)	20-55%	**760**	612
Share issuance costs and other	Various	**660**	698
Total		**$ 27,760**	$ 54,477

Summary of Quarterly Results

	2023	2022				2021		
($000s, except per share and unit amounts)	**Mar. 31 Q1(1)**	Dec. 31 Q4(2)	Sep. 30 Q3(3)	Jun. 30 Q2(4)	Mar. 31 Q1(4)	Dec. 31 Q4(5)	Sep. 30 Q3(5)	Jun. 30 Q2(5)
Average daily production (boe/d)	**3,171**	2,907	2,870	2,883	2,648	2,164	1,671	1,786
Heavy oil and natural gas revenue	**18,694**	19,564	23,672	30,608	22,856	14,731	10,432	10,088
Cash provided by operating activities	**9,034**	8,995	12,959	14,926	8,212	4,954	5,473	4,742
Net income (loss)	**5,958**	3,253	9,315	4,131	4,618	5,435	2,309	(3,594)
Per share, basic and diluted	**0.06**	0.03	0.09	0.04	0.05	0.06	0.03	(0.04)
Combined average realized price ($/boe)	**65.51**	73.16	89.66	116.65	95.92	73.99	67.87	62.06

Notes:
(1) The decrease in revenue is due primarily to a decrease in realized commodity price. The increase in cash provided by operating activities is due primarily to an increase in production.
(2) The decreases in revenue and cash provided by operating activities are due primarily to a decrease in realized commodity price.
(3) The decreases in revenue and cash provided by operating activities are due primarily to an increase in production and realized commodity prices.
(4) The increases in revenue and cash provided by operating activities are due primarily to an increase in production and realized commodity prices.
(5) The increases in revenue and cash provided by operating activities are due primarily to an increase in realized commodity prices.

Outstanding Share Capital

	May 24, 2023	**March 31, 2023**	December 31, 2022
Fully diluted share capital			
Common shares issued and outstanding	101,123,639	**101,776,639**	101,978,939
Stock options	6,075,000	**6,075,000**	6,075,000
Total fully diluted shares outstanding	107,198,639	**107,851,639**	108,053,939

On July 14, 2022, the Company renewed its normal course issuer bid ("NCIB"), to purchase and cancel, from time to time, up to 8,905,836 common shares of the Company until July 13, 2023. At March 31, 2023, the Company had purchased and cancelled 2,514,700 shares under the NCIB for $3.7 million at an average cost of $1.38 per share.

Subsequent to the quarter ended March 31, 2023, the Company has purchased and cancelled 653,000 shares under the NCIB at an average cost of $1.28 per share.

The Company has the following stock options that are outstanding and exercisable as at May 24, 2023:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding	Balance Exercisable
$0.12	March 1, 2019	March 1, 2024	50,000	50,000
$0.12	June 17, 2020	June 17, 2025	985,000	985,000
$0.91	December 17, 2021	December 17, 2031	1,690,000	1,690,000
$1.41	March 17, 2022	March 17, 2032	50,000	50,000
$1.27	May 10, 2022	May 10, 2032	150,000	150,000
$1.30	December 14, 2022	December 14, 2032	3,150,000	3,093,750
			6,075,000	6,018,750
Weighted-average exercise price			$0.99	$0.99

Dividends

On June 7, 2022, the Company's Board of Directors approved a variable dividend policy targeting approximately 30% of Hemisphere's annual free funds flow to be paid quarterly. During 2022, the Company paid three quarterly dividends at $0.025 per share for total distributions of $7.7 million.

On January 31, 2023, the Company announced a variable dividend totaling $2.55 million to Hemisphere shareholders at $0.025 per share which was paid on February 21, 2023. Based on the Company's market capitalization of $138 million (101.8 million shares issued and outstanding on February 21, 2023 at the market close price of $1.36 per share) at payment date, the dividend returned an annualized yield of 7.4% ($2.55 million dividend times four and divided by the $138 million market capitalization) to Hemisphere's shareholders.

On May 24, 2023 the Company's Board of Directors approved a dividend to the Company's shareholders of record on June 1, 2023, at $0.025 per share, for payment on June 15, 2023.

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

Liquidity and Capital Management

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 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 also attempts to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

Hemisphere released its 2023 guidance on January 24, 2023. The Company's Board of Directors approved a 2023 capital expenditure program of $14 million, of which the entire capital program is expected to be funded by Hemisphere's projected 2023 Adjusted Funds Flow ("AFF") of $45 million and annual Free Funds Flow ("FFF") of $31 million, see *Non-IFRS and Other Financial Measures* and *Forward-Looking Financial Information*. The projected FFF will be used for return of capital to shareholders through dividends and share buybacks, and other discretionary purposes, which may include, potential acceleration of other development or exploration projects, acquisitions, and special dividends.

Management's forecasts may change materially based upon actual prices received, changes in future strip pricing, production volumes, operating costs, activity levels, cash flows, and the timing thereof and other factors which may or may not be within the control of the Company. 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.

a) Financing

The Company's net cash used in financing activities during the three months ended March 31, 2023 was $3.0 million ($2.9 million for the three months ended March 31, 2022). These activities were dividends issued of $2.5 million, shares purchased under the NCIB of $0.3 million, plus lease liability payments of $0.2 million in the first quarter of 2023.

b) Bank Debt

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

The Credit Facility had an initial term date of May 31, 2022. Following the completion of its annual bank review, and subsequent to the quarter end, the term date is now extended to May 31, 2024. The facility is extendible at the new term date and on an annual basis for an additional 365 days upon request of the Company. The Credit Facility has a maturity date of May 31, 2024. If the term is not extended on May 31, 2023, additional advances would not be permitted and any outstanding advances would become repayable on May 31, 2024. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At December 31, 2022, the Company had drawn $nil 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 the fair value of financial instruments, decommissioning obligations, and lease liabilities, plus the undrawn amount available under the Credit Facility. The Company met these standard reporting covenants as well as the financial covenant with a working capital ratio of 5.73 to 1.00 as at March 31, 2023.

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 review in November 2023 and is based on the Lender’s 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. Should the Lender reduce 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 compliant with all covenants, representations, and warranties.

c) Capital Management

The Company manages its capital with the following objectives:

- Ensure sufficient 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

- Maximize shareholder return enhancing the Company's share value through dividends, share buybacks and corporate performance.

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.

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 composed of shareholders' equity and bank debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, utilizing its bank debt, issuing new debt instruments, other financial or equity-based instruments, adjusting capital spending, or disposing of assets. The capital structure is reviewed on an ongoing basis.

Commitments

($000s)		2023	2024	2025	2026	2027	2028	Total
Office lease	$	61	88	37	-	-	-	186
Other leases		39	67	27	27	26	26	212
Equipment lease		553	738	738	732	664	609	4,034
	$	653	893	802	759	690	635	4,432

Off-Balance Sheet Arrangements

The Company has not entered any off-balance sheet transactions.

Related Party Transactions

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

	Three Months Ended March 31			
($000s)		**2023**		2022
Salaries and wages	**$**	**307**	$	307

Proposed Transactions

As of the effective date, there are no outstanding proposed transactions.

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 GAAP 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 GAAP will have on the financial statements in the period of initial application.

Risks

The Company's activities expose it to a variety of risks that arise as a result of its exploration, development, production, and financing activities. These risks and uncertainties include, among other things, volatility in market prices for crude oil and natural gas, general economic conditions in Canada, the US and globally and other factors described under "Risk Factors" in Hemisphere's most recently filed Annual Information Form which is available on SEDAR at www.sedar.com. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The following provides information about the Company's exposure to some risks associated with the oil and gas industry, as well as the Company's objectives, policies, and processes for measuring and managing risk.

Business Risk

Oil and gas exploration and development involves a high degree of risk whereby many properties are ultimately not developed to a producing stage. There can be no assurance that the Company's future exploration and development activities will result in discoveries of commercial bodies of oil and gas. Whether an oil and gas property will be commercially viable depends on numerous factors, including the particular attributes of the reserve and its proximity to infrastructure, as well as commodity prices and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, and environmental protection. The exact effect of these factors cannot be accurately predicted, and the combination of these factors may result in an oil and gas property not being profitable.

To the extent that the COVID-19 pandemic and other geopolitical events may 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 in this MD&A and Hemisphere's Annual Information Form for the year ended December 31, 2022.

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:

		March 31, 2023		December 31, 2022
Accounts receivable				
Marketing receivables	**$**	**5,815**	$	4,685
Trade receivables		**62**		142
Receivables from joint ventures		**24**		18
Reclamation deposits		**116**		116
	$	**6,017**	$	4,961

The Company sells the majority of its oil production to two major oil marketers and, therefore, is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. Historically, the Company has never experienced any collection issues with its oil marketers.

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 and uncertainty regarding the timing for recovery in such 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.

At March 31, 2023, the Company had working capital (a non-IFRS measure calculated as current assets, less current liabilities, excluding the fair value of financial instruments, decommissioning obligations, and lease liabilities, and including any bank debt) of $3.0 million (December 31, 2022 - net debt of $0.8 million). The Company funds its operations through operating cash flows and a committed $35.0 million two-year renewable term credit facility with ATB Financial.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity 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.

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 bank debt are subject to variable interest rates. A one percent change in interest rates would have a $nil annual effect on net income.

Foreign currency risk

The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency; except i) the Company's commodity prices are largely denominated in US 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. The exchange rate effect cannot be quantified, but 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.

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 adjusted funds flow from operations, and ability to raise capital. The Company has derivative commodity contracts in place as further disclosed within this MD&A.

Other price risk

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

Environmental and Climate Change Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Company works hard to identify the potential environmental impacts of its new projects in the planning stage and during operations. The Company conducts its operations with high standards in order to protect the environment, its employees and consultants, and the general public. The Company maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations.

The Company's exploration and production facilities and other operations and activities emit greenhouse gasses ("GHG") which may require compliance with federal and/or provincial GHG emissions legislation. Climate change policy is evolving at regional, national, and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate its effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on our business, financial condition, results of operations and prospects.

Non-IFRS Measures and Other Financial Measures

This MD&A contains the terms adjusted funds flow from operations, free funds flow, operating field netback and operating netback, capital expenditures and working capital/net debt, which are considered "non-IFRS financial measures" and any of these measures calculated on a per boe basis, which are considered "non-IFRS financial ratios". These terms do not have a standardized meaning prescribed by IFRS. Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Investors are cautioned that these measures should not be construed as an alternative to net income (loss) or cashflow from operations determined in accordance with IFRS and these measures should not be considered more meaningful than IFRS measures in evaluating the Company's performance.

a) **Adjusted funds flow from operations "AFF" (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** The Company considers AFF to be a key measure that indicates the Company's ability to generate the funds necessary to support future growth through capital investment and to repay any debt. AFF is a measure that represents cash flow generated by operating activities, before changes in non-cash working capital and adjusted for decommissioning expenditures, and may not be comparable to measures used by other companies. The most directly comparable IFRS measure for AFF is cash provided by operating activities. AFF per share is calculated using the same weighted-average number of shares outstanding as in the case of the earnings per share calculation for the period.

A reconciliation of AFF to cash provided by operating activities is presented as follows:

	Three Months Ended March 31	
($000s, except per share amounts)	**2023**	2022
Cash provided by operating activities	**$ 9,034**	$ 8,212
Change in non-cash working capital	**(832)**	2,723
Adjust: Decommissioning obligation expenditures	**78**	104
Adjusted funds flow from operations	**$ 8,280**	$ 11,039
Per share, basic	**$ 0.08**	$ 0.12
Per share, diluted	**$ 0.08**	$ 0.11

b) **Free funds flow "FFF" (Non-IFRS Financial Measure):** Calculated by taking adjusted funds flow and subtracting capital expenditures, excluding acquisitions and dispositions. Management believes that free funds flow provides a useful measure to determine Hemisphere's ability to improve returns and to manage the long-term value of the business.

	Three Months Ended March 31	
($000s, except per share amounts)	**2023**	2022
Adjusted funds flow	**$ 8,280**	$ 11,039
Capital expenditures	**(1,465)**	(1,794)
Free funds flow	**$ 6,815**	$ 9,245
Per share, basic and diluted	**$ 0.07**	$ 0.10

c) **Capital Expenditures (Non-IFRS Financial Measure):** Management uses the term "capital expenditures" as a measure of capital investment in exploration and production assets, and such spending is compared to the Company's annual budgeted capital expenditures. The most directly comparable IFRS measure for capital expenditures is cash flow used in investing activities. A summary of the reconciliation of cash flow used in investing activities to capital expenditures is set forth below:

	Three Months Ended March 31	
($000s)	**2023**	2022
Cash used in investing activities	**$ 3,493**	$ 5,315
Change in non-cash working capital	**(2,028)**	(3,521)
Capital expenditures	**$ 1,465**	$ 1,794

d) **Operating field netback (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** A benchmark used in the oil and natural gas industry and a key indicator of profitability relative to current commodity prices. Operating field netback is calculated as oil and gas sales, less royalties, operating expenses, and transportation costs on an absolute and per barrel of oil equivalent basis. These terms should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income or loss as determined in accordance with IFRS as an indicator of the Company's performance.

e) **Operating netback (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** Calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) on an absolute and per barrel of oil equivalent basis.

f) **Working Capital/Net debt (Non-IFRS Financial Measure):** Closely monitored by the Company to ensure that its capital structure is maintained by a strong balance sheet to fund the future growth of the Company. Working capital/Net debt is used in this document in the context of liquidity and is calculated as the total of the Company's current assets, less current liabilities, excluding the fair value of financial instruments, decommissioning obligations, and lease liabilities, and including any bank debt. There is no IFRS measure that is reasonably comparable to working capital/net debt.

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

	As at March 31	As at December 31
	2023	2022
Current assets[(1)]	**$ 10,022**	$ 5,825
Current liabilities[(1)]	**(7,014)**	(6,591)
Working capital (Net debt)	**$ 3,008**	$ (766)

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

g) ***Supplementary Financial Measures***

"Adjusted Funds Flow from operations per basic share" is comprised of funds from operations divided by basic weighted average common shares.
"Adjusted Funds Flow from operations per diluted share" is comprised of funds from operations divided by diluted weighted average common shares.
"Annual Free Funds Flow" is comprised of free funds flow from the current three-month period multiplied by four.
"Operating expense per boe" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total production.

"Realized heavy oil price" is comprised of heavy crude oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's crude oil production.
"Realized natural gas price" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas production.
"Realized combined price" is comprised of total commodity sales from production, as determined in accordance with IFRS, divided by the Company's total production.
"Royalties per boe" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production.
"Transportation costs per boe" is comprised of transportation expense, as determined in accordance with IFRS, divided by the Company's total production.

Boe Conversion

Within this document, petroleum and natural gas volumes and reserves are converted to a common unit of measure, referred to as a barrel of oil equivalent (boe), using a ratio of 6,000 cubic feet of natural gas to one barrel of oil. Use of the term boe may be misleading, particularly if used in isolation. The conversion ratio is based on an energy equivalent method and does not necessarily represent a value equivalency at the wellhead.

Forward-Looking Statements

In the interest of providing Hemisphere's shareholders and potential investors with information regarding the Company, including management's assessment of the future plans and operations of Hemisphere, certain statements contained in this MD&A (particularly the Message to Shareholders) constitute forward-looking statements or information (collectively forward-looking statements) within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as anticipate, continue, estimate, expect, forecast, may, will, project, could, plan, intend, should, believe, outlook, potential, target and similar words suggesting future events or future performance. In particular, but without limiting the foregoing, this document (particularly the Message to Shareholders) contains forward-looking statements pertaining to the following: management's plans to growing production and funds flow, which should allow the Company to accelerate internal projects, make strategic acquisitions, and increase return of capital to shareholders, Hemisphere' capital program and the manner it intends to spend such funds; future oil and natural gas prices; future operational activities; and plans for continued growth in the Company's production, reserves and cash flow; the compliance of the Company under its credit agreements, and the expectation for the increasing of the Company's asset base with continued successful waterflood operations; the Company's tax pools and expectations on future tax taxability; the Company's dividend policies and intentions with respect to the same; and the manner in which FFF (if any) may be allocated. In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

With respect to forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things: future capital expenditure levels; future oil and natural gas prices and differentials between light, medium and heavy oil prices; inflation rates; results from operations including future oil and natural gas production levels; future exchange rates and interest rates; Hemisphere's ability to obtain equipment in a timely manner to carry out development activities; Hemisphere's ability to market its oil and natural gas successfully to current and new customers; the impact of increasing competition; Hemisphere's ability to obtain financing on acceptable terms; the continued availability of Hemisphere's credit facility; the effects of COVID-19 on Hemisphere's operations (including those affecting its partners and service providers); and Hemisphere's ability to add production and reserves through our development and exploitation activities.

Although Hemisphere believes that the expectations reflected in the forward-looking statements contained in this MD&A, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this MD&A, as there can be no assurance that the plans, intentions, or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause Hemisphere's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the following: volatility in market prices for oil and natural gas; the effects of COVID-19, risks associated with Hemisphere's enhanced oil recovery operations, including effects on its reserves, reservoirs and *production; general economic conditions in Canada, the U.S. and globally; and the other factors described under "Risk Factors" in Hemisphere's most recently filed Annual Information Form available on the Company's profile on SEDAR at www.sedar.com. Readers are cautioned that this list of risk factors should not be construed as exhaustive.*

The forward-looking statements contained in this MD&A speak only as of the date of this document. Except as expressly required by applicable securities laws, Hemisphere does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Forward-Looking Financial Information

This document, including the Company's estimates 2023 Adjusted Funds Flow and annual Free Funds Flow, may contain future oriented financial information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Company's activities and results. The FOFI has been prepared based on a number of assumptions including the assumptions discussed and disclosed above and below. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits the Company will derive therefrom. The Company has included the FOFI in order to provide readers with a more complete perspective on the Company's future operations and such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any FOFI statements, whether as a result of new information, future events or otherwise, except as required by law.

Future estimates of Adjusted Funds Flow and annual Free Funds Flow are each forward looking non-IFRS financial measures that are not standardized financial measures under International Financial Reporting Standards and may not be comparable to similar financial measures disclosed by other issuers. Please see "Non-IFRS and Other Financial Measures" above for: (i) an explanation of how such measures provide useful information and for what purposes management uses these measures; and (ii) a quantitative reconciliation of the historical non-IFRS financial measure to the most similar financial measure.

2023 Adjusted Funds Flow and Annual Free Funds Flow Assumptions

Annual average production of 3,300 boe/d (99% heavy crude oil) at WTI US$85/bbl, paired with WCS Differential of $US20/bbl, Foreign Exchange of 1.35, and average quality adjustment of Cdn$5.50/bbl; Operating and Transportation costs of $15.00/boe; Interest costs of $0.40/boe; G&A costs of $3.40/boe; Royalties and GORRs of 20% at WTI US $85/bbl; hedging losses of $0.70/boe; and estimated tax provisions.

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.

The accompanying unaudited condensed interim financial statements have not been reviewed by the Company's auditors.

The Audit Committee, consisting of independent members of the Board of Directors, has reviewed financial statements with management. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Vancouver, British Columbia
May 24, 2023

(signed) *"Don Simmons"*	(signed) *"Dorlyn Evancic"*
Don Simmons, President & CEO	Dorlyn Evancic, Chief Financial Officer

CONDENSED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)
(Unaudited)

($000s)	Note		**March 31, 2023**		December 31, 2022
Assets					
Current assets					
Cash and cash equivalents		**$**	**2,730**	$	152
Accounts receivable	3(a)		**5,901**		4,845
Prepaid expenses			**1,391**		828
			10,022		5,825
Non-current assets					
Reclamation deposits	8		**116**		116
Exploration and evaluation assets	6		**189**		168
Property and equipment	7		**71,206**		71,915
Total assets		**$**	**81,533**	$	78,024
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**4,979**	$	6,379
Current tax provision			**2,035**		212
Current portion of lease liabilities	11		**646**		633
Current portion of decommissioning obligations	8		**198**		198
Fair value of financial instruments	3(c)		**303**		417
			8,161		7,839
Non-current liabilities					
Lease liabilities	11		**3,224**		3,304
Deferred tax liability			**8,256**		8,131
Decommissioning obligations	8		**5,721**		5,750
			25,422		25,024
Shareholders' Equity					
Share capital	12		**66,874**		67,138
Contributed surplus			**5,352**		5,330
Deficit			**(16,055)**		(19,468)
Total shareholders' equity			**56,171**		53,000
Total liabilities and shareholders' equity		**$**	**81,533**	$	78,024

Commitments	Note 13
Subsequent events	Note 15

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

Approved by the Board of Directors

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

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

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)
(Unaudited)

($000s, except per share amounts)	Note		Three Months Ended March 31 **2023**		2022
Revenue					
Oil and natural gas revenue	5	$	**18,694**	$	22,856
Royalties			**(3,273)**		(4,718)
			15,421		18,138
Realized (loss) on financial instruments			**(228)**		(3,464)
Unrealized gain (loss) on financial instruments	3(c)		**114**		(2,186)
Net revenue			**15,307**		12,488
Expenses					
Production and operating			**4,079**		2,676
Exploration and evaluation	6		**29**		23
Depletion and depreciation	7		**2,212**		1,790
General and administrative			**822**		658
Share-based payments	12(b)		**22**		64
Finance expense	9		**224**		2,647
Foreign exchange loss			**14**		12
Total Expenses			**7,402**		7,870
Income before taxes			**7,905**		4,618
Current income tax expense			**(1,823)**		-
Deferred income tax expense			**(124)**		-
Net income and comprehensive income for the period		**$**	**5,958**	$	4,618
Net income per share, basic and diluted	12(c)	**$**	**0.06**	$	0.05

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

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)
(Unaudited)

($000s, except per share amounts)	Note	Number common shares		Share Capital		Contributed Surplus		Deficit		Total Equity
Balance, December 31, 2021		**91,289,653**	**$**	**56,500**	**$**	**2,634**	**$**	**(33,325)**	**$**	**25,809**
Stock option exercise	12(b)	4,699,000		1,172		-		-		1,172
Share-based compensation	12(b)	-		-		3,843		-		3,843
Expiry of stock options		-		-		(223)		223		-
Transfer on option exercise	12(b)	-		924		(924)		-		-
Shares repurchased under NCIB	12(a)	(2,312,400)		(3,387)		-		-		(3,387)
Warrant exercise – cashless	12(a)	8,302,686		11,929		-		-		11,929
Dividends	12(d)	-		-		-		(7,683)		(7,683)
Net income for the year		-		-		-		21,317		21,317
Balance, December 31, 2022		**101,978,939**	**$**	**67,138**	**$**	**5,330**	**$**	**(19,468)**	**$**	**53,000**
Balance, December 31, 2022		**101,978,939**	**$**	**67,138**	**$**	**5,330**	**$**	**(19,468)**	**$**	**53,000**
Share-based compensation	12(b)	-		-		22		-		22
Shares repurchased under NCIB	12(a)	(202,300)		(264)		-		-		(264)
Dividends	12(d)	-		-		-		(2,545)		(2,545)
Net income for the period		-		-		-		5,958		5,958
Balance, March 31, 2023		**101,776,639**	**$**	**66,874**	**$**	**5,352**	**$**	**(16,055)**	**$**	**56,171**

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

CONDENSED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)
(Unaudited)

($000s)		Three Months Ended March 31	
	Note	**2023**	2022
Operating activities			
Net income for the period		$ **5,958**	$ 4,618
Items not affecting cash:			
Accretion of decommissioning costs	8	**49**	39
Deferred tax expense		**124**	-
Depletion and depreciation	7	**2,212**	1,790
Exploration and evaluation expense	6	**29**	23
Share-based payments	12(b)	**22**	64
Unrealized loss (gain) on financial instruments	3(c)	**(114)**	2,186
Change in fair value of warrant liability	9	**-**	2,319
		8,280	11,039
Decommissioning obligation expenditures	8	**(78)**	(104)
Changes in non-cash working capital	14	**832**	(2,723)
Cash provided by operating activities		**9,034**	8,212
Investing activities			
Exploration and evaluation expenditures	6	**(50)**	(479)
Property and equipment expenditures	7	**(1,415)**	(1,315)
Changes in non-cash working capital	14	**(2,028)**	(3,521)
Cash used in investing activities		**(3,493)**	(5,315)
Financing activities			
Shares issued for stock option, cash exercise	12(a)	**-**	289
Shares repurchased under NCIB	12(a)	**(264)**	(100)
Dividends	12(d)	**(2,545)**	
Change in bank debt	10	**-**	(2,991)
Payment of lease liabilities, net		**(154)**	(95)
Cash used in financing activities		**(2,963)**	(2,897)
Net change in cash		**2,578**	-
Cash, beginning of period		**152**	-
Cash, end of period		**$ 2,730**	$ -

Supplemental cash flow information (Note 14)

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2023 and 2022
(Expressed in Canadian Dollars)
(Unaudited)

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 May 24, 2023.

(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 4.

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) Reserves - the Company uses estimated proved and probable oil and gas reserves to deplete petroleum and natural gas assets included in property and equipment ("P&E"), to assess for indicators of impairment or impairment reversal on each of the Company's cash generating units ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU.

(ii) Impairment testing – internal and external sources of information including forecasted oil and gas commodity prices, forecasted production volumes, forecasted royalty costs and operating costs, forecasted future development costs, anticipated recoverable quantities of proved and probable oil and gas 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.

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

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

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

(vi) 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.

(vii) Warrants and stock options
The estimated fair value of the 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.

(viii) Determinations of CGUs – geographic location, commodity type, reservoir characteristics and lowest level of cash inflows.

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

(x) Business combinations - estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of petroleum and natural gas assets based upon the estimation of recoverable quantities of Proved and Probable oil and gas reserves being acquired.

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

(e) Business Risks

Oil and gas exploration and development involves a high degree of risk whereby many properties are ultimately not developed to a producing stage. There can be no assurance that the Company's future exploration and development activities will result in discoveries of commercial bodies of oil and gas. Whether an oil and gas property will be commercially viable depends on a number of factors including the particular attributes of the reserve and its proximity to infrastructure, as well as commodity prices and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, and environmental protection. The exact effect of these factors cannot be accurately predicted, and the combination of these factors may result in an oil and gas property not being profitable.

During the past twelve months, demand for oil and natural gas continued to increase as the global economy continued to recover from the novel strain of the coronavirus ("COVID-19") pandemic. Energy prices strengthened to multi-year highs due to elevated uncertainty of global oil and natural gas supply after Russia's invasion of Ukraine, in addition to restricted oil and gas investment globally. While the Company has benefited from the improvement in commodity prices, there is a degree of uncertainty related to COVID-19 and geopolitical events that have been considered in our estimates as at and for the period ended March 31, 2023.

To the extent that the COVID-19 pandemic and other geopolitical events may adversely affect the Company's business, financial condition, and results of operations, it may also have the effect of heightening many of the other risks described in the Company's Management's Discussion & Analysis, and Annual Information Form for the year ended December 31, 2022.

(f) Environmental and Climate Change Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Company works hard to identify the potential environmental impacts of its new projects in the planning stage and during operations. The Company conducts its operations with high standards in order to protect the environment, its employees and consultants, and the general public. The Company maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations.

The Company's exploration and production facilities and other operations and activities emit greenhouse gasses ("GHG") which may require compliance with federal and/or provincial GHG emissions legislation. Climate change policy is evolving at regional, national, and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate its effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on our business, financial condition, results of operations and prospects.

3. 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:

($000s)	**March 31, 2023**	December 31, 2022
Accounts receivable		
Marketing receivables	**$ 4,654**	$ 4,685
Trade receivables	**1,223**	142
Receivables from joint ventures	**24**	18
Reclamation deposits	**116**	116
	$ 6,017	$ 4,961

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.

Due to 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.

At March 31, 2023, the Company had working capital (current assets, less current liabilities, excluding the fair value of financial instruments, decommissioning obligations, and lease liabilities, and including any bank debt) of $3.0 million (December 31, 2022 – net debt of $0.8 million). The Company funds its operations through operating cash flows and a committed $35 million two-year renewable term credit facility at ATB Financial (see Note 10).

(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

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.

(ii) Foreign currency risk

The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency; except i) the Company's commodity prices are largely denominated in US 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. The exchange rate effect cannot be quantified, but 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.

(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 March 31, 2023, the Company held derivative commodity price contracts as follows:

Product	**Type**	**Volume**	**Price**	**Index**	**Term**	**Mar. 31, 2023 Fair Value** *($000s)*
Crude oil	Put Spread	500 bbl/d	US$50.00(put sell)/US$60.00(put buy), net cost US$2.95/bbl	WTI-NYMEX	Apr. 1, 2023 – Jun. 30, 2023	(159)
Crude oil	Put Spread	500 bbl/d	US$50.00(put sell)/US$60.00(put buy), net cost US$3.70/bbl	WTI-NYMEX	Jul. 1, 2023 – Sep. 30, 2023	(144)
					Total	**(303)**

At March 31, 2023, the commodity contracts were fair valued as a liability of $0.3 million recorded on the statement of financial position and an unrealized gain for the three-month period of $0.1 million (March 31, 2022 – unrealized loss of $2.2 million). Subsequent to the quarter-ended March 31, 2023, the Company has entered into additional commodity contracts (see Note 15).

(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.

4. 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) Maximize shareholder return enhancing the Company's share value through dividends, share buybacks and corporate performance.

The Company monitors and adjusts its capital structure 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, 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.

5. 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 Mannville 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 3(a). As at March 31, 2023, production revenue sold to customers was comprised of three marketers which account for $5.8 million of the accounts receivable balance.

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

		Three Months Ended March 31		
($000s)		**2023**		2022
Heavy crude oil	**$**	**18,647**	$	22,799
Conventional natural gas		**47**		57
Total	**$**	**18,694**	$	22,856

6. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of Proved and Probable oil and gas reserves. A transfer from exploration and evaluation assets to property and equipment is made when reserves are assigned, or the exploration project has been completed. For the three months ended March 31, 2023, the Company transferred $nil (December 31, 2022 - $0.5 million) to property and equipment, and recognized exploration and evaluation expense of $29 thousand (December 31, 2022 - $140 thousand).

Cost *($000s)*		
Balance, December 31, 2021	$	568
Additions		1,142
Exploration and evaluation expense		(140)
Impairment		(928)
Transfer to property, plant and equipment		(474)
Balance, December 31, 2022	$	168
Additions		50
Exploration and evaluation expense		(29)
Balance, March 31, 2023	**$**	**189**

At December 31, 2022, the Company performed an assessment of potential impairment indicators on its exploration and evaluation assets ("E&E assets"), and management determined that an impairment test on its E&E assets was required. It was determined that the carrying amount for two unsuccessful exploration wells drilled in non-core areas in 2022 should be recognized as an impairment charge of $928 thousand as at December 31, 2022.

7. Property and Equipment

Cost *($000s)*		Petroleum and Natural Gas		Right of Use and Other Assets		Total
Balance, December 31, 2021	$	120,764	$	3,296	$	124,060
Additions right-of-use assets		-		2,041		2,041
Additions property and equipment		17,064		60		17,124
Decrease in decommissioning obligations (Note 8)		(2,340)		-		(2,340)
Capitalized share-based payments		1,225		-		1,225
Transfer from exploration and evaluation assets		474		-		474
Balance, December 31, 2022	$	137,187	$	5,397	$	142,584
Additions right-of-use assets		-		88		88
Additions property and equipment		1,405		10		1,415
Balance, March 31, 2023	**$**	**138,592**	**$**	**5,495**	**$**	**144,087**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance, December 31, 2021	**$**	62,413	$	458	$	62,871
Depletion and depreciation for the year		7,216		668		7,884
Impairment reversal		(86)		-		(86)
Balance, December 31, 2022	$	69,543	$	1,126	$	70,669
Depletion and depreciation for the period		2,014		198		2,212
Balance, March 31, 2023	**$**	**71,557**	**$**	**1,324**	**$**	**72,881**
Net Book Value						
December 31, 2022	$	67,644	$	4,271	$	71,915
March 31, 2023	**$**	**67,035**	**$**	**4,171**	**$**	**71,206**

The Company's additions for property and equipment included capitalized general and administrative expenses of $0.2 for the three months ended March 31, 2023 (year ended December 31, 2022 - $1.2 million).

The calculation of depletion at March 31, 2022 includes estimated future development costs of $50.5 (year ended December 31, 2022 - $50.5 million) associated with the development of the Company's Proved plus Probable reserves.

At March 31, 2023, the Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units ("CGU"), and management determined that there were no indicators of impairment or reversal identified. As such no impairment test on its petroleum and natural gas assets was required.

At December 31, 2022, the Company performed an assessment of potential impairment indicators on each of its CGUs. The Company identified an indicator of impairment at December 31, 2022 in its Jenner CGU and performed an impairment test to estimate the recoverable amount of this CGU. It was determined that the recoverable amount of the Jenner CGU equaled the CGU's carrying value and therefore no impairment or impairment reversal was recorded. There were no indicators of impairment for its Atlee Buffalo 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. Significant assumptions in the determination of estimated Proved and Probable oil and gas reserves and cash flows from those reserves include forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs, and discount rates specific to the underlying composition of assets residing in the Jenner CGU. The pre-tax discount rates ranged from 12% to 35% depending on the nature of the reserves. The following tables show the forecasted oil and gas commodity price estimates used by the Company's independent third-party reserve evaluators at December 31, 2022:

	2023	2024	2025	2026	2027	2028	2029	2030	Thereafter
WTI (US$/bbl)	80.33	78.50	76.95	77.61	79.16	80.74	82.36	84.00	+2%/yr
WCS (C$/bbl)	76.54	77.75	77.55	80.07	81.89	84.02	85.73	87.11	+2%/yr
AECO(C$/MMbtu)	4.23	4.40	4.21	4.27	4.34	4.43	4.51	4.60	+2%/yr

Management recorded an impairment reversal of $86 thousand on December 31, 2022 for a balance relating to non-core assets.

8. 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 March 31, 2023 is $8.1 million (December 31, 2022 - $8.1 million), and

$12.5 million with inflation (December 31, 2022 - $12.5 million). These payments are expected to be made over the next 40 years with the majority of costs to be incurred between 2023 and 2063.

The discount factor, being the risk-free rate related to the liability, is 3.30% (December 31, 2022 – 3.30%). Inflation of 2.00% (December 31, 2022 – 2.00%) has also been factored into the calculation of amounts in the table below. The Company also has $116 thousand (December 31, 2022 - $116 thousand) in various reclamation bonds for its properties held by the Alberta Energy Regulator and British Columbia Ministry of Energy, Mines and Petroleum Resources.

($000s)	**Three Months Ended March 31, 2023**	Year Ended December 31, 2022
Decommissioning obligations, beginning of period	**$ 5,948**	$ 9,070
Increase in estimated future obligations	**-**	381
Change in estimate	**-**	(2,722)
Payment of decommissioning obligations	**(78)**	(684)
Government SRP grants	**-**	(251)
Accretion expense	**49**	154
Decommissioning obligations, end of period	**$ 5,919**	$ 5,948
Current portion	**198**	198
Long-term portion	**5,721**	5,750

9. Finance Expense

($000s)	Note	**Three Months Ended March 31 2023**	2022
Finance expense:			
Loan interest		**$ 115**	$ 248
Lease interest		**60**	41
Change in value of warrant liability		**-**	2,319
Accretion of decommissioning liabilities	8	**49**	39
Total finance expense		**$ 224**	$ 2,647

In the comparable three months ended March 31, 2022, the Company recognized a remeasurement loss of $2.3 million in the fair value of its warrant liability. This was with respect to the 13,750,000 warrants issued to a third-party lender on September 15, 2017 and in conjunction with its term loan at the time. There were no warrants outstanding as of April 2022 following a final cashless exercise, and full disclosure of the warrants can be found in the audited annual financial statements for the year ended December 31, 2022.

10. Bank Debt

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

The Credit Facility had an initial term date of May 31, 2022, and was extended to May 31, 2023, which is the new term date. The facility is extendible at the new term date and on an annual basis for an additional 365 days upon request of the Company. The Credit Facility has a maturity date of May 31, 2024. If the term is not extended on May 31, 2023, additional advances would not be permitted and any outstanding advances would become repayable at May 31, 2024. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At March 31, 2023, the Company had drawn $nil 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 the fair value of financial instruments, decommissioning obligations, and lease liabilities, plus the undrawn amount available under the credit facility. The Company has met these standard reporting covenants and the financial covenant with a working capital ratio of 5.73 to 1.00 as at March 31, 2023.

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 review in November 2023 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. Should the Lender reduce 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.

11. 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.

The following table summarizes lease liabilities at March 31, 2023:

($000s)		
Balance, December 31, 2021	$	2,584
Lease additions (Note 7)		2,041
Interest expense		215
Lease payments		(903)
Balance, December 31, 2022	$	3,937
Lease additions (Note 7)		88
Interest expense		60
Lease payments		(215)
Balance, March 31, 2023	$	**3,870**
Current portion	$	646
Long-term portion		3,224

12. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at March 31, 2023 and December 31, 2022, the Company had the following common shares issued and outstanding:

Common Shares	Shares		Value *($000s)*
Balance, December 31, 2021	91,289,653	$	56,500
Shares issued for stock option exercises	4,699,000		1,172
Shares issued for warrants exercises	8,302,686		11,929
Shares repurchased and cancelled (NCIB)	(2,312,400)		(3,387)
Transfer on stock option exercise	-		924
Balance, December 31, 2022	101,978,939	$	67,138
Shares repurchased and cancelled (NCIB)	(202,300)		(264)
Balance, March 31, 2023	**101,776,639**	**$**	**66,874**

On July 14, 2022, the Company renewed its Normal Course Issuer Bid ("NCIB"), to purchase and cancel, from time to time, up to 8,905,836 common shares of the Company until July 13, 2023. From renewal date to December 31, 2022, the Company had purchased and cancelled 2,312,400 shares under the NCIB for $3.4 million at an average cost of $1.47 per share. During the quarter ended March 31, 2023, the Company purchased and cancelled 202,300 for $264 thousand at an average cost of $1.30 per share.

Subsequent to the quarter ended March 31, 2023, the Company has repurchased additional shares under the NCIB as disclosed in Note 15(a).

(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 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 March 31, 2023 and 2022 are as follows:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding December 31, 2022	Changes in the Period: Granted	Changes in the Period: Exercised	Changes in the Period: Expired/ Cancelled	Balance Outstanding March 31, 2023	Balance Exercisable March 31, 2023
$0.12	01-Mar-19	1-Mar-24	50,000	-	-	-	50,000	50,000
$0.12	17-Jun-20	17-Jun-25	985,000	-	-	-	985,000	985,000
$0.91	17-Dec-21	17-Dec-31	1,690,000	-	-	-	1,690,000	1,690,000
$1.41	17-Mar-22	17-Mar-32	50,000	-	-	-	50,000	50,000
$1.27	10-May-22	10-May-32	150,000	-	-	-	150,000	150,000
$1.30	14-Dec-22	14-Dec-32	3,150,000	-	-	-	3,150,000	3,093,750
			6,075,000	-	-	-	6,075,000	6,018,750
	Weighted-average exercise price		$0.99	-	-	-	$0.99	$0.99

Exercise Price	Grant Date	Expiry Date	Balance Outstanding December 31, 2021	Changes in the Period: Granted	Changes in the Period: Exercised	Changes in the Period: Expired/ Cancelled	Balance Outstanding March 31, 2022	Balance Exercisable March 31, 2022
$0.25	21-Sep-17	21-Sep-22	3,939,000	-	(900,000)	-	3,039,000	3,039,000
$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)	-	-	-
$0.12	01-Mar-19	1-Mar-24	50,000	-	-	-	50,000	50,000
$0.12	17-Jun-20	17-Jun-25	1,295,000	-	(10,000)	-	1,285,000	1,285,000
$0.91	17-Dec-21	17-Dec-31	1,740,000	-	-	-	1,740,000	1,740,000
$1.41	17-Mar-22	17-Mar-32	-	50,000	-	-	50,000	50,000
			7,424,000	50,000	(1,160,000)	-	6,314,000	6,314,000
	Weighted-average exercise price		$0.38	$1.41	$0.25	-	$0.41	$0.41

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 three months ended March 31, 2023, the Company recorded total share-based payments of $22 thousand, compared to $64 thousand for the same period in 2022.

(c) Income per share

($000s, except per share amounts)	**Three Months Ended March 31 2023**	Three Months Ended March 31 2022
Net income for the period	**$ 5,958**	$ 4,618
Weighted average number of common shares outstanding, basic	**101,835,965**	91,867,009
Dilutive stock options and warrants	**2,366,422**	4,249,040
Weighted average number of common shares outstanding, diluted	**104,202,387**	96,116,049
Income per share, basic and diluted	**$ 0.06**	$ 0.05

In computing the weighted-average shares outstanding for the three months ended March 31, 2023, the Company included 2,366,422 dilutive stock options. For the comparable period in 2022, the Company included 4,249,040 dilutive stock options and warrants.

(d) Dividends

On January 31, 2023, the Company announced a variable dividend of $2.55 million to the Company's shareholders at $0.025 per share which was paid on February 21, 2023.

13. Commitments

($000s)		2023	2024	2025	2026	2027	2028	Total
Office lease	$	61	88	37	-	-	-	186
Other leases		39	67	27	27	26	26	212
Equipment lease		553	738	738	732	664	609	4,034
	$	653	893	802	759	690	635	4,432

14. Supplemental Cash Flow Information

	Three Months Ended March 31			
($000s)		**2023**		2022
Provided by (used in):				
Accounts receivable	**$**	**(1,056)**	$	(4,405)
Prepaid expenses		**(563)**		(212)
Accounts payable, accrued liabilities and current tax provision		**423**		(1,627)
Total changes in non-cash working capital	**$**	**(1,196)**	$	(6,244)
Provided by (used in):				
Operating activities	**$**	**832**	$	(2,723)
Investing activities		**(2,028)**		(3,521)
Total changes in non-cash working capital	**$**	**(1,196)**	$	(6,244)

Interest paid on the Company's debts during the three months ended March 31, 2023 was $115 thousand, compared to $248 thousand for equivalent period in 2022.

15. Subsequent Events

a) As at May 17, 2023, the Company has purchased and cancelled an additional 653,000 shares under the NCIB for $0.8 million at an average cost of $1.28 per share.

b) Subsequent to the first quarter, the Company entered into the following commodity price contracts:

Product	**Type**	**Volume**	**Price**	**Index**	**Term**
Crude oil	Put Spread	500 bbl/d	US$50.00(put sell) /US$60.00(put buy), net cost US$2.55/bbl	WTI-NYMEX	Oct. 1, 2023 – Dec. 31, 2023
Crude oil	Swap	300 bbl/d	US$50.00(put sell) /US$60.00(put buy), net cost US$3.10/bbl	WTI-NYMEX	Jan. 1, 2024 – Mar. 31, 2024

c) The Company has completed its annual bank review and renewed its $35 million two year extendible Credit Facility, with the next annual review set for May 31, 2024.

d) On May 24, 2023 the Company's Board of Directors approved a dividend to the Company's shareholders of record on June 1, 2023, at $0.025 per share for payment on June 15, 2023.

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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