

Q3 2024 HIGHLIGHTS

- Achieved quarterly production of 3,621 boe/d (99% heavy oil), an 18% increase over the same quarter last year.
- Attained quarterly revenue of \$26.7 million, a 10% increase from the third quarter of 2023.
- Delivered operating netback¹ of \$15.4 million or \$46.24/boe for the quarter.
- Realized quarterly adjusted funds flow from operations ("AFF")¹ of \$11.7 million or \$35.17/boe.
- Executed a \$9.9 million capital expenditure program to drill eight successful wells in Atlee Buffalo, Alberta and construct a new multi-well battery and polymer injection facility in Marsden, Saskatchewan.
- Exited the third quarter with a positive working capital¹ position of \$6.5 million.
- Paid a special dividend of \$2.9 million (\$0.03/share) to shareholders on July 26, 2024.
- Paid a quarterly base dividend of \$2.5 million (\$0.025/share) to shareholders on September 13, 2024.
- Announced a special dividend of \$0.03/share to shareholders that was paid subsequent to the quarter on October 25, 2024.
- Renewed the Company's Normal Course Issuer Bid ("NCIB").
- Purchased and cancelled 756,400 shares under the Company's NCIB.

(1) Operating netback, adjusted funds flow from operations (AFF), free funds flow, capital expenditures, and working capital are non-IFRS measures, or when expressed on a per share or boe basis, non-IFRS ratio, 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 measures and 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".

Q3 2024 OPERATIONS UPDATE

Hemisphere's polymer floods in Atlee Buffalo continue to perform well, with third quarter production up 18% from the same period of 2023. During the third quarter of 2024, Hemisphere drilled eight new horizontal wells into its Atlee Buffalo pools, of which three are in the F pool and five in the G pool. All but one of these wells were brought online subsequent to the end of the quarter, although at least two will ultimately be converted into injectors to continue to build reservoir pressure and sweep oil to producers in the pool.

The Company is currently adding another treater to its G pool battery to handle the additional volumes from these wells. At the same time, vessel inspection and overall maintenance is being completed across the G pool battery. Due to this downtime, management anticipates lower corporate production during the first half of the fourth quarter, with overall expectations for annual 2024 production to be in line with guidance.

In its Marsden, Saskatchewan property, Hemisphere continues to evaluate its new polymer pilot project and is awaiting source well regulatory approval in order to increase injection rates. At this time no significant production is budgeted from the area.

The Hemisphere team is currently working on development plans for next year and expects to release details on its 2025 guidance in January.

Q3 2024 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
<i>(\$000s except per unit and share amounts)</i>				
FINANCIAL				
Petroleum and natural gas revenue	\$ 26,675	\$ 24,342	\$ 76,574	\$ 62,049
Operating field netback ⁽¹⁾	15,583	15,860	46,392	38,327
Operating netback ⁽¹⁾	15,405	15,632	46,217	37,690
Cash flow provided by operating activities	16,782	12,340	34,260	30,744
Adjusted funds flow from operations (AFF) ⁽¹⁾	11,717	11,713	35,381	28,116
Per share, basic ⁽¹⁾ (\$/share)	0.12	0.12	0.36	0.28
Per share, diluted ⁽¹⁾ (\$/share)	0.12	0.11	0.35	0.27
Free funds flow ⁽¹⁾	1,815	2,988	16,852	13,395
Net income	8,596	8,465	25,761	20,213
Per share, basic and diluted (\$/share)	0.09	0.08	0.26	0.20
Dividends	5,399	2,525	10,337	7,593
Per share, basic (\$/share)	0.055	0.025	0.105	0.075
NCIB share repurchases	736	519	4,163	2,010
Capital expenditures ⁽¹⁾	9,902	8,725	18,529	14,721
Working capital ⁽¹⁾	6,450	2,226	6,450	2,226
Average daily production				
Heavy oil (bbl/d)	3,601	3,032	3,441	3,011
Natural gas (Mcf/d)	123	145	123	152
Combined (boe/d)	3,621	3,056	3,461	3,036
Oil weighting	99%	99%	99%	99%
Average sales prices				
Heavy oil (\$/bbl)	\$ 80.50	\$ 87.14	\$ 81.17	\$ 75.35
Natural gas (\$/Mcf)	0.65	2.50	1.38	2.67
Combined (\$/boe)	\$ 80.06	\$ 86.57	\$ 80.74	\$ 74.86
Operating netback (\$/boe)				
Petroleum and natural gas revenue	\$ 80.06	\$ 86.57	\$ 80.74	\$ 74.86
Royalties	(17.53)	(18.03)	(16.91)	(14.94)
Operating costs	(10.87)	(9.19)	(10.52)	(10.64)
Transportation costs	(4.89)	(2.95)	(4.39)	(3.04)
Operating field netback ⁽¹⁾	46.77	56.40	48.92	46.24
Realized commodity hedging loss	(0.53)	(0.81)	(0.18)	(0.77)
Operating netback⁽¹⁾	\$ 46.24	\$ 55.59	\$ 48.74	\$ 45.47
General and administrative expense	(3.85)	(4.19)	(3.64)	(3.46)
Interest expense and foreign exchange (loss)	(0.21)	(0.52)	(0.40)	(0.62)
Tax expense provision	(7.01)	(9.23)	(7.39)	(7.47)
Adjusted funds flow from operations⁽¹⁾ (\$/boe)	\$ 35.17	\$ 41.65	\$ 37.31	\$ 33.92

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.

November 20, 2024 **September 30, 2024** December 31, 2023

	November 20, 2024	September 30, 2024	December 31, 2023
SHARE CAPITAL			
Common shares outstanding	97,530,539	98,020,039	99,340,339
Stock options outstanding	6,223,600	6,223,600	7,563,000
Total fully diluted shares outstanding	103,754,139	104,243,639	106,903,339

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at November 20, 2024

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three and nine months ended September 30, 2024 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the unaudited consolidated interim financial statements and related notes for the three and nine months ended September 30, 2024, and the audited annual financial statements and related notes for the year ended December 31, 2023. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR+ at www.sedarplus.ca or the Company's website at www.hemisphereenergy.ca.

The information in this MD&A is based on the unaudited consolidated interim financial statements which were prepared in accordance with IFRS Accounting Standards ("IFRS") applicable to the preparation of unaudited consolidated 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 Energy Corporation ("HEC") was incorporated under the laws of British Columbia on March 6, 1978. On January 2, 2024, HEC formed a wholly-owned subsidiary, Hemi Energy Inc. ("HEI"). On January 2, 2024, HEC and HEI formed two general partnerships under the laws of Alberta; Hemi Energy Partnership, which owns substantially all of the Company's producing assets, and Hemi Energy Partnership II, which may be used to hold other assets of the Company in the future. Unless the context otherwise requires, references to Hemisphere or the Company include all subsidiaries of HEC.

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 West Pender Street, Vancouver, British Columbia, Canada V6C 1L6.

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 17,760 gross acres (17,760 net acres) as of September 30, 2024. The property has three oil pools delineated by vertical wells and defined by 3D seismic.

Operating Results

The Company generated adjusted funds flow from operations¹ ("AFF") of \$11.7 million (\$0.12/share, basic and diluted) during the third quarter of 2024 compared to \$11.7 million (\$0.12/basic share and \$0.11/diluted share) during the third quarter of 2023. AFF for the nine months ended September 30, 2024 increased by \$7.3 million to \$35.4 million (\$0.36/basic share and \$0.35/diluted share) from \$28.1 million (\$0.28/basic share and \$0.27/diluted share) for the same period in 2023. The increase in AFF for nine months ended September 30, 2024 over the comparable period in 2023 is primarily due to the 23% increase in netbacks, as well as the 14% increase in production.

The Company reported net income of \$8.6 million (\$0.09/share, basic and diluted) and \$25.8 million (\$0.26/share, basic and diluted) for the three and nine months ended September 30, 2024, respectively, compared to \$8.5 million (\$0.08/share, basic and diluted) and \$20.2 million (\$0.20/share, basic and diluted) for the comparable three- and nine-month periods in 2023, respectively. The \$5.6 million increase over the comparable nine-month period of 2023 is primarily the result of a \$7.3 million increase in operating netback¹ offset by increases in taxes and depletion.

Production

By product:	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Oil (bbl/d)	3,601	3,032	3,441	3,011
Natural gas (Mcf/d)	123	145	123	152
Total (boe/d)	3,621	3,056	3,461	3,036
Oil weighting	99%	99%	99%	99%

For the three- and nine- month periods ended September 30, 2024, the Company's average daily production was 3,621 boe/d and 3,461 boe/d (99% oil), respectively, representing 18% and 14% increases from the same periods in 2023. These increases can be attributed to increased production from six Atlee Buffalo wells that were placed on production during the third quarter of 2023, as well as to the general overall increase in production from the polymer floods throughout the Atlee Buffalo pools since that time. Of the eight new wells drilled in the third quarter of 2024, only one was placed on production during the quarter.

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

Average Benchmark and Realized Prices

	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Benchmark prices				
WTI (\$US/bbl) ⁽¹⁾	\$ 76.90	\$ 81.90	\$ 78.50	\$ 77.30
WCS Diff (\$US/bbl) ⁽²⁾	(15.09)	(11.74)	(16.39)	(17.40)
Exchange rate (1 \$US/\$C)	1.3605	1.3241	1.3605	1.3423
WTI (\$C/bbl)	104.63	108.45	106.80	103.76
WCS Diff (\$C/bbl)	(20.53)	(15.55)	(22.30)	(23.36)
WCS (\$C/bbl) ⁽²⁾	84.10	92.90	84.50	80.40
AECO natural gas (\$US/Mcf) ⁽³⁾	0.85	2.45	1.45	3.05
Average realized prices				
Crude oil (\$C/bbl)	80.50	87.14	81.17	75.35
Natural gas (\$C/Mcf)	0.65	2.50	1.38	2.67
Combined (\$C/boe)	\$ 80.06	\$ 86.57	\$ 80.74	\$ 74.86

Notes:

(1) Represents posting prices of West Texas Intermediate Oil.

(2) Represents posting prices of Western Canadian Select.

(3) Represents the Alberta 30-day spot AECO posting prices.

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 for the three months ended September 30, 2024 decreased by 8% to \$80.06/boe from \$86.57/boe for the comparable period in 2023. This decrease is primarily the result of a decrease in realized WTI pricing of US\$5.00/bbl and a widening of US\$3.33/bbl in the differential between Western Canadian Select ("WCS") and WTI pricing for the three months ended September 30, 2024 over the comparable period in 2023. The Company's combined average realized price for the nine months ended September 30, 2024 increased by 8% to \$80.74/boe from \$74.86/boe for the comparable period in 2023. This increase is primarily the result of an increase in realized WTI pricing of US\$1.20/bbl and a narrowing of US\$1.01/bbl in the differential between WCS and WTI pricing for the nine months ended September 30, 2024 over the comparable period in 2023.

As at September 30, 2024, the Company held the following derivative commodity contracts:

Product	Type	Volume	Price	Index	Term
Crude oil	Put Spread	350 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$1.95/bbl	WTI-NYMEX	Oct. 1, 2024 – Dec. 31, 2024
Crude oil	Put Spread	350 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$2.15/bbl	WTI-NYMEX	Jan. 1, 2025 – Mar. 31, 2025
Crude oil	Collar	175 bbl/d	US\$50.00(put buy)/US\$90.50 (call sell)/bbl	WTI-NYMEX	Apr. 1, 2025 – Jun. 30, 2025

At September 30, 2024, the commodity contracts were fair valued as a liability of \$59 thousand recorded on the statement of financial position, and an unrealized gain of \$209 thousand for the three-month period ended September 30, 2024, and an unrealized loss of \$268 thousand for the nine-month period ended September 30, 2024 (September 30, 2023 – a loss of \$98 thousand for the three-month period and a gain of \$21 thousand for the nine-month period).

Subsequent to September 30, 2024, the Company entered the following derivative commodity contract:

Product	Type	Volume	Price	Index	Term
Crude oil	Collar	175 bbl/d	US\$50.00(put buy)/US\$79.55 (call sell)/bbl	WTI-NYMEX	Jul. 1, 2025 – Sep. 30, 2025

Revenue

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Oil	\$ 26,668	\$ 24,309	\$ 76,527	\$ 61,939
Natural gas	7	33	47	110
Total	\$ 26,675	\$ 24,342	\$ 76,574	\$ 62,049

Revenue for the three months ended September 30, 2024 increased by 10% from the comparable period in 2023. This increase is due primarily to the 18% increase in production, offset by the \$6.50/boe decrease in the Company's combined average realize price over the comparable three-month period in 2023. For the nine months ended September 30, 2024, revenue increased by 23% from the comparable period in 2023. This increase is primarily due to the \$5.88/boe increase in the Company's combined average realized price and the 14% increase in production over the comparable nine-month period in 2023.

Operating Netback

(\$000s, except per unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Operating netback				
Revenue	\$ 26,675	\$ 24,342	\$ 76,574	\$ 62,049
Royalties	(5,841)	(5,069)	(16,040)	(12,386)
Operating costs	(3,621)	(2,584)	(9,977)	(8,820)
Transportation costs	(1,630)	(829)	(4,165)	(2,516)
Operating field netback ⁽¹⁾	\$ 15,583	\$ 15,860	\$ 46,392	\$ 38,327
Realized commodity hedging gain (loss)	(178)	(228)	(175)	(637)
Operating netback ⁽¹⁾	\$ 15,405	\$ 15,632	\$ 46,217	\$ 37,690
Operating netback (\$/boe)				
Revenue	\$ 80.06	\$ 85.67	\$ 80.74	\$ 74.86
Royalties	(17.53)	(18.03)	(16.91)	(14.94)
Operating costs	(10.87)	(9.19)	(10.52)	(10.64)
Transportation costs	(4.89)	(2.95)	(4.39)	(3.04)
Operating field netback ⁽¹⁾	\$ 46.77	\$ 56.40	\$ 48.92	\$ 46.24
Realized commodity hedging gain (loss)	(0.53)	(0.81)	(0.18)	(0.77)
Operating netback ⁽¹⁾	\$ 46.24	\$ 55.59	\$ 48.74	\$ 45.47

Note:

(1) Non-IFRS financial measure that is not a standardized financial measure under IFRS Accounting 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 nine months of 2024 totaled \$16.0 million, of which \$15.1 million was paid to the Alberta Crown and \$0.9 million was paid to Over-Riding Royalty ("ORR") holders. Royalties for the three months ended September 30, 2024 were \$17.53/boe (22% of revenue) compared to \$18.03/boe (21% of revenue) during the same period in 2023. Royalties for the nine months ended September 30, 2024 were \$16.91/boe (21% of revenue) compared to \$14.94/boe (20% of revenue) during the same period in 2023.

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 September 30, 2024 were \$10.87/boe. This represents a \$1.68/boe or 18% increase from the same period in 2023. This increase is primarily due to increased costs for labour, repairs and maintenance, treating chemicals and polymer, plus additional costs for new operations at Marsden, Saskatchewan during the quarter. Operating costs for the nine months ended September 30, 2024 were \$10.52/boe. This represents a \$0.12/boe or 1% decrease from the same period in 2023. This decrease is attributed to higher costs being spread over a 14% increase in production for the period.

Transportation costs include all costs incurred to transport emulsion, oil, and gas sales to processing and distribution facilities. Transportation costs were \$4.89/boe and \$4.39/boe for the three- and nine-month periods ended September 30, 2024, respectively, representing 66% and 45% increases over the comparable periods in 2023. These increases are mainly attributed to trucking to more distant sales points in order to achieve higher realized pricing, as well as costs due to longer wait times.

Operating netback for the three months ended September 30, 2024 was \$46.24/boe, which is \$9.35/boe or 17% lower than the comparable period in 2023. This decrease is mainly due to the 8% decrease in the Company's combined average realized price, in combination with increased operating and transportation costs over the comparable period in 2023. Operating netback for the nine months ended September 30, 2024 was \$48.73/boe, which is \$3.26/boe or 7% higher than the comparable period in 2023. This increase is mainly due to the 8% increase in the Company's combined average realized price, offset by slightly higher royalty and transportation rates in 2024, over the comparable period in 2023.

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 September 30, 2024 and 2023 were \$37 thousand and \$29 thousand, respectively. For the nine months ended September 30, 2024 and 2023, exploration and evaluation expenses were \$130 thousand and \$87 thousand, respectively.

Depletion and Depreciation

(\$000s, except per boe)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Depletion expense	\$ 2,515	\$ 2,003	\$ 6,988	\$ 5,935
Depreciation expense	258	205	679	603
Total	\$ 2,773	\$ 2,208	\$ 7,667	\$ 6,538
\$ per boe	\$ 8.32	\$ 7.85	\$ 8.08	\$ 7.89

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 September 30, 2024 increased to \$8.32/boe from \$7.85/boe for the same period in 2023. For the nine months ended September 30, 2024, depletion and depreciation expenses increased to \$8.08/boe from \$7.89/boe for the same period in 2023. The increases in depletion expense for the three and nine months ended September 30, 2024 are due to the 18% and 14% increases in production from the comparable periods in 2023, respectively, over the larger reserve base from the Company's December 31, 2023 independent engineer's evaluation report as prepared by McDaniel and Associates Consultants Ltd.

Impairment

At September 30, 2024, 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 and \$nil impairment recorded (September 30, 2023 - \$0.6 impairment on Exploration and Evaluation assets).

Capital Expenditures

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Land and lease	\$ 4	\$ 429	\$ 93	\$ 1,173
Geological and geophysical	358	379	1,122	988
Drilling and completions	6,711	6,997	13,393	10,019
Facilities and infrastructure	2,829	920	3,921	2,541
Total capital expenditures ⁽¹⁾	\$ 9,902	\$ 8,725	\$ 18,529	\$ 14,721

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 nine months ended September 30, 2024 included the drilling and completion of one exploration and eight development wells in Atlee Buffalo, the drilling and completion of five wells in Marsden along with costs associated with the tie-in and construction of a new multi-well battery for those wells, as well as drilling two source water and two observation wells in Marsden and converting a well to source water in Atlee Buffalo.

General and Administrative

(\$000s, except per boe)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Gross general and administrative	\$ 1,712	\$ 1,660	\$ 4,543	\$ 3,798
Capitalized general and administrative	(430)	(482)	(1,090)	(928)
Total	\$ 1,282	\$ 1,178	\$ 3,453	\$ 2,870
\$ per boe	\$ 3.85	\$ 4.19	\$ 3.64	\$ 3.46

General and administrative ("G&A") expenses decreased by 8% on a per boe basis for the three months ended September 30, 2024 and increased by 5% on a per boe basis for the nine months ended September 30, 2024 over the comparable periods in 2023. The increase in G&A expenses during the nine-month period is due to additional investor relations activities, higher overall costs associated with the Company's year-over-year growth, and inflation.

The Company capitalizes G&A expenses which are directly attributable to its development and exploration activities. For the three and nine months ended September 30, 2024, capitalized G&A expenses decreased by \$52 thousand and increased by \$162 thousand, respectively, over the comparable periods in 2023. These changes relate to the capital activity carried out by the Company during the first three quarters of 2024.

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 nine months of 2024, the Company did not grant any stock options to employees. However, a tranche of 25% of the options granted for investor relations during the fourth quarter of 2023 vested in each of the first three quarters in 2024. The total valuation of the stock options that vested during the first nine months of 2024 was \$19 thousand, which was expensed as stock-based compensation.

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Share-based payments	\$ 6	\$ 46	\$ 19	\$ 46
Capitalized costs	-	-	-	-
Total share-based payments	\$ 6	\$ 46	\$ 19	\$ 46

Finance Expense

(\$000s, except per boe)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Loan interest and fees	\$ 136	\$ 120	\$ 375	\$ 370
Lease interest	65	58	171	178
Interest income	(133)	(51)	(204)	(51)
Accretion of decommissioning liabilities	50	49	149	147
Total	\$ 118	\$ 176	\$ 491	\$ 645
\$ per boe - Total	\$ 0.35	\$ 0.63	\$ 0.52	\$ 0.78
\$ per boe - Interest only	\$ 0.21	\$ 0.45	\$ 0.36	\$ 0.60

Loan interest and fees, including standby and facility fees, less interest income, for the three and nine months ended September 30, 2024 decreased by \$66 thousand or 95% and \$149 thousand or 46%, respectively, from the comparable periods in 2023. The decrease for the nine-month period is primarily the result of an additional \$153 thousand of interest income generated on cash balances over the previous year. The Company also recorded \$65 thousand and \$171 thousand of lease interest on right-of-use assets liability for the three and nine months ended September 30, 2024, respectively. The finance expense per boe for loan and lease interest has decreased by 44% and 33% for the three and nine months ended September 30, 2024, respectively, from the comparable periods in 2023, primarily due to the aforementioned interest income from the Company's maintained cash balances.

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 and nine months ended September 30, 2024, accretion expenses increased by 1% from the comparable periods in 2023.

Taxes

The Company has approximately \$29 million of tax pools available to be applied against future income for tax purposes, as per its tax assessments at December 31, 2023 (December 31, 2022 - \$28 million). Based on the Company's revised corporate structure as of January 2, 2024, the Company has recorded current tax expense of \$nil and deferred tax expense of \$8.4 million at September 30, 2024 (September 30, 2023 - \$6.2 million current tax and \$0.4 million deferred tax). The Company expects to incur additional deferred taxes in 2024 and any taxes payable beyond this will primarily be a function of commodity prices, capital expenditures and production volumes.

Tax Pools

(\$000s)	Base Deduction Rate	December 31, 2023	December 31, 2022
Canadian development expense (CDE)	30%	\$ 20,461	\$ 22,620
Canadian oil and gas property expense (COGPE)	10%	4,402	3,720
Undepreciated capital cost (UCC)	20-55%	3,494	760
Share issuance costs and other	Various	657	660
Total		\$ 29,014	\$ 27,760

Summary of Quarterly Results

(\$000s, except per share and unit amounts)	2024				2023			2022
	Sep. 30 Q3 ⁽¹⁾	Jun. 30 Q2 ⁽²⁾	Mar. 31 Q1 ⁽³⁾	Dec. 31 Q4 ⁽⁴⁾	Sep. 30 Q3 ⁽⁵⁾	Jun. 30 Q2 ⁽⁶⁾	Mar. 31 Q1 ⁽⁷⁾	Dec. 31 Q4 ⁽⁸⁾
Average daily production (boe/d)	3,621	3,628	3,133	3,386	3,056	2,883	3,171	2,907
Heavy oil and natural gas revenue	26,675	28,938	20,961	22,423	24,342	19,013	18,694	19,564
Cash provided by operating activities	16,782	14,795	2,684	13,496	12,340	9,371	9,034	8,995
Net income	8,596	10,387	6,778	3,981	8,465	5,790	5,958	3,253
Per share, basic	0.09	0.11	0.07	0.04	0.08	0.06	0.06	0.03
Per share, diluted	0.09	0.10	0.07	0.04	0.08	0.06	0.06	0.03
Combined average realized price (\$/boe)	80.06	87.65	73.53	71.97	86.57	72.48	65.51	73.16

Notes:

- (1) The decreases in revenue and net income are due primarily to a decrease in realized commodity prices. Cash provided by operating activities increased due to changes in non-cash working capital.
- (2) The increases in revenue and cash provided by operating activities are due primarily to an increase in production, combined with increased average realized commodity price. Net income increased primarily due to the increase in revenue.
- (3) The decrease in revenue is due primarily to a slight decrease in production. The increase in net income is due primarily to a reduction in operating expenses. Cash provided by operating activities reduced significantly due to changes in non-cash working capital resulting from payments made to income taxes payable.
- (4) 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. Net income decreased due to a decrease in revenues, plus additional expenses recorded for production and operating, taxes, impairment, share based payments.
- (5) The increases in revenue and cash provided by operating activities are due primarily to an increase in production. Net income increased primarily due to the increase in revenue.
- (6) The increases in revenue and cash provided by operating activities are due primarily to an increase in realized commodity price.
- (7) The increases in revenue and cash provided by operating activities are due primarily to an increase in production. Net income increased due to an increase in revenue plus a reduction in expenses for impairment and share based payments.
- (8) The decreases in revenue and cash provided by operating activities are due primarily to a decrease in realized commodity price. Net income reduced due to a decrease in revenues and unrealized gains on financial instruments, plus additional expenses recorded for impairment, share based payments and year-end tax adjustments.

Outstanding Share Capital

	November 20, 2024	September 30, 2024	December 31, 2023
Common shares issued and outstanding	97,530,539	98,020,039	99,340,339
Stock options	6,223,600	6,223,600	7,563,000
Total fully diluted shares outstanding	103,754,139	104,243,639	106,903,339

On July 14, 2023, the Company renewed its normal course issuer bid ("NCIB") to purchase and cancel, from time to time, up to 8,670,636 common shares ("shares") of the Company until July 13, 2024.

On July 14, 2024, the Company further renewed its NCIB to purchase and cancel, from time to time, up to 8,255,766 shares of the Company until July 13, 2025.

During the nine months ended September 30, 2024, the Company purchased and cancelled 2,659,700 shares under the NCIB for \$4.2 million at an average cost of \$1.57 per share.

Subsequent to the quarter ended September 30, 2024, the Company purchased and cancelled an additional 489,500 shares under the NCIB for \$0.9 million at an average cost of \$1.82 per share.

During the three months ended September 30, 2024, the Company issued 83,000 shares from stock options exercised through the Employee Stock Option Plan, at an exercise price of \$0.91 per share.

The Company has the following stock options that are outstanding and exercisable as at November 20, 2024:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding	Balance Exercisable
\$0.12	June 17, 2020	June 17, 2025	310,000	310,000
\$0.91	December 17, 2021	December 17, 2031	1,025,600	1,025,600
\$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	2,850,000	2,850,000
\$1.25	September 11, 2023	September 11, 2033	50,000	50,000
\$1.27	December 15, 2023	December 15, 2028	1,788,000	1,776,000
			6,223,600	6,211,600
Weighted-average exercise price per share			\$1.17	\$1.17

Dividend

On June 7, 2022, the Company's Board of Directors approved a variable dividend policy. During 2022, the Company paid three quarterly base dividends at \$0.025 per share for total distributions of \$7.6 million. During 2023, the Company paid four quarterly base dividends at \$0.025 per share and one special dividend at \$0.03 per share for total distributions of \$13.1 million.

As of the date of this MD&A, the Company has paid the following dividends to shareholders during 2024:

Dividend type	Record date	Shares outstanding ⁽¹⁾	Payment date	Dividend price per share	Dividends paid (\$000s)	Market capitalization ⁽²⁾ (\$000s)	Dividend yield ⁽³⁾ (annualized)
Base	Feb. 9, 2024	98,843,539	Feb. 23, 2024	\$0.025	\$2,471	\$146,288	6.76%
Base	Jun. 20, 2024	98,673,439	Jun. 28, 2024	\$0.025	\$2,467	\$175,639	5.62%
Special	Jul. 12, 2024	98,366,839	Jul. 26, 2024	\$0.030	\$2,951	\$176,077	6.70%
Base	Aug. 30, 2024	97,937,039	Sep. 13, 2024	\$0.025	\$2,448	\$173,349	5.65%
Special	Oct. 11, 2024	97,774,939	Oct. 25, 2024	\$0.030	\$2,933	\$182,839	6.42%

Notes:

(1) As at record date.

(2) As at payment date.

(3) Dividends paid multiplied by 4 and divided by the market capitalization.

On November 20, 2024, the Company's Board of Directors approved a quarterly base dividend of \$0.025 per share to be paid on December 27, 2024 to the Company's shareholders of record on December 13, 2024.

Further payments of dividends 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.

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 announced its 2024 guidance on January 25, 2024. The Company's Board of Directors approved a 2024 capital expenditure program of \$21 million, of which the entire capital program is expected to be funded by Hemisphere's projected 2024 Adjusted Funds Flow of \$40 million and annual Free Funds Flow ("FFF") of \$19 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 and nine months ended September 30, 2024 were \$6.9 million and \$14.0 million, respectively (\$3.3 million and \$10.0 million cash used in financing activities for the three and nine months ended September 30, 2023, respectively). For the three months ended September 30, 2024, the financing expenditures included dividends issued totaling \$5.4 million, shares repurchased under the NCIB totaling \$1.3 million, and lease liability payments of \$0.4 million, less \$75 thousand in stock option exercises. For the nine months ended September 30, 2024, the financing expenditures included dividends issued totaling \$10.3 million, shares purchased under the NCIB totaling \$4.2 million, plus lease liability payments of \$0.7 million, less \$1.3 million in stock option exercises.

b) Bank Debt

On July 27, 2021, the Company entered into a two-year committed and extendible term facility with a Canadian Bank (the "Lender") providing for borrowings of up to \$35.0 million (the "Credit Facility").

The Credit Facility had a renewed term date of May 31, 2024. Following the completion of its annual bank review, the term date was extended to May 31, 2025. 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 is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At September 30, 2024, 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 derivative financial instruments, decommissioning obligations, and lease liabilities, adjusted for tax provision, 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 3.29 to 1.00 as at September 30, 2024.

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 next annual renewal of the available lending limit of the Credit Facility is scheduled for review by May 31, 2025 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)	2024	2025	2026	2027	2028	Total
Office & equipment leases	\$ 22	40	5	3	-	70
Surface leases	19	71	26	26	26	168
Production equipment leases	264	1,056	1,050	982	927	4,279
	\$ 305	1,167	1,081	1,011	953	4,517

Off-Balance Sheet Arrangements

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

Proposed Transactions

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

Changes in Accounting Policies

Except as disclosed below, 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.

New accounting policies

Effective January 1, 2024, the Company adopted amendments to IAS 1 Presentation of Financial Statements, which was issued by the IASB in January 2020. The amendments clarify the requirements for the presentation of liabilities as current or non-current in the statements of financial position. These amendments do not have a material impact on the Company's financial statements.

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.sedarplus.ca. 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 may ultimately not be 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, 2023.

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:

<i>(\$000s)</i>	September 30, 2024	December 31, 2023
Accounts receivable		
Marketing receivables	\$ 7,964	\$ 4,525
Trade receivables	248	1,206
Receivables from joint ventures	27	20
Reclamation deposits	116	116
	\$ 8,355	\$ 5,867

The Company sells the majority of its oil production to three 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 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 September 30, 2024, the Company had working capital (a non-IFRS measure calculated as current assets, less current liabilities, excluding the derivative financial instruments, lease and decommissioning obligations, adjusted for tax provision and including any bank debt) of \$6.5 million (December 31, 2023 - \$3.6 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 minimal 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 ii) some of the Company's leases are transacted in USD. 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 tax provision and 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:

(\$000s, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Cash provided by operating activities	\$ 16,782	\$ 12,340	\$ 34,260	\$ 30,744
Change in non-cash working capital	(2,734)	(714)	8,091	(3,007)
Adjust: Tax provision ⁽¹⁾	(2,338)	-	(7,006)	-
Adjust: Decommissioning obligation expenditures	7	87	36	379
Adjusted funds flow from operations	\$ 11,717	\$ 11,713	\$ 35,381	\$ 28,116
Per share, basic	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.28
Per share, diluted	\$ 0.12	\$ 0.11	\$ 0.35	\$ 0.27

(1) Provision for income taxes deferred under new corporate partnership structure effective as of January 2, 2024.

- b) **Free funds flow (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.

(\$000s, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Adjusted funds flow from operations	\$ 11,717	\$ 11,713	\$ 35,381	\$ 28,116
Capital expenditures	(9,902)	(8,725)	(18,529)	(14,721)
Free funds flow	\$ 1,815	\$ 2,988	\$ 16,852	\$ 13,395
Per share, basic and diluted	\$ 0.02	\$ 0.03	\$ 0.17	\$ 0.13

- 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:

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Cash used in investing activities	\$ 5,178	\$ 7,898	\$ 13,769	\$ 15,711
Change in non-cash working capital	4,724	827	4,760	(990)
Capital expenditures	\$ 9,902	\$ 8,725	\$ 18,529	\$ 14,721

- 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 gain (loss) on derivative financial instruments 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 derivative financial instruments, decommissioning obligations, and lease liabilities, adjusted for tax provision 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:

(\$000s)	As at September 30, 2024		As at December 31, 2023	
Current assets ⁽¹⁾	\$	22,943	\$	14,110
Current liabilities ⁽¹⁾		(9,487)		(10,521)
Adjust: Tax provision ⁽²⁾		(7,006)		-
Working capital	\$	6,450	\$	3,589

Notes:

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

(2) Provision for income taxes deferred under new corporate partnership structure effective as of January 2, 2024.

g) **Supplementary Financial Measures and Non-IFRS Ratios**

"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 expenses, 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 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 may contain 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's 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.sedarplus.ca. 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 of 2024 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 IFRS Accounting 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.

2024 Adjusted Funds Flow and Annual Free Funds Flow Assumptions

Annual average production of 3,400 boe/d (99% heavy crude oil) at WTI US\$75/bbl, paired with WCS Differential of US\$15.50/bbl, Foreign Exchange of 1.35, and average quality adjustment of C\$7.50/bbl; Operating and Transportation costs of \$14.85/boe; Interest costs of \$0.06/boe; G&A costs of \$3.65/boe; Royalties and GORRs of 20% at WTI US \$75/bbl; hedging losses of \$0.09/boe; and estimated tax provisions.

MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

Management is responsible for the preparation of the consolidated 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 consolidated 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 the consolidated financial statements with management. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Vancouver, British Columbia
November 20, 2024

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION*(Expressed in Canadian dollars)**(Unaudited)*

<i>(\$000s)</i>	Note	September 30, 2024	December 31, 2023
Assets			
Current assets			
Cash and cash equivalents		\$ 13,725	\$ 7,189
Accounts receivable	3(a)	8,239	5,751
Prepaid expenses		979	1,170
Derivative financial instruments		-	208
		22,943	14,318
Non-current assets			
Reclamation deposits	8	116	116
Exploration and evaluation assets	6	3,102	2,161
Property and equipment	7	85,835	74,142
Total assets		\$ 111,996	\$ 90,737
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 9,487	\$ 3,298
Current tax provision		-	7,224
Current portion of lease liabilities	11	930	702
Current portion of decommissioning obligations	8	184	184
Derivative financial instruments	3(c)	59	-
		10,660	11,408
Non-current liabilities			
Lease liabilities	11	3,235	2,702
Deferred tax liability		17,365	8,972
Decommissioning obligations	8	6,963	6,432
		38,223	29,514
Shareholders' Equity			
Share capital	12	61,414	63,164
Contributed surplus		5,291	6,415
Retained earnings (Deficit)		7,068	(8,356)
Total shareholders' equity		73,773	61,223
Total liabilities and shareholders' equity		\$ 111,996	\$ 90,737

Commitments Note 13Subsequent 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

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)

(Unaudited)

(\$000s, except per share amounts)	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2024	2023	2024	2023
Revenue					
Oil and natural gas revenue	5	\$ 26,675	\$ 24,342	\$ 76,574	\$ 62,049
Royalties		(5,841)	(5,069)	(16,040)	(12,386)
		20,834	19,273	60,534	49,663
Realized loss on derivative financial instruments		(178)	(228)	(175)	(637)
Unrealized gain (loss) on derivative financial instruments	3(c)	209	(98)	(268)	22
Net revenue		20,865	18,947	60,091	49,048
Expenses					
Production and operating		5,251	3,413	14,142	11,337
Exploration and evaluation	6	37	29	130	87
Depletion and depreciation	7	2,773	2,208	7,667	6,538
General and administrative		1,282	1,178	3,453	2,870
Share-based payments	12(c)	6	46	19	90
Impairment of exploratory assets	6	-	642	-	642
Finance expense	9	118	176	491	645
Foreign exchange loss		1	19	35	16
Total expenses		9,468	7,711	25,937	22,225
Income before taxes		11,397	11,236	34,154	26,823
Current income tax expense		-	(2,595)		(6,190)
Deferred income tax expense		(2,801)	(176)	(8,393)	(420)
Net income and comprehensive income for the period		\$ 8,596	\$ 8,465	\$ 25,761	\$ 20,213
Net income per share, basic and diluted	12(d)	\$ 0.09	\$ 0.06	\$ 0.26	\$ 0.20

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY*(Expressed in Canadian dollars)**(Unaudited)*

<i>(\$000s, except per share amounts)</i>	Note	Number common shares	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance at December 31, 2022		101,978,939	\$ 67,138	\$ 5,330	\$ (19,468)	\$ 53,000
Stock option exercise	12(c)	550,000	66	-	-	66
Share-based compensation	12(c)	-	-	1,140	-	1,140
Transfer on option exercise	12(b)	-	55	(55)	-	-
Shares repurchased under NCIB	12(b)	(3,188,600)	(4,095)	-	-	(4,095)
Dividends	12(e)	-	-	-	(13,083)	(13,083)
Net income for the year		-	-	-	24,195	24,195
Balance at December 31, 2023		99,340,339	\$ 63,164	\$ 6,415	\$ (8,356)	\$ 61,223
Balance at December 31, 2023		99,340,339	\$ 63,164	\$ 6,415	\$ (8,356)	\$ 61,223
Stock option exercise	12(c)	1,339,400	1,270	-	-	1,270
Share-based compensation	12(c)	-	-	19	-	19
Transfer on option exercise	12(b)	-	1,143	(1,143)	-	-
Shares repurchased under NCIB	12(b)	(2,659,700)	(4,163)	-	-	(4,163)
Dividends	12(e)	-	-	-	(10,337)	(10,337)
Net income for the period		-	-	-	25,761	25,761
Balance at September 30, 2024		98,020,039	\$ 61,414	\$ 5,291	\$ 7,068	\$ 73,773

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

CONDOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

(Unaudited)

(\$000s)	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2024	2023	2024	2023
Operating activities					
Net income for the period		\$ 8,596	\$ 8,465	\$ 25,761	\$ 20,213
Items not affecting cash:					
Accretion of decommissioning costs	8	50	49	149	147
Deferred tax expense		2,801	176	8,393	420
Depletion and depreciation	7	2,773	2,208	7,667	6,538
Exploration and evaluation expense	6	37	29	130	87
Share-based payments	12(c)	6	46	19	90
Unrealized loss (gain) on derivative financial instruments	3(c)	(208)	98	268	(21)
Impairment		-	642	-	642
		14,055	11,713	42,387	28,116
Decommissioning obligation expenditures	8	(7)	(87)	(36)	(379)
Changes in non-cash working capital	14	2,734	714	(8,091)	3,007
Cash provided by operating activities		16,782	12,340	34,260	30,744
Investing activities					
Exploration and evaluation expenditures	6	(3,408)	(1,007)	(9,817)	(1,836)
Property and equipment expenditures	7	(6,494)	(7,718)	(8,712)	(12,885)
Changes in non-cash working capital	14	4,724	827	4,760	(990)
Cash used in investing activities		(5,178)	(7,898)	(13,769)	(15,711)
Financing activities					
Shares issued for stock options, cash exercise	12(b)	75	51	1,270	51
Shares repurchased under NCIB	12(b)	(1,267)	(639)	(4,163)	(2,010)
Dividends	12(e)	(5,399)	(2,525)	(10,337)	(7,593)
Payment of lease liabilities, net		(350)	(161)	(725)	(472)
Cash used in financing activities		(6,941)	(3,274)	(13,955)	(10,024)
Net change in cash		4,663	1,168	6,536	5,009
Cash and cash equivalents at beginning of period		9,062	3,993	7,189	152
Cash and cash equivalents at end of period		\$ 13,725	\$ 5,161	\$ 13,725	\$ 5,161

Supplemental cash flow information (Note 14)

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2024 and 2023

(Expressed in Canadian Dollars)

(Unaudited)

1. Nature and Continuance of Operations

Hemisphere Energy Corporation ("HEC") was incorporated under the laws of British Columbia on March 6, 1978. On January 2, 2024, HEC formed a wholly-owned subsidiary, Hemi Energy Inc. ("HEI"). On January 2, 2024, HEC and HEI formed two general partnerships under the laws of Alberta; Hemi Energy Partnership, which owns substantially all of the Company's producing assets, and Hemi Energy Partnership II, which may be used to hold other assets of the Company in the future. Unless the context otherwise requires, references to Hemisphere or the Company include all subsidiaries of HEC.

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 West Pender Street, Vancouver, British Columbia, Canada V6C 1L6.

2. Basis of Presentation

(a) Statement of compliance

These unaudited consolidated interim financial statements ("Consolidated Financial Statements") have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" of IFRS Accounting Standards ("IFRS").

These Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the audited annual financial statements of the Company for the year ended December 31, 2023. These Consolidated Financial Statements should be read in conjunction with the audited financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2023.

These Consolidated Financial Statements were authorized for issuance by the Board of Directors on November 20, 2024.

(b) Basis of valuation

These Consolidated Financial Statements have been prepared on a historical cost basis, except for derivative financial instruments, which are stated at their fair values.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of these Consolidated 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 period in which the estimates are revised and in any future periods 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 3.

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 – 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 – 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 involve 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 has been fairly stable as the global economy has relatively steadied. Energy prices strengthened due to elevated

uncertainty of global oil and natural gas supply after Russia's invasion of Ukraine and tensions in the Middle East, 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 geopolitical events that have been considered in our estimates as at and for the period ended September 30, 2024.

To the extent that 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, 2023.

(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.

(g) New accounting policies

Effective January 1, 2024, the Company adopted amendments to IAS 1 Presentation of Financial Statements, which was issued by the IASB in January 2020. The amendments clarify the requirements for the presentation of liabilities as current or non-current in the statements of financial position. These amendments do not have a material impact on the Company's financial statements.

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:

<i>(\$000s)</i>	September 30, 2024	December 31, 2023
Accounts receivable		
Marketing receivables	\$ 7,964	\$ 4,525
Trade receivables	248	1,206
Receivables from joint ventures	27	20
Reclamation deposits	116	116
	\$ 8,355	\$ 5,867

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

(b) Liquidity risk

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

The Company also prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company will also attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

In light of the 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 September 30, 2024, the Company had working capital (a non-IFRS measure calculated as current assets, less current liabilities, excluding the derivative financial instruments, decommissioning obligations, and lease liabilities, adjusted for tax provision and including any bank debt) of \$6.5 million (December 31, 2023 – \$3.6 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

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 Credit Facility are subject to variable interest rates. A one percent change in interest rates would have a minimal effect on net income.

(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 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 ii) some of the Company's leases are transacted in USD. 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 September 30, 2024, the Company held derivative commodity price contracts as follows:

Product	Type	Volume	Price	Index	Term	As at Sep. 30, 2024 Fair Value (\$000s)
Crude oil	Put Spread	350 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$1.95/bbl	WTI-NYMEX	Oct. 1, 2024 – Dec. 31, 2024	(56)
Crude oil	Put Spread	350 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$2.15/bbl	WTI-NYMEX	Jan. 1, 2025 – Mar. 31, 2025	(21)
Crude oil	Collar	175 bbl/d	US\$50.00(put buy)/ US\$90.50(call sell)/bbl	WTI-NYMEX	Apr. 1, 2025 – Jun. 30, 2025	18
						(59)

At September 30, 2024, the commodity contracts were fair valued as a liability of \$59 thousand recorded on the balance sheet, and an unrealized gain of \$209 thousand for the three-month period ended September 30, 2024, and an unrealized loss of \$268 thousand for the nine-month period ended September 30, 2024 (September 30, 2023 – loss of \$98 thousand for the three-month period and a gain of \$21 thousand for the nine-month period).

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is comprised of working capital, shareholders' equity, and bank debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, and issuing new debt instruments, 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 period.

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 September 30, 2024, production revenue sold to customers was comprised of three marketers which account for \$7.6 million of the accounts receivable balance.

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

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Heavy crude oil	\$ 26,668	\$ 24,309	\$ 76,527	\$ 61,939
Conventional natural gas	7	33	47	110
Total	\$ 26,675	\$ 24,342	\$ 76,574	\$ 62,049

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 nine months ended September 30, 2024, the Company transferred \$8.7 million (December 31, 2023 - \$nil) to property and equipment, and recognized exploration and evaluation expense of \$130 thousand (December 31, 2023 - \$124 thousand).

Cost	
(\$000s)	
Balance at December 31, 2022	\$ 168
Additions	2,753
Exploration and evaluation expense	(124)
Impairment	(636)
Balance at December 31, 2023	\$ 2,161
Additions	9,817
Exploration and evaluation expense	(130)
Transfers to property and equipment	(8,746)
Balance at September 30, 2024	\$ 3,102

At December 31, 2023, 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 non-core Alberta E&E assets was required. It was determined that the carrying amount for the non-core Alberta exploration properties exceeded any economic viability and should be recognized as an impairment charge of \$0.6 million.

7. Property and Equipment

Cost (\$000s)	Petroleum and Natural Gas	Right of Use and Other Assets	Total
Balance at December 31, 2022	\$ 137,187	\$ 5,397	\$ 142,584
Additions right-of-use assets	-	103	103
Additions property and equipment	14,109	11	14,120
Increase in decommissioning obligations (Note 8)	907	-	907
Capitalized share-based payments	294	-	294
Balance at December 31, 2023	\$ 152,497	\$ 5,511	\$ 158,008
Additions right-of-use assets	-	1,484	1,484
Additions property and equipment	8,712	-	8,712
Increase in decommissioning obligations (Note 8)	418	-	418
Transfer from exploration and evaluation assets (Note 6)	8,746	-	8,746
Balance at September 30, 2024	\$ 170,373	\$ 6,995	\$ 177,368
Accumulated Depletion, Depreciation, Amortization and Impairment Losses			
Balance at December 31, 2022	\$ 69,543	\$ 1,126	\$ 70,669
Depletion and depreciation for the year	8,209	808	9,017
Impairment	4,179	-	4,179
Balance at December 31, 2023	\$ 81,932	\$ 1,934	\$ 83,866
Depletion and depreciation for the period	6,988	679	7,667
Balance at September 30, 2024	\$ 88,920	\$ 2,613	\$ 91,533
Net Book Value			
December 31, 2023	\$ 70,565	\$ 3,577	\$ 74,142
September 30, 2024	\$ 81,453	\$ 4,382	\$ 85,835

The Company's additions for property and equipment included capitalized general and administrative expenses of \$1.1 million for the nine months ended September 30, 2024 (September 30, 2023 - \$0.9 million).

The calculation of depletion at September 30, 2024 includes estimated future development costs of \$47.3 million (year ended December 31, 2023 - \$60.6 million) associated with the development of the Company's Proved plus Probable reserves.

At September 30, 2024, 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, 2023, the Company performed an assessment of potential impairment indicators on each of its CGUs. The Company identified an indicator of impairment at December 31, 2023 in its Jenner CGU and performed an impairment test to estimate the recoverable amount of this CGU. The value in use method was used for this CGU to determine its recoverable amount of \$nil as at December 31, 2023. Accordingly, the Company recognized an impairment charge of \$4.2 million as at December 31, 2023. No impairment triggers were recognized for Atlee Buffalo CGU.

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 September 30, 2024 to be \$8.9 million (December 31, 2023 - \$8.3 million), and \$14.6 million with inflation (December 31, 2023 - \$13.6 million). These payments are expected to be made over the next 37 years.

The discount factor as at September 30, 2024, being the risk-free rate related to the liability, is 3.00% (December 31, 2023 – 3.00%). Inflation of 2.00% (December 31, 2023 – 2.00%) has also been factored into the calculation of amounts in the table below. The Company also has \$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 at September 30, 2024 (December 31, 2023 - \$116 thousand).

(\$000s)	Nine Months Ended September 30, 2024	Year Ended December 31, 2023
Decommissioning obligations at beginning of period	\$ 6,616	\$ 5,948
Increase in estimated future obligations	418	4,352
Change in estimate	-	(3,445)
Payment of decommissioning obligations	(36)	(436)
Accretion expense	149	197
Decommissioning obligations at end of period	\$ 7,147	\$ 6,616
Current portion	184	184
Long-term portion	6,963	6,432

9. Finance Expenses

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Finance expense:				
Loan interest	\$ 136	\$ 69	\$ 375	\$ 320
Lease interest	65	58	171	178
Interest income	(133)	-	(204)	-
Accretion of decommissioning liabilities	50	49	149	147
Total	\$ 118	\$ 176	\$ 491	\$ 645

10. Bank Debt

On July 27, 2021, the Company entered into a two-year committed and extendible term facility with a Canadian Bank (the "Lender") providing for borrowings of up to \$35.0 million (the "Credit Facility").

The Credit Facility had a renewed term date of May 31, 2024. Following the completion of its annual bank review, the term date was extended to May 31, 2025. 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 is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At September 30, 2024, 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 derivative 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 3.29 to 1.00 as at June 30, 2024.

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 next annual renewal of the available lending limit of the Credit Facility is scheduled for review by May 31, 2025 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.

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 September 30, 2024:

<i>(\$000s)</i>		
Balance at December 31, 2022	\$	3,937
Lease additions (Note 7)		103
Interest expense		234
Lease payments		(870)
Balance at December 31, 2023	\$	3,404
Lease additions (Note 7)		1,485
Interest expense		171
Lease payments		(895)
Balance at September 30, 2024	\$	4,165
Current portion	\$	930
Long-term portion		3,235

12. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

As at September 30, 2024, the Company had the following common shares issued and outstanding:

Common Shares	Shares	Value <i>(\$000s)</i>
Balance at December 31, 2022	101,978,939	\$ 67,138
Shares repurchased and cancelled (NCIB)	(3,188,600)	(4,095)
Shares issued for stock option exercises	550,000	66
Transfer on stock option exercise	-	55
Balance at December 31, 2023	99,340,339	\$ 63,164
Shares repurchased and cancelled (NCIB)	(2,659,700)	(4,163)
Shares issued for stock option exercises	1,339,400	1,270
Transfer on stock option exercise	-	1,143
Balance at September 30, 2024	98,020,039	\$ 61,414

On July 14, 2023, the Company renewed its normal course issuer bid ("NCIB") to purchase and cancel, from time to time, up to 8,670,636 common shares of the Company until July 13, 2024.

On July 14, 2024, the Company renewed its normal course issuer bid ("NCIB") to purchase and cancel, from time to time, up to 8,255,766 common shares of the Company until July 13, 2025. During the nine months ended September 30, 2024, the Company repurchased and cancelled 2,659,700 shares under the NCIB for \$4.2 million at an average cost of \$1.57 per share.

(c) 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 up to 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 September 30, 2024 are as follows:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2023	Changes in the Period			Balance Outstanding Sep. 30, 2024	Balance Exercisable Sep. 30, 2024
				Granted	Exercised	Expired/ Cancelled		
\$0.12	17-Jun-20	17-Jun-25	485,000	-	(175,000)	-	310,000	310,000
\$0.91	17-Dec-21	17-Dec-31	1,690,000	-	(664,400)	-	1,025,600	1,025,600
\$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	-	(300,000)	-	2,850,000	2,850,000
\$1.25	11-Sep-23	11-Sep-33	50,000	-	-	-	50,000	50,000
\$1.27	15-Dec-23	15-Dec-28	1,988,000	-	(200,000)	-	1,788,000	1,776,000
			7,563,000	-	(1,339,400)	-	6,223,600	6,211,600
Weighted-average exercise price per share			\$1.13	-	\$0.75	-	\$1.17	\$1.17

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 nine months ended September 30, 2024, the Company recorded total share-based payments of \$19 thousand, for stock options that vested, compared to \$90 thousand for the same period in 2023.

(d) Income per share

	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Income (loss) for the period (\$000s)	\$ 8,596	\$ 8,465	\$ 25,761	\$ 20,213
Weighted-average number of common shares outstanding, basic	98,439,815	100,909,806	98,339,425	101,299,916
Dilutive stock options	2,125,462	1,035,779	1,768,908	1,049,564
Weighted-average number of common shares outstanding, diluted	100,565,277	101,945,585	100,108,333	102,349,480
Income per share, basic and diluted	\$ 0.09	\$ 0.08	\$ 0.26	\$ 0.20

For the three and nine months ended September 30, 2024, the Company had dilutive stock options of 2,125,462 and 1,768,908, respectively. For the comparable periods in 2023 the Company had dilutive stock options of 1,035,779 and 1,049,564, respectively.

(e) Dividends

During the nine months ended September 30, 2024, the Company paid the following dividends to shareholders in accordance with the Company's dividend policy:

Dividend type	Record date	Shares outstanding ⁽¹⁾	Payment date	Dividend price per share	Dividends paid (\$000s)
Base	Feb. 9, 2024	98,843,539	Feb. 23, 2024	\$0.025	\$2,471
Base	Jun. 20, 2024	98,673,439	Jun. 28, 2024	\$0.025	\$2,467
Special	Jul. 12, 2024	98,366,839	Jul. 26, 2024	\$0.030	\$2,951
Base	Aug. 30, 2024	97,937,039	Sep. 13, 2024	\$0.025	\$2,448

Note:

(1) As at record date.

13. Commitments

(\$000s)	2024	2025	2026	2027	2028	Total
Office & equipment leases	\$ 22	40	5	3	-	70
Surface leases	19	71	26	26	26	168
Production equipment leases	264	1,056	1,050	982	927	4,279
	\$ 305	1,167	1,081	1,011	953	4,517

14. Supplemental Cash Flow Information

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2024	2023	2024	2023
Provided by (used in):				
Accounts receivable	\$ 1,024	\$ (2,790)	\$ (2,488)	\$ (2,948)
Prepaid expenses	940	(495)	191	(820)
Accounts payable and accrued liabilities	5,494	2,231	6,190	13
Current tax provision	-	2,595	(7,224)	5,772
Total changes in non-cash working capital	\$ 7,458	\$ 1,541	\$ (3,331)	\$ 2,017
Provided by (used in):				
Operating activities	\$ 2,734	\$ 714	\$ (8,091)	\$ 3,007
Investing activities	4,724	827	4,760	(990)
Total changes in non-cash working capital	\$ 7,458	\$ 1,541	\$ (3,331)	\$ 2,017

Interest paid, including bank fees, on the Company's bank facility during the three and nine months ended September 30, 2024 were \$0.1 million and \$0.4 million, respectively, compared to \$0.1 million and \$0.4 million, respectively, for the equivalent periods in 2023.

15. Subsequent Events

- On October 25, 2024, the Company paid \$2.9 million in special dividends at \$0.03 per share to shareholders of record on October 11, 2024, as announced on September 24, 2024.
- On November 20, 2024, the Company's Board of Directors approved a quarterly base dividend of \$0.025 per share to be paid on December 27, 2024 to the Company's shareholders of record on December 13, 2024.
- As at November 20, 2024, the Company has repurchased and cancelled an additional 489,500 shares under the NCIB for \$0.9 million at an average cost of \$1.82 per share.
- Subsequent to the quarter ended September 30, 2024, the Company entered into the following commodity price contract:

Product	Type	Volume	Price	Index	Term
Crude oil	Collar	175 bbl/d	US\$50.00(put buy)/US\$79.55(call sell)/bbl	WTI-NYMEX	Jul. 1, 2025 – Sep. 30, 2025



Hemisphere ENERGY

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President & Chief Executive Officer

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Ashley Ramsden-Wood, P.Eng.
Chief Development Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

BOARD OF DIRECTORS

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Frank Borowicz, KC, CA (Hon)⁽¹⁾⁽²⁾

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Don Simmons, P.Geol.⁽³⁾

Gregg Vernon, P.Eng.⁽²⁾

Richard Wyman, B.Sc., MBA⁽¹⁾⁽³⁾

⁽¹⁾ Audit Committee

⁽²⁾ Compensation/Nominating & Corporate Governance Committee

⁽³⁾ Reserves Committee

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