

MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

Management is responsible for the preparation of the financial statements and the consistent presentation of all other financial information that is publicly disclosed. The financial statements have been prepared in accordance with the accounting policies detailed in the notes to the financial statements and in accordance with IFRS and include estimates and assumptions based on management's best judgment. Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner.

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

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

Vancouver, British Columbia
November 17, 2022

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

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

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

<i>(\$000s)</i>	Note	September 30, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents		\$ 234	\$ -
Accounts receivable	3(a)	5,470	4,221
Prepaid expenses		1,196	592
Fair value of financial instruments	3(c)	-	433
		6,900	5,246
Non-current assets			
Reclamation deposits	8	116	116
Exploration and evaluation assets	6	1,354	568
Property and equipment	7	67,927	61,189
Total assets		\$ 76,297	\$ 67,119
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 6,291	\$ 7,223
Current tax provision		1,330	-
Current portion of lease liabilities	12	106	403
Warrant liability	11	-	5,145
Fair value of financial instruments	3(c)	34	1,782
		7,761	14,553
Non-current liabilities			
Bank debt	10	-	15,505
Lease liabilities	12	3,983	2,182
Deferred tax liability		6,101	-
Decommissioning obligations	8	8,068	9,070
		25,913	41,310
Shareholders' Equity			
Share capital	13	67,898	56,500
Contributed surplus		2,870	2,634
Deficit		(20,38)	(33,325)
Total shareholders' equity		50,384	25,809
Total liabilities and shareholders' equity		\$ 76,297	\$ 67,119

Commitments Note 14

Subsequent events Note 16

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

Approved by the Board of Directors

(signed) "Bruce McIntyre"

Bruce McIntyre, Director

(signed) "Don Simmons"

Don Simmons, Director

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME*(Expressed in Canadian dollars)**(Unaudited)*

<i>(\$000s, except per share amounts)</i>	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2022	2021	2022	2021
Revenue					
Oil and natural gas revenue	5	\$ 23,672	\$ 10,432	\$ 77,135	\$ 28,408
Royalties		(6,386)	(2,101)	(20,061)	(4,773)
		17,286	8,331	57,074	23,635
Realized loss on financial instruments		(734)	(938)	(6,744)	(1,835)
Unrealized gain (loss) on financial instruments	3(c)	3,076	302	1,314	(2,964)
Net revenue		19,628	7,695	51,644	18,836
Expenses					
Production and operating		4,098	2,298	9,729	5,830
Exploration and evaluation	6	20	13	64	42
Depletion and depreciation	7	2,013	1,032	5,798	3,056
General and administrative		1,230	718	2,754	2,183
Share-based payments	13(c)	-	-	64	-
		7,361	4,061	18,409	11,111
Results from operating activities		12,267	3,634	33,235	7,725
Finance expense	9	(254)	(715)	(7,656)	(7,234)
Foreign exchange loss		(47)	(610)	(84)	(9)
Net income before tax		11,966	2,309	25,495	482
Current income tax provision		(357)	-	(1,330)	-
Deferred income tax expense		(2,294)	-	(6,101)	-
Net income and comprehensive income for the period		\$ 9,315	\$ 2,309	\$ 18,064	\$ 482
Net income per share, basic	13(d)	\$ 0.09	\$ 0.03	\$ 0.18	\$ 0.01
Net income per share, diluted	13(d)	\$ 0.09	\$ 0.02	\$ 0.18	\$ 0.01

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

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

(Unaudited)

<i>(\$000s, except share amounts)</i>	Note	Number common shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, December 31, 2021		91,289,653	\$ 56,500	\$ 2,634	\$ (33,325)	\$ 25,809
Stock option exercise	13(c)	4,624,000	1,163	-	-	1,163
Share-based compensation	13(c)	-	-	236	-	236
Shares repurchased under NCIB	13(b)	(1,106,200)	(1,693)	-	-	(1,693)
Warrant exercise - cashless	13	8,302,686	11,928	-	-	11,928
Dividends	13(e)	-	-	-	(5,123)	(5,123)
Net income for the period		-	-	-	18,064	18,064
Balance, September 30, 2022		103,110,139	\$ 67,898	\$ 2,870	\$ (20,384)	\$ 50,384

Comparison with nine months ended September 30, 2021:

<i>(\$000s, except share amounts)</i>	Note	Number common shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, December 31, 2020		86,782,302	\$ 54,342	\$ 1,209	\$ (39,243)	\$ 16,308
Stock option exercise	13(c)	1,985,000	197	-	-	197
Shares repurchased under NCIB	13(b)	(537,500)	(164)	-	-	(164)
Net income for the period		-	-	-	482	482
Balance, September 30, 2021		88,229,802	\$ 54,375	\$ 1,209	\$ (38,761)	\$ 16,823

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

CONDENSED STATEMENTS OF CASH FLOWS*(Expressed in Canadian dollars)**(Unaudited)*

(\$000s)	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2022	2021	2022	2021
Operating activities					
Net income for the period		\$ 9,315	\$ 2,309	\$ 18,064	\$ 482
Items not affecting cash:					
Accretion of debt issuance costs	9	-	18	-	128
Accretion of decommissioning costs	9	38	26	115	77
Amortization of deferred charges	9	-	167	-	265
Deferred tax expense		2,294	-	6,101	-
Change in fair value of warrant liability	9	-	(645)	6,783	4,536
Depletion and depreciation	7	2,013	1,032	5,798	3,056
Exploration and evaluation expense	6	20	13	64	42
Share-based payments		-	-	64	-
Term loan settlement costs		-	769	-	769
Unrealized loss (gain) on financial instruments	3(c)	(3,076)	(302)	(1,314)	2,965
Unrealized loss on foreign exchange	3(c)	-	661	-	-
		10,604	4,048	35,675	12,320
Decommissioning obligation expenditures	8	-	-	(115)	(38)
Changes in non-cash working capital	15	2,355	1,425	536	1,135
Cash provided by operating activities		12,959	5,473	36,096	13,417
Investing activities					
Exploration and evaluation expenditures	6	(287)	(530)	(881)	(675)
Property and equipment expenditures	7	(4,311)	(2,790)	(11,294)	(5,601)
Changes in non-cash working capital	15	(1,620)	2,034	(1,992)	2,139
Cash used in investing activities		(6,218)	(1,286)	(14,167)	(4,137)
Financing activities					
Shares issued for stock options, cash exercise	13(b)	261	63	1,163	197
Shares repurchased under NCIB	13(a)	(611)	-	(1,693)	(164)
Dividends	13(d)	(2,567)	-	(5,123)	-
Change in bank debt	10	(3,529)	16,234	(15,505)	16,233
Repayment of term loan		-	(22,472)	-	(25,876)
Payment of lease liabilities, net		(149)	(21)	(537)	(61)
Cash used in financing activities		(6,595)	(6,196)	(21,695)	(9,671)
Net change in cash		146	(2,009)	234	(391)
Cash, beginning of period		88	2,053	-	435
Cash, end of period		\$ 234	\$ 44	\$ 234	\$ 44

Supplemental cash flow information (Note 15)

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

1. Nature and Continuance of Operations

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

2. Basis of Presentation

(a) Statement of compliance

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

These condensed interim 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, 2021. These condensed interim Financial Statements should be read in conjunction with the financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2021.

These Financial Statements were authorized for issuance by the Board of Directors on November 17, 2022.

(b) Basis of valuation

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

Estimates and their underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Reserve estimation including engineering data, geological and geophysical data, projected future rates of production, commodity pricing, operating costs and timing of future expenditures, are subject to significant judgment and interpretation. These estimates are a critical part of many of the estimated amounts and calculations contained in the financial statements. These estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations. These determinations are updated at least on an annual basis.

As part of its capital management process the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company. See further discussions relating to liquidity in Note 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) Impairment testing – internal and external sources of information including petroleum and natural gas prices, expected production volumes, expected royalty rates and operating costs, anticipated recoverable quantities of proved and probable reserves and rates used to discount future cash flow estimates. Judgment is required to assess these factors when determining if the carrying amount of an asset is impaired, or in the case of previously impaired asset, whether the carrying amount of the asset has been restored.
- (ii) Depletion and depreciation – oil and natural gas reserves, including future prices, costs and reserve base to use on calculation of depletion.
- (iii) Decommissioning obligations – estimates relating to amounts, likelihood, timing, inflation and discount rates.
- (iv) Share-based payments – expected life of the options, risk-free rate of return and stock price volatility
- (v) Financial instruments
 - i. The estimated fair values of the Company's financial derivative commodity contracts are subject to measurement uncertainty due to the estimation of future crude oil and natural gas commodity prices, foreign exchange rates and volatility.
 - ii. The estimated fair value of the warrant liability, which is considered a financial instrument, uses the Black & Scholes valuation model which is based on assumptions including volatility, risk-free interest rate and the expected term.
- (vi) Warrants and stock options
The estimated fair value of the warrants issued as part of the term loan and stock options issued under the Company's stock option plans were based on the Black & Scholes pricing model incorporating assumptions on volatility, risk-free interest rate, forfeiture rate and the expected term.

- (vii) Determinations of cash generating units ("CGUs") – geographic location, commodity type, reservoir characteristics and lowest level of cash inflows.
 - (viii) Determining the technical feasibility and commercial viability of exploration and evaluation assets.
 - (ix) Business combinations - estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of petroleum and natural gas properties based upon the estimation of recoverable quantities of Proved and Probable reserves being acquired
 - (x) Provisions - exercise of significant judgment and estimates of the outcome of future events.
- (e) COVID-19 Risk

During the nine months ended September 30, 2022, demand for oil and natural gas continued to increase as the global economy continued to recover from the novel strain of the coronavirus ("COVID-19") pandemic. Energy prices strengthened to multiyear highs due to elevated uncertainty of global oil and natural gas supply after Russia's invasion of Ukraine, in addition to restricted oil and gas investment globally. While the Company has benefited from the improvement in commodity prices, there is a degree of uncertainty related to COVID-19 and geopolitical events that have been considered in our estimates as at and for the period ended September 30, 2022.

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 herein and Hemisphere's Annual Information Form for the year ended December 31, 2021.

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, 2022	December 31, 2021
Accounts receivable		
Marketing receivables	\$ 5,325	\$ 3,983
Trade receivables	112	202
Receivables from joint ventures	33	36
Reclamation deposits	116	116
	\$ 5,586	\$ 4,336

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

(b) Liquidity risk

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

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

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

At September 30, 2022, the Company had net debt (current assets, less current liabilities excluding fair value of financial instruments, lease and warrant liabilities, and including bank debt) of \$0.7 million (December 31, 2021 - \$18.0 million). The Company funds its operations through operating cash flows and a committed \$35.0 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 Bank Loan are subject to variable interest rates. A one percent change in interest rates would have a \$nil effect on the net income for 2022.

(ii) Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar. The Company does not sell or transact in any foreign currency; except; i) the Company's commodity prices are largely denominated in United States dollars ("USD"), and as a result, the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. For the exchange rate effect, generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales, and vice versa; ii) the Company's Term Loan, which was repaid on July 27, 2021 (see note 12), was denominated in USD, and as result, the amount that the Company was obligated to repay at the term of the loan was affected by fluctuations in the exchange rate between the USD and the Canadian dollar at that time. A 100 basis points change in the foreign exchange rate would have a \$nil effect on the net income for 2022.

(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 adjusted funds flow from operations and ability to raise capital.

At September 30, 2022, the Company held derivative commodity price contracts as follows:

Product	Type	Volume	Price	Index	Term	Sep. 30, 2022
						Fair Value (\$000s)
Crude oil	Swap	200 bbl/d	US\$13.80	WCS Differential	Jun. 1, 2022 – Dec. 31, 2022	243
Crude oil	Swap	200 bbl/d	US\$21.00	WCS Differential	Aug. 1, 2022 – Dec. 31, 2022	2
Crude oil	Swap	200 bbl/d	US\$21.00	WCS Differential	Aug. 1, 2022 – Dec. 31, 2022	2
Crude oil	Put Spread	125 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$3.75/bbl	WTI-NYMEX	Sep. 1, 2022 – Dec. 31, 2022	(37)
Crude oil	Put Spread	275 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$3.75/bbl	WTI-NYMEX	Oct. 1, 2022 – Dec. 31, 2022	(112)
Crude oil	Sold Call	275 bbl/d	US\$100.00(call sell), net premium US\$3.75/bbl	WTI-NYMEX	Oct. 1, 2022 – Dec. 31, 2022	101
Crude oil	3-Way	300 bbl/d	US\$50.00(put)/US\$60.00(put)/US\$85(call)	WTI-NYMEX	Oct. 1, 2022 – Dec. 31, 2022	(88)
Crude oil	Put Spread	750 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$2.50/bbl	WTI-NYMEX	Jan. 1, 2023 – Mar. 31, 2023	(50)
Crude oil	Put Spread	500 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$2.95/bbl	WTI-NYMEX	Apr. 1, 2023 – Jun. 30, 2023	(7)
Crude oil	Put Spread	500 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$3.70/bbl	WTI-NYMEX	Jul. 1, 2023 – Sep. 30, 2023	(20)
Total						(\$34)

At September 30, 2022 the commodity contracts were fair valued as a liability of \$34 thousand recorded on the balance sheet, and an unrealized gain of \$3.1 million for the three month period and an unrealized gain of \$1.3 million for the nine month period ended September 30, 2022, respectively (September 30, 2021 – gain of \$0.3 million and loss of \$3.0 million respectively).

(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 return through enhancing the Company's share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is comprised of working capital, shareholders' equity, and bank debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, and issuing new debt instruments, 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, 2022, production revenue sold to customers was comprised of three marketers which account for \$5.3 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	
	2022	2021	2022	2021
Heavy Crude Oil	\$ 23,603	\$ 10,396	\$ 76,905	\$ 28,304
Conventional Natural Gas	69	35	230	104
Total	\$ 23,672	\$ 10,432	\$ 77,135	\$ 28,408

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 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, 2022, the Company transferred \$31 thousand (year ended December 31, 2021 - \$0.9 million) to property plant and equipment, capitalized general and administrative expenses of \$nil (September 30, 2021 - \$nil) to exploration and evaluation assets, and recognized exploration and evaluation expense of \$64 thousand (September 30, 2021 - \$42 thousand).

(\$000s)	
Cost	
Balance, December 31, 2020	\$ 458
Additions	1,056
Exploration and evaluation expense	(64)
Transfer to property, plant and equipment	(882)
Balance, December 31, 2021	\$ 568
Additions	881
Exploration and evaluation expense	(64)
Transfer to property, plant and equipment	(31)
Balance, September 30, 2022	\$ 1,354

7. Property and Equipment

(\$000s)	Petroleum and Natural Gas		Right of Use and Other Assets		Total
Cost					
Balance, December 31, 2020	\$	108,064	\$	676	\$ 108,740
Right-of-use assets		-		2,615	2,615
Additions		10,929		5	10,934
Increase in decommissioning obligations (Note 9)		489		-	489
Capitalized share-based payments		399		-	399
Transfer from exploration and evaluation assets		882		-	882
Balance, December 31, 2021	\$	120,764	\$	3,296	\$ 124,060
Right-of-use assets		-		2,041	2,041
Additions		11,234		60	11,294
Decrease in decommissioning obligations		(1,003)		-	(1,003)
Capitalized share-based payments		173		-	173
Transfer from exploration and evaluation assets		31		-	31
Balance, September 30, 2022	\$	131,199	\$	5,397	\$ 136,596
Accumulated Depletion, Depreciation, Amortization and Impairment					
Balance, December 31, 2020	\$	59,976	\$	319	\$ 60,295
Depletion and depreciation for the year		4,350		139	4,489
Impairment reversal		(1,913)		-	(1,913)
Balance, December 31, 2021	\$	62,413	\$	458	\$ 62,871
Depletion and depreciation for the period		5,327		471	5,798
Balance, September 30, 2022	\$	67,740	\$	929	\$ 68,669
Net Book Value					
December 31, 2021	\$	58,351	\$	2,838	\$ 61,189
September 30, 2022	\$	63,459	\$	4,468	\$ 67,927

The Company's additions for property and equipment included capitalized general and administrative expenses of \$0.9 million for the nine months ended September 30, 2022 (September 30, 2021 - \$0.4 million).

The calculation of depletion at September 30, 2022 includes estimated future development costs of \$40.7 million (Year ended December 31, 2021 - \$50.7 million) associated with the development of the Company's Proved plus Probable reserves.

At September 30, 2022, the Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units (CGUs), and management determined that there were no indicators of impairment or reversal identified. As such no impairment test on its petroleum and natural gas assets was required.

At December 31, 2021, the Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units (CGUs), and management determined that there were indicators of reversal of impairment identified in the Company's Jenner oil CGU, as a result of improved forward commodity prices, and a resultant increase in proved and probable reserves as estimated in the Company's December 31, 2021 independent reserves report. As such, a reversal of \$1.9 million of historical impairment was recorded in the Company's Jenner oil CGU.

The recoverable amounts were determined based on fair value less costs to sell using a discounted cash flow method and categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination

of cash flows from reserves include crude oil and natural gas prices, operating costs, royalties and future development costs, and discount rates specific to the underlying composition of assets residing in each CGU. The pre-tax discount rates ranged from 12% to 35% depending on the nature of the reserves. The following tables show the future commodity price estimates used by the Company's independent reserves evaluator at December 31, 2021:

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

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 discounted and inflated amount of cash flows required to settle its decommissioning obligations as at September 30, 2022 is \$8.1 million (September 30, 2021 - \$8.0 million), and the undiscounted and inflated amount of \$13.9 million (September 30, 2021 - \$11.2 million). These payments are expected to be made over the next 38 years with the majority of costs to be incurred between 2050 and 2060.

The discount factor, being the risk-free rate related to the liability, is 3.10% (September 30, 2021 – 1.20%). Inflation of 2.25% (September 30, 2021 – 1.50%) has also been factored into the calculation of amounts in the table below. The Company also has \$0.1 million (December 31, 2021 - \$0.1 million) in various reclamation bonds for its properties held by the Alberta Energy Regulator and British Columbia Ministry of Energy, Mines and Petroleum Resources.

(\$000s)	Nine Months Ended September 30, 2022	Year Ended December 31, 2021
Decommissioning obligations, beginning of period	\$ 9,070	\$ 8,531
Increase in estimated future obligations	1,480	430
Change in estimate	(2,482)	58
Decommissioning obligations incurred	(115)	(51)
Accretion expense	115	102
Decommissioning obligations, end of period	\$ 8,068	\$ 9,070

9. Finance Expenses

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Finance expense:				
Loan interest	\$ 152	\$ 372	\$ 605	\$ 1,434
Lease interest	64	8	152	25
Change in value of warrant liability	-	(645)	6,783	4,536
Loan transaction costs	-	769	-	769
Accretion of debt issuance costs	-	18	-	128
Amortization of deferred charges	-	167	-	265
Accretion of decommissioning liabilities	38	26	116	77
Total	\$ 254	\$ 715	\$ 7,656	\$ 7,234

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"). As part of entering into the Credit Facility, the Company fully repaid and terminated its former term loan with a third-party lender.

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

As at September 30, 2022, the Company had drawn \$nil million on the Credit Facility. There are standard reporting covenants under the Credit Facility and a financial covenant for the Company to maintain working capital above a ratio of 1.00 to 1.00. Working capital for the covenant is defined as current assets, less current liabilities, excluding fair value of financial instruments and lease and warrant liabilities, plus the undrawn amount available under the credit facility. The Company was in compliance with these standard reporting covenants and the financial covenant with a working capital ratio of 5.42 to 1.00 as at September 30, 2022.

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 semi-annual review date for the Credit Facility is in November 2022. The renewal of the available lending limit of the Credit Facility is based on the Lenders' interpretation of the Company's reserves and future commodity prices. There can be no assurance that the amount or terms of the Credit Facility will not be adjusted at the next semi-annual review. In the event that the lender reduces the Credit Facility's borrowing base below the amount drawn at the time of the redetermination, the Company would have 45 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the redetermined borrowing base. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

11. Warrant Liability

For the nine months ended September 30, 2022, the Company has recognized a remeasurement loss \$6.8 million (\$4.5 million loss for comparable period in 2021). The Company issued 13,750,000 warrants to a third-party lender on September 15, 2017 in conjunction with its term loan. Each warrant entitled the holder to purchase one common share of Hemisphere at an exercise price of \$0.28 per share prior to September 15, 2022. The exercise price of the warrants represented a 40% premium to the 30-day volume weighted average price ("VWAP") of Hemisphere's common shares at market close on September 14,

2017. The warrants were subject to a forced exercise clause which applies upon a 30-day VWAP equaling or exceeding \$1.40 per share and are non-transferable.

During the fourth quarter of 2021, the holder did a cashless exercise of 3,437,500 warrants (25% of the total) at a \$0.846 30-day VWAP resulting in the issuance of 2,299,851 common shares. This resulted in a non-cash loss for warrant revaluation and a transfer from warrant liability to share capital of \$1.9 million. After this exercise, the holder had 10,312,500 exercisable warrants remaining.

On April 15, 2022 the holder did a cashless exercise of the remaining 10,312,500 warrants at a \$1.4367 30-day VWAP resulting in the issuance of 8,302,686 common shares. This resulted in a non-cash loss for warrant revaluation and a transfer from warrant liability to share capital of \$11.9 million. There are no warrants outstanding after this exercise and no warrant liability is recorded following this final exercise.

The warrants were classified as a financial liability as a result of a cashless exercise provision. In no event would the Company be required to settle the warrants through a cash payment. The fair value of the warrants is revalued every quarter using the Black and Scholes pricing model. Valuations at the time of the April 15, 2022 final exercise, as well as the prior year end were calculated with the following inputs:

		April 15, 2022		December 31, 2021
Share Price	\$	1.53	\$	0.99
Risk-free interest rate		2.61%		1.25%
Expected life (years)		0.42		0.71
Expected volatility		48%		58%

12. Lease Liabilities

The Company has lease liabilities for contracts related to financing facilities, surface leases, vehicles, field operating equipment and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In June 2022, the Company incurred lease additions primarily for field operating equipment.

The following table summarizes lease liabilities at September 30, 2022:

<i>(\$000s)</i>	
Balance, December 31, 2020	\$ 333
Lease additions (Note 7)	2,616
Interest expense	43
Lease payments	(407)
Balance, December 31, 2021	\$ 2,585
Lease additions	2,041
Interest expense	153
Lease payments	(690)
Balance, September 30, 2022	\$ 4,089
Current Portion	\$ 106
Long-term portion	3,983

13. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

As at September 30, 2022 and December 31, 2021, the Company had the following common shares issued and outstanding:

Common Shares	Shares	(\$000s) Value	
Balance, December 31, 2020	86,782,302	\$	54,342
Shares issued for stock option exercises	2,745,000		376
Shares issued for warrants exercises (note 14)	2,299,851		1,946
Shares repurchased and cancelled (NCIB)	(537,500)		(164)
Balance, December 31, 2021	91,289,653	\$	56,500
Shares issued for stock option exercises	4,624,000		1,163
Shares issued for warrants exercises (note 14)	8,302,686		11,929
Shares repurchased and cancelled (NCIB)	(1,106,200)		(1,693)
Balance, September 30, 2022	103,110,139	\$	67,899

On July 14, 2022, the Company renewed its normal course issuer bid (NCIB), to purchase and cancel, from time to time, up to 8,905,832 common shares of the Company until July 13, 2023. At September 30, 2022, the Company purchased and cancelled 1,106,200 shares under the NCIB for \$1.7 million at an average cost of \$1.53 per share. Subsequent to the quarter end, the Company has repurchased additional NCIB shares as disclosed below (Note 16).

During the nine months ended September 30, 2022, the Company issued 4,624,000 shares for stock options exercised through the Employee Stock Option Plan, at an average exercise price of \$0.25 per share.

On April 15, 2022 the Company issued 8,302,686 shares for the cashless exercise of the remaining 10,312,500 warrants at a \$1.4367 30-day VWAP resulting in no warrants outstanding following this exercise.

(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 five years. Stock options terminate no later than 90 days (30 days for investor-related services) upon termination of employment or employment contract and one year in the case of retirement, death or disability. The grant price is determined using the closing price of the Company's shares from the day prior to the grant.

Details of the Company's stock options as at September 30, 2022 and 2021 are as follows:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2021	Changes in the Period			Balance Outstanding Sep. 30, 2022	Balance Exercisable Sep. 30, 2022
				Granted	Exercised	Expired/Cancelled		
\$0.25	21-Sep-17	21-Sep-22	3,939,000	-	(3,939,000)	-	-	-
\$0.28	2-Oct-17	2-Oct-22	150,000	-	(150,000)	-	-	-
\$0.25	01-Jan-18	1-Jan-23	250,000	-	(250,000)	-	-	-
\$0.12	01-Mar-19	1-Mar-24	50,000	-	(50,000)	-	-	-
\$0.12	17-Jun-20	17-Jun-25	1,295,000	-	(235,000)	-	1,060,000	1,060,000
\$0.91	17-Dec-21	17-Dec-31	1,740,000	-	-	-	1,740,000	1,740,000
\$1.41	17-Mar-22	17-Mar-32	-	50,000	-	-	50,000	50,000
\$1.27	10-May-22	10-May-32	-	150,000	-	-	150,000	150,000
			7,424,000	200,000	(4,624,000)	-	3,000,000	3,000,000
Weighted-average exercise price			\$0.38	\$1.31	\$0.25	-	\$0.64	\$0.64

Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2020	Changes in the Period			Balance Outstanding Sep. 30, 2021	Balance Exercisable Sep. 30, 2021
				Granted	Exercised	Expired/Cancelled		
\$0.08	11-Feb-16	11-Feb-21	1,595,000	-	(1,595,000)	-	-	-
\$0.08	12-Feb-16	12-Feb-21	75,000	-	(75,000)	-	-	-
\$0.25	21-Sep-17	21-Sep-22	4,809,000	-	(195,000)	-	4,614,000	4,614,000
\$0.28	2-Oct-17	2-Oct-22	150,000	-	-	-	150,000	150,000
\$0.25	01-Jan-18	1-Jan-23	250,000	-	-	-	250,000	250,000
\$0.12	01-Mar-19	1-Mar-24	50,000	-	-	-	50,000	50,000
\$0.12	17-Jun-20	17-Jun-25	1,500,000	-	(120,000)	-	1,280,000	1,280,000
			8,429,000	-	(1,985,000)	-	6,444,000	6,444,000
Weighted-average exercise price			\$0.19	-	\$0.08	-	\$0.22	\$0.22

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees and consultants of the Company. The Company uses a Black & Scholes option pricing model to calculate the fair value of stock option grants where the corresponding expense is recognized over the option vesting period.

In May 2022 the Company granted 150,000 stock options to two consultants at an exercise price of \$1.27. The total valuation of the options from grant was \$172 thousand, all of which was capitalized to property plant and equipment.

In March of 2022, the Company granted 50,000 stock options to a consultant at an exercise price of \$1.41 over ten years, all of which vested immediately. The total valuation of the options from grant was \$64 thousand, all of which was expensed as stock-based compensation.

(d) Income (Loss) per share

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Income for the period (\$000s)	\$ 9,315	\$ 2,309	\$ 18,064	\$ 482
Weighted average number of common shares outstanding, basic	102,652,837	88,214,476	98,236,537	87,892,439
Dilutive stock options	1,750,284	5,157,932	1,675,546	5,157,932
Weighted average number of common shares outstanding, diluted	104,403,121	93,372,408	99,912,083	93,050,371
Income per share, basic	\$ 0.09	\$ 0.03	\$ 0.18	\$ 0.01
Income per share, diluted	\$ 0.09	\$ 0.02	\$ 0.18	\$ 0.01

For the three and nine months ended September 30, 2022, the Company had dilutive stock options of 1,750,284 and 1,675,546, respectively. For the comparable three and nine month periods in 2021 the Company had dilutive stock options of 5,157,932.

(e) Dividends

On June 7, 2022 the Company's Board of Directors approved a variable dividend policy targeting approximately 30% of Hemisphere's annual free funds flow (adjusted funds flow less capital expenditures) to be paid quarterly. Accordingly, the Company paid its first ever quarterly cash dividend of \$2.6 million to Hemisphere shareholders at \$0.025/share on June 30, 2022.

On August 18, 2022 the Company announced a variable dividend of \$2.6 million to Hemisphere shareholders at \$0.025/share which was paid on September 7, 2022.

Further quarterly payments of this variable dividend will be subject to board approval, and be conditional on continued production performance, commodity price environment, and compliance with the terms of the Company's credit facility.

14. Commitments

(\$000s)	2022	2023	2024	2025	2026	2027	2028	Total
Office lease	\$ 17	78	88	37	-	-	-	220
Other leases	12	45	60	19	19	19	19	193
Equipment lease	184	738	738	738	732	664	609	4,403
	\$ 213	861	886	794	751	683	628	4,816

15. Supplemental Cash Flow Information

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Provided by (used in):				
Accounts receivable	\$ 2,434	\$ (87)	\$ (1,250)	\$ (1,086)
Prepaid expenses	(281)	(255)	(604)	(127)
Accounts payable and accrued liabilities	(1,418)	3,801	398	4,487
Total changes in non-cash working capital	\$ 735	\$ 3,459	\$ (1,456)	\$ 3,274
Provided by (used in):				
Operating activities	\$ 2,355	\$ 1,425	\$ 536	\$ 1,135
Investing activities	(1,620)	2,034	(1,992)	2,139
Total changes in non-cash working capital	\$ 735	\$ 3,459	\$ (1,456)	\$ 3,274

Interest paid on the Company's bank loan and leases during the three and nine months ended September 30, 2022 were \$0.2 million and \$0.8 million, respectively, compared to \$0.4 million and \$1.5 million, respectively, for equivalent period in 2021 (note 9).

16. Subsequent Events

From October 1, 2022 to November 17, 2022 the Company has purchased and cancelled an additional 709,700 shares under the NCIB at an average cost of \$1.55 per share.



Hemisphere ENERGY

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President & Chief Executive Officer

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

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

BANKER

Alberta Treasury Branches
Calgary, Alberta

AUDITOR

KPMG LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services Inc.
Vancouver, British Columbia

BOARD OF DIRECTORS

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

Frank Borowicz, QC, CA (Hon)⁽¹⁾⁽²⁾

Bruce McIntyre, P.Geol.⁽¹⁾⁽³⁾

Don Simmons, P.Geol.⁽³⁾

Gregg Vernon, P.Eng.⁽²⁾

Richard Wyman, B.Sc., MBA⁽¹⁾⁽³⁾

Audit Committee

(1) Audit Committee

*(2) Compensation & Corporate Governance
Committee*

(3) Reserves Committee

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