

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at November 20, 2023

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, 2023 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the unaudited interim condensed financial statements and related notes for the three and nine months ended September 30, 2023, and the audited annual financial statements and related notes for the year ended December 31, 2022. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR+ at www.sedarplus.ca or the Company's website at www.hemisphereenergy.ca.

The information in this MD&A is based on the unaudited condensed interim financial statements which were prepared in accordance with IAS 34 "Interim Financial Reporting".

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

Business Overview

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

Atlee Buffalo, Alberta

Atlee Buffalo is Hemisphere's core area, located approximately 85 kilometres north of Medicine Hat. Hemisphere made its first acquisition in the area in late 2013 and owns 15,560 gross acres (15,560 net acres) as of September 30, 2023. The property has two oil pools, both producing under Enhanced Oil Recovery ("EOR") schemes, that are fully delineated by vertical wells and defined by 3D seismic.

Jenner, Alberta

Jenner is located 25 kilometres southwest of Atlee Buffalo. Hemisphere first entered the area in 2010 and owns 11,810 gross acres (10,799 net acres) as of September 30, 2023. The property has eight oil pools defined by 3D seismic. There is one Hemisphere-owned-and-operated oil processing and water disposal facility in Jenner with the capability for expansion.

Operating Results

The Company generated adjusted funds flow from operations¹ ("AFF") of \$11.7 million (\$0.12/basic share and \$0.11/diluted share) during the third quarter of 2023, as compared to \$10.6 million (\$0.10/share, basic and diluted) during the third quarter of 2022. The increase in AFF of \$1.1 million for the three months ended September 30, 2023 is primarily due to the 6% increase in production from the comparable period

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

in 2022. AFF for the nine months ended September 30, 2023 decreased to \$28.1 million (\$0.28/basic share and \$0.27/diluted share) from \$35.7 million (\$0.36/basic and diluted share) for the same period in 2022. The \$7.6 million decrease in AFF for nine months ended September 30, 2023 is primarily due to the 26% decrease in realized commodity pricing, over the comparable period in 2022, as discussed below under "Average Benchmark and Realized Prices".

The Company reported net income of \$8.5 million (\$0.08/share, basic and diluted) and \$20.2 million (\$0.20/share, basic and diluted), for the three and nine months ended September 30, 2023, respectively, compared to \$9.3 million (\$0.09/share, basic and diluted) and \$18.1 million (\$0.18/share, basic and diluted), for the comparable three and nine-month periods of 2022, respectively. The \$2.1 million increase over the comparable nine-month period of 2022 is primarily the result of a \$7.0 million reduction in finance expenses, offset by a \$1.3 million decrease in unrealized hedging gains, a \$2.9 million decrease in operating netback, and a \$0.7 million increase in depletion.

Production

By product:	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Oil (bbl/d)	3,032	2,838	3,011	2,774
Natural gas (Mcf/d)	145	189	152	165
Total (boe/d)	3,056	2,870	3,036	2,801
Oil weighting	99%	99%	99%	99%

For the nine months ended September 30, 2023, the Company's average daily production was 3,036 boe/d (99% oil), representing an 8% increase from 2,801 boe/d (99% oil) for the same period in 2022. This increase can be attributed to bringing on production from seven new wells in the Atlee F and G Pools throughout the quarter, as well as the continued success of the Company's two Atlee Buffalo polymer floods.

Average Benchmark and Realized Prices

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Benchmark prices				
WTI (\$US/bbl) ⁽¹⁾	\$ 81.90	\$ 91.56	\$ 77.30	\$ 98.09
WCS Diff (\$US/bbl) ⁽²⁾	(11.74)	(19.93)	(17.40)	(15.80)
Exchange rate (1 \$US/\$C)	1.3241	1.3058	1.3423	1.2827
WTI (\$C/bbl)	108.45	119.55	103.76	125.82
WCS Diff (\$C/bbl)	(15.55)	(26.02)	(23.36)	(20.27)
WCS (\$C/bbl) ⁽²⁾	92.90	93.53	80.40	105.55
AECO natural gas (\$US/Mcf) ⁽³⁾	2.45	4.46	3.05	5.49
Average realized prices				
Crude oil (\$C/bbl)	87.14	90.39	75.35	101.57
Natural gas (\$C/Mcf)	2.50	3.98	2.67	5.10
Combined (\$C/boe)	\$ 86.57	\$ 89.66	\$ 74.86	\$ 100.87

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 decreased by 3% to \$86.57/boe from \$89.66/boe during the comparable three months ended September 30, 2022. This decrease is primarily the result of a decrease in realized WTI pricing of US\$9.66/bbl, offset by a narrowing of US\$8.19/bbl in the differential between Western Canadian Select ("WCS") and WTI pricing for the three months ended September 30, 2023 over the comparable period in 2022. The Company's combined average realized price decreased by 26% over the comparable period to \$74.86/boe from \$100.87/boe during the nine months ended September 30, 2023. This decrease is primarily the result of a decrease in realized WTI pricing of US\$20.79/bbl plus the widening of US\$1.60/bbl in the differential between WCS and WTI pricing for the nine months ended September 30, 2023 over the comparable period in 2022.

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

Product	Type	Volume	Price	Index	Term
Crude oil	Put Spread	500 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$2.55/bbl	WTI-NYMEX	Oct. 1, 2023 – Dec. 31, 2023
Crude oil	Physical Swap	200 bbl/d	US\$15.75	WCS Differential	Oct. 1, 2023 – Dec. 31, 2023
Crude oil	Physical Swap	200 bbl/d	US\$15.95	WCS Differential	Oct. 1, 2023 – Dec. 31, 2023
Crude oil	Physical Swap	200 bbl/d	US\$14.60	WCS Differential	Oct. 1, 2023 – Dec. 31, 2023
Crude oil	Swap	200 bbl/d	C\$116.20	WTI-NYMEX	Oct. 1, 2023 – Dec. 31, 2023
Crude oil	Swap	200 bbl/d	C\$117.25	WTI-NYMEX	Oct. 1, 2023 – Dec. 31, 2023
Crude oil	Swap	200 bbl/d	C\$118.50	WTI-NYMEX	Oct. 1, 2023 – Dec. 31, 2023
Crude oil	Swap	200 bbl/d	C\$114.50	WTI-NYMEX	Jan. 1, 2024 – Mar. 31, 2024
Crude oil	Put Spread	300 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$3.10/bbl	WTI-NYMEX	Jan. 1, 2024 – Mar. 31, 2024
Crude oil	Put Spread	300 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$1.95/bbl	WTI-NYMEX	Apr. 1, 2024 – Jun. 30, 2024
Crude oil	Put Spread	300 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$2.25/bbl	WTI-NYMEX	Jul. 1, 2024 – Sep. 30, 2024

At September 30, 2023, the commodity contracts were fair valued as a liability of \$395 thousand recorded on the balance sheet, and an unrealized loss of \$98 thousand for the three-month period and an unrealized gain of \$21 thousand for the nine-month period ended September 30, 2023, respectively (September 30, 2022 – gain of \$3.1 million and \$1.3 million, respectively).

Revenue

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Oil	\$ 24,309	\$ 23,603	\$ 61,939	\$ 76,905
Natural gas	33	69	110	230
Total	\$ 24,342	\$ 23,672	\$ 62,049	\$ 77,135

Revenue for the three months ended September 30, 2023 increased by 3% from the comparable period in 2022. This slight increase is due to the 6% increase in the Company's production, over the comparable three-month period in 2022. For the nine months ended September 30, 2023, revenue decreased by 20% from the comparable period in 2022. This decrease is primarily due to the \$26.01/boe decrease in the Company's combined average realized price, over the comparable nine-month periods in 2022.

Operating Netback

(\$000s, except per unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Operating netback				
Revenue	\$ 24,342	\$ 23,672	\$ 62,049	\$ 77,135
Royalties	(5,069)	(6,386)	(12,386)	(20,061)
Operating costs	(2,584)	(3,464)	(8,820)	(7,927)
Transportation costs	(829)	(634)	(2,516)	(1,802)
Operating field netback ⁽¹⁾	\$ 15,860	\$ 13,188	\$ 38,327	\$ 47,345
Realized commodity hedging gain (loss)	(228)	(734)	(637)	(6,744)
Operating netback ⁽¹⁾	\$ 15,632	\$ 12,454	\$ 37,690	\$ 40,601
Operating netback (\$/boe)				
Revenue	\$ 85.67	\$ 89.66	\$ 74.86	\$ 100.87
Royalties	(18.03)	(24.19)	(14.94)	(26.23)
Operating costs	(9.19)	(13.12)	(10.64)	(10.37)
Transportation costs	(2.95)	(2.40)	(3.04)	(2.36)
Operating field netback ⁽¹⁾	\$ 56.40	\$ 49.95	\$ 46.24	\$ 61.91
Realized commodity hedging gain (loss)	(0.81)	(2.78)	(0.77)	(8.82)
Operating netback ⁽¹⁾	\$ 55.59	\$ 47.17	\$ 45.47	\$ 53.09

Note:

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

Royalties paid in the first nine months of 2023 totaled \$12.4 million, of which \$11.6 million was paid to the Alberta Crown and \$0.8 million was paid to Over-Riding Royalty holders. Royalties for the three and nine months ended September 30, 2023 decreased by 21% and 38% to \$18.03/boe and \$14.94/boe, respectively, from the comparable periods in 2022. These lower royalties are in part due to the lower pricing environment this year, as well as Hemisphere being granted a royalty holiday on production from the Atlee F pool for a period of up to 50 months from July 2022 due to the implementation of its EOR scheme.

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, 2023 were \$9.19/boe, representing a decrease of \$3.93/boe or 30% from the comparable period in 2022. This decrease is primarily due to reduced costs for power, repairs and maintenance, and workovers from the comparable period in 2022.

Operating costs for the nine months ended September 30, 2023 were \$10.64/boe, representing an increase of \$0.27/boe or 3% over the same nine-month period in 2022. This increase is mainly attributed to the start of the EOR scheme in the Atlee F pool, which commenced in the third quarter of 2022. The overall increase in costs for the nine-months ended September 30, 2023 over the comparable period 2022 is due to utilization of EOR chemical additives (polymer and surfactant) during the full nine months during 2023, versus only three months during 2022.

Transportation costs include all costs incurred to transport emulsion, oil, and gas sales to processing and distribution facilities. Transportation costs were \$2.95/boe and \$3.04/boe for the three- and nine-month periods ended September 30, 2023, respectively. These represent 23% and 29% respective increases over the comparable periods in 2022 and are mainly attributed to a 24% increase in trucking rates since 2022. Costs were also higher due to fluid hauling from a single well battery and trucking of disposal water that originated at the Atlee Buffalo F Pool during the first nine months of 2023. These additional transportation

costs were temporary as the single well battery was tied in and a disposal pump was commissioned during the first quarter, as discussed below in "Capital Expenditures".

Operating netback for the three months ended September 30, 2023 was \$55.59/boe, 18% higher than the comparable three months in 2022. This is due to reductions of 22% in operating and transportation expenses and 25% in royalties paid, plus a 71% decrease in commodity hedging losses, offset somewhat by a 3% decrease in the Company's combined average realized price per boe over the comparable quarter in 2022. Operating netback for the nine months ended September 30, 2023 was \$45.47/boe, 14% lower than the comparable period in 2022. This is mainly due to the 26% decrease in the Company's combined average realized price, combined with a 8% increase in operating and transportation expenses, offset by the 91% decrease in commodity hedging losses and 43% reduction in royalties paid, over the comparable period of 2022.

Exploration and Evaluation and Impairment

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, 2023 and 2022 were \$29 thousand and \$20 thousand, respectively. For the nine months ended September 30, 2023 and 2022, exploration and evaluation expenses were \$87 thousand and \$64 thousand, respectively.

At September 30, 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 E&E assets was required. It was determined that the carrying amount for the non-core Alberta exploration properties, including one (net 0.75) unsuccessful exploration well drilled in 2023, should be recognized as an impairment charge of \$0.6 million as at September 30, 2023.

Depletion and Depreciation

(\$000s, except per boe)	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Depletion expense	\$ 2,003	\$ 1,817	\$ 5,935	\$ 5,327
Depreciation expense	205	196	603	471
Total	\$ 2,208	\$ 2,013	\$ 6,538	\$ 5,798
\$ per boe	\$ 7.85	\$ 7.62	\$ 7.89	\$ 7.58

Depletion 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, 2023 increased to \$7.85/boe from \$7.62/boe for the same period in 2022. For the nine months ended September 30, 2023, depletion and depreciation expenses increased to \$7.89/boe from \$7.58/boe for the same period in 2022. The increases in depletion expense for the three and nine months ended September 30, 2023 over the comparable periods in 2022 are due to allocating the 8% increase in production year-to-date over the marginally larger reserve base from the Company's December 31, 2022 independent engineer's evaluation report as prepared by McDaniel and Associates Consultants Ltd.

Impairment

At September 30, 2023, the Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units, and management determined that there were no indicators of impairment or reversal identified. As such no impairment test on its petroleum and natural gas assets was required (September 30, 2022 - \$nil impairment).

Capital Expenditures

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Land and lease	\$ 429	\$ 17	\$ 1,173	\$ 209
Geological and geophysical	379	359	988	967
Drilling and completions	6,997	3,401	10,019	8,935
Facilities and infrastructure	920	821	2,541	2,064
Total capital expenditures ⁽¹⁾	\$ 8,725	\$ 4,598	\$ 14,721	\$ 12,175

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, 2023 included the drilling, completion, and tie-ins of eight new wells during the Company's summer drilling program, the completion and tie-in of two F pool wells drilled in December 2022, the tie-in of a single well battery into the F pool battery, the installation of a new treater and new disposal pump, the conversion of a producing well to an injector at the Company's F Pool, and the drilling of one (0.75 net) unsuccessful exploration well. The Company also incurred \$1.2 million in preparatory spending for the Company's 2024 drilling program, and invested approximately \$1 million on mineral land rights in a new development area.

General and Administrative

(\$000s, except per boe)	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Gross general and administrative	\$ 1,660	\$ 1,667	\$ 3,798	\$ 3,680
Capitalized general and administrative	(482)	(437)	(928)	(926)
Total	\$ 1,178	\$ 1,230	\$ 2,870	\$ 2,754
\$ per boe	\$ 4.19	\$ 4.66	\$ 3.46	\$ 3.60

General and administrative ("G&A") expenses for the first nine months of 2023 increased by 4% on an absolute basis but decreased by 4% on a per boe basis over the comparable nine months in 2023. The increase in G&A on an absolute basis is due to additional investor relations activities and higher overall costs commensurate with the Company's year-over-year growth. The decrease in G&A on a per boe basis is due to the allocation of costs over a larger production base, as described in the "Production" section above.

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, 2023, capitalized G&A expenses increased by \$46 thousand and \$2 thousand, respectively, from the comparable periods in 2022. These changes relate to the capital activity carried out by the Company during the first three quarters of 2023.

Share-based Payments

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

In September 2023, the Company granted 50,000 stock options at an exercise price of \$1.25 to a consultant. The total valuation of the options from grants in the three months ended September 30, 2023, was \$24 thousand, all of which was expensed as stock-based compensation.

During the first nine months of 2023, 75% of the stock options granted to an investor relations consultant during the fourth quarter of 2022 have vested. The total valuation of the options that vested in the first three quarters of 2023 was \$66 thousand, which was expensed as stock-based compensation.

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Share-based payments	\$ 46	\$ -	\$ 90	\$ 64
Capitalized costs	-	-	-	172
Total share-based payments	\$ 46	\$ -	\$ 90	\$ 236

Finance Expense

(\$000s, except per boe)	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Loan interest	\$ 69	\$ 152	\$ 320	\$ 605
Lease interest	58	64	178	153
Loss in fair value of warrant liability	-	-	-	6,783
Accretion of decommissioning liabilities	49	38	147	116
Total	\$ 176	\$ 254	\$ 645	\$ 7,656
\$ per boe - Total	\$ 0.63	\$ 0.96	\$ 0.78	\$ 10.01
\$ per boe - Interest only	\$ 0.45	\$ 0.82	\$ 0.60	\$ 0.99

Loan interest, including standby and facility fees, for the three and nine months ended September 30, 2023 decreased by \$83 thousand or 55%, and \$285 thousand or 47%, respectively, from the comparable periods in 2022. These decreases are primarily a result of the 100% payout of the bank debt in the quarter ended September 30, 2022. The Company also recorded \$58 thousand and \$178 thousand of lease interest on right-of-use assets liability for the three and nine months ended September 30, 2023, respectively. The finance expense per boe for loan and lease interest has decreased by 45% and 39% for the three and nine months ended September 30, 2023, respectively, from the comparable periods of 2022, and is due primarily to the decrease in loan principal and borrowing cost, offset by an increase in the capital leases.

Accretion of decommissioning liabilities represents the adjusted present value of the Company's decommissioning obligations which include the abandonment and reclamation costs associated with wells and facilities. During the three and nine months ended September 30, 2023, accretion expenses increased by 27% over the comparable periods in 2022, due to growth in the number of wells and production assets.

In the nine months ended September 30, 2022, the Company recognized a remeasurement loss of \$6.8 million in the fair value of its warrant liability. This was with respect to the 13,750,000 warrants issued to a third-party lender on September 15, 2017, and in conjunction with the Company's term loan at the time. There were no warrants outstanding as of April 2022 following a final cashless exercise, and full disclosure

of the warrants can be found in the Company's audited annual financial statements for the year ended December 31, 2022.

Tax Pools and Income Tax

The Company had approximately \$28 million of tax pools available to be applied against future income for tax purposes, as per its tax filings at December 31, 2022. Based on the Company's increased taxable income, available pools and current commodity prices, the Company has recorded a current tax expense of \$2.6 million and a deferred tax expense of \$0.1 million for the three months ended September 30, 2023 (September 30, 2022 - \$0.4 million and \$2.3 million, respectively). For the nine months ended September 30, 2023, the Company has recorded a current tax expense of \$6.2 million and a deferred tax expense of \$0.4 million (September 30, 2022 - \$1.3 million and \$6.1 million, respectively). The Company expects to incur additional income tax payable in the remainder of 2023 and any taxes payable beyond this will primarily be a function of commodity prices, capital expenditures and production volumes.

Tax Pools

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

Income Taxes

(\$000s, except per boe)	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Current tax expense	\$ 2,595	\$ 357	\$ 6,190	\$ 1,330
Deferred tax expense	176	2,294	420	6,101
\$ per boe – Current tax expense	\$ 9.23	\$ 1.35	\$ 7.47	\$ 1.74

Summary of Quarterly Results

(\$000s, except per share and unit amounts)	2023				2022			2021
	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31
	Q3 ⁽¹⁾	Q2 ⁽¹⁾	Q1 ⁽²⁾	Q4 ⁽³⁾	Q3 ⁽⁴⁾	Q2 ⁽⁵⁾	Q1 ⁽⁵⁾	Q4 ⁽⁶⁾
Average daily production (boe/d)	3,056	2,883	3,171	2,907	2,870	2,883	2,648	2,164
Heavy oil and natural gas revenue	24,342	19,013	18,694	19,564	23,672	30,608	22,856	14,731
Cash provided by operating activities	12,340	9,371	9,034	8,995	12,959	14,926	8,212	4,954
Net income	8,465	5,790	5,958	3,253	9,315	4,131	4,618	5,435
Per share, basic and diluted	0.08	0.06	0.06	0.03	0.09	0.04	0.05	0.06
Combined average realized price (\$/boe)	86.57	72.48	65.51	73.16	89.66	116.65	95.92	73.99

Notes:

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

Outstanding Share Capital

	November 20, 2023	September 30, 2023	December 31, 2022
Common shares issued and outstanding	99,682,139	100,809,839	101,978,939
Stock options	5,575,000	5,700,000	6,075,000
Total fully diluted shares outstanding	105,257,139	106,509,839	108,053,939

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 shares of the Company until July 13, 2024. During the nine months ended September 30, 2023, the Company purchased and cancelled 1,594,100 shares under the NCIB for \$2.0 million at an average cost of \$1.26 per share.

During the three months ended September 30, 2023, the Company issued 425,000 shares from stock options exercised through the Employee Stock Option Plan, at an exercise price of \$0.12 per share.

The Company has the following stock options that are outstanding and exercisable as at November 20, 2023:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding	Balance Exercisable
\$0.12	March 1, 2019	March 1, 2024	50,000	50,000
\$0.12	June 17, 2020	June 17, 2025	435,000	435,000
\$0.91	December 17, 2021	December 17, 2031	1,690,000	1,690,000
\$1.41	March 17, 2022	March 17, 2032	50,000	50,000
\$1.27	May 10, 2022	May 10, 2032	150,000	150,000
\$1.30	December 14, 2022	December 14, 2032	3,150,000	3,131,250
\$1.25	September 11, 2023	September 11, 2033	50,000	50,000
			5,575,000	5,556,250
Weighted-average exercise price			\$1.08	\$1.08

Subsequent to the quarter ended September 30, 2023, the Company conducted the following with regards to its share capital:

- purchased and cancelled 1,252,700 shares under the NCIB at an average cost of \$1.31 per share;
- issued 125,000 shares from stock options exercised through the Employee Stock Option Plan, at an exercise price of \$0.12 per share.

Dividend

On June 7, 2022, the Company's Board of Directors approved a variable dividend policy. During the last nine months of 2022, the Company paid three quarterly dividends at \$0.025 per share for total distributions of \$7.6 million.

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

On May 25, 2023, the Company announced a variable dividend totaling \$2.52 million to Hemisphere's shareholders at \$0.025 per share which was paid on June 15, 2023. Based on the Company's market capitalization of \$125 million (100.9 million shares issued and outstanding on June 15, 2023 at the market close price of \$1.24 per share) at payment date, the dividend returned an annualized yield of 8.1% (\$2.52 million dividend payment times four and divided by the \$125 million market capitalization) to Hemisphere's shareholders.

On August 24, 2023, the Company announced a variable dividend totaling \$2.53 million to Hemisphere's shareholders at \$0.025 per share which was paid on September 14, 2023. Based on the Company's market capitalization of \$130 million (101.0 million shares issued and outstanding on September 14, 2023 at the market close price of \$1.29 per share) at payment date, the dividend returned an annualized yield of 7.8% (\$2.53 million dividend payment times four and divided by the \$130 million market capitalization) to Hemisphere's shareholders.

On September 28, 2023, the Company announced a special dividend totaling \$3.0 million to Hemisphere's shareholders at \$0.030 per share which was paid on November 1, 2023. Based on the Company's market capitalization of \$133 million (100.2 million shares issued and outstanding on November 1, 2023 at the market close price of \$1.33 per share) at payment date, the dividend returned an annualized yield of 9.0% (\$3.0 million dividend payment times four and divided by the \$133 million market capitalization) to Hemisphere's shareholders.

On November 20, 2023, the Company's Board of Directors approved a quarterly dividend of \$0.025 per share to be paid on December 28, 2023 to the Company's shareholders of record on December 15, 2023.

Further quarterly payments of variable 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 2023 guidance on January 24, 2023. The Company's Board of Directors approved a 2023 capital expenditure program of \$14 million, of which the entire capital program is expected to be funded by Hemisphere's projected 2023 AFF, see "*Non-IFRS and Other Financial Measures*" and "*Forward-Looking Financial Information*". Remaining Free Funds Flow ("FFF") will be used for return of capital to shareholders through special 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, 2023 were \$3.3 million and \$10.0 million, respectively (\$6.6 million and \$21.7 million cash used in financing activities for the three and nine months ended September 30, 2022, respectively). For the three months ended September 30, 2023, the financing activities included dividends paid to shareholders totaling \$2.5 million, shares repurchased under the NCIB totaling \$0.6 million, and lease liability payments of \$0.2 million. For the nine months ended September 30, 2023, the financing activities included dividends paid to shareholders totaling \$7.6 million, shares purchased under the NCIB totaling \$2.0 million, and lease liability payments of \$0.5 million.

b) Bank Debt

On July 27, 2021, the Company entered a two-year committed and extendible term facility with a Canadian Bank (the "Lender") providing for borrowings of up to \$35.0 million (the "Credit Facility"). As part of entering the Credit Facility, the Company had fully repaid and terminated its former term loan with a third-party lender.

The Credit Facility had an initial term date of May 31, 2022. Following the completion of its annual bank review, the term date was extended to May 31, 2024. The facility is extendible at the new term date and on an annual basis for an additional 365 days upon request of the Company. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At September 30, 2023, the Company had drawn \$nil on the Credit Facility. There are standard reporting covenants under the Credit Facility and a financial covenant for the Company to maintain working capital above a ratio of 1.00 to 1.00. Working capital for the covenant is defined as current assets, less current liabilities, excluding the 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 3.74 to 1.00 as at September 30, 2023.

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

The semi-annual renewal of the available lending limit of the Credit Facility is scheduled for review by November 30, 2023 and is based on the Lender's interpretation of the Company's reserves and

future commodity prices. There can be no assurance that the amount or terms of the Credit Facility will not be adjusted at the next semi-annual review. Should the Lender reduce the Credit Facility's borrowing base below the amount drawn at the time of the redetermination, the Company would have 45 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the redetermined borrowing base. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is compliant with all covenants, representations, and warranties.

c) Capital Management

The Company manages its capital with the following objectives:

- Ensure sufficient flexibility to achieve the Company's ongoing business objectives including the replacement of production, funding of future growth opportunities, and pursuit of accretive acquisitions; and
- Maximize shareholder return enhancing the Company's share value through dividends, share buybacks and corporate performance.

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is composed of shareholders' equity and bank debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, utilizing its bank debt, issuing new debt instruments, other financial or equity-based instruments, adjusting capital spending, or disposing of assets. The capital structure is reviewed on an ongoing basis.

Commitments

(\$000s)	2023	2024	2025	2026	2027	2028	Total
Office lease	\$ 22	88	37	-	-	-	147
Other leases	14	72	29	27	26	26	194
Equipment lease	184	738	738	732	664	609	3,665
	\$ 220	898	804	759	690	635	4,006

Off-Balance Sheet Arrangements

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

Related Party Transactions

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

(\$000s)	Three Months Ended September 30			Nine Months Ended September 30		
		2023	2022		2023	2022
Salaries and wages	\$	307	\$ 807	\$	1,221	\$ 1,421

Proposed Transactions

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

Changes in Accounting Policies

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

Risks

The Company's activities expose it to a variety of risks that arise as a result of its exploration, development, production and financing activities. These risks and uncertainties include, among other things, volatility in market prices for 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 the Company's website at www.hemisphereenergy.ca or 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, 2022.

Credit risk

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

The maximum exposure to credit risk is as follows:

<i>(\$000s)</i>	September 30, 2023	December 31, 2022
Accounts receivable		
Marketing receivables	\$ 7,709	\$ 4,685
Trade receivables	80	142
Receivables from joint ventures	4	18
Reclamation deposits	116	116
	\$ 7,909	\$ 4,961

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

Liquidity risk

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

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

In light of the 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, 2023, 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, and including any bank debt) of \$2.2 million (December 31, 2022 - net debt of \$0.8 million). The Company funds its operations through operating cash flows and a committed \$35.0 million two-year renewable term credit facility with ATB Financial.

Market risk

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

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under the Company's bank debt are subject to variable interest rates. A one percent change in interest rates would have a \$nil annual effect on net income.

Foreign currency risk

The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency; except i) the Company's commodity prices are largely denominated in US Dollars ("USD"), and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales.

Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices may materially impact the Company's adjusted funds flow from operations, and ability to raise capital. The Company has derivative commodity contracts in place as further disclosed within this MD&A.

Other price risk

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

Environmental and Climate Change Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and

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

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

Non-IFRS Measures and Other Financial Measures

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

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

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2023	2022	2023	2022
<i>(\$000s, except per share amounts)</i>				
Cash provided by operating activities	\$ 12,340	\$ 12,959	\$ 30,744	\$ 36,096
Change in non-cash working capital	(714)	(2,355)	(3,007)	(536)
Adjust: Decommissioning obligation expenditures	87	-	379	115
Adjusted funds flow from operations	\$ 11,713	\$ 10,604	\$ 28,116	\$ 35,675
Per share, basic	\$ 0.12	\$ 0.10	\$ 0.28	\$ 0.36
Per share, diluted	\$ 0.11	\$ 0.10	\$ 0.27	\$ 0.36

- 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.

<i>(\$000s, except per share amounts)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Adjusted funds flow from operations	\$ 11,713	\$ 10,604	\$ 28,116	\$ 35,675
Capital expenditures	(8,725)	(4,598)	(14,721)	(12,175)
Free funds flow	\$ 2,988	\$ 6,006	\$ 13,395	\$ 23,500
Per share, basic and diluted	\$ 0.03	\$ 0.06	\$ 0.13	\$ 0.24

- 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:

<i>(\$000s)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Cash used in investing activities	\$ 7,898	\$ 6,218	\$ 15,711	\$ 14,167
Change in non-cash working capital	827	(1,620)	(990)	(1,992)
Capital expenditures	\$ 8,725	\$ 4,598	\$ 14,721	\$ 12,175

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

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

(\$000s)	As at September 30, 2023		As at December 31, 2022	
Current assets ⁽¹⁾	\$	14,602	\$	5,825
Current liabilities ⁽¹⁾		(12,377)		(6,591)
Working capital (Net debt)	\$	2,226	\$	(766)

Note:

(1) Excluding derivative financial instruments, decommissioning obligations, and lease and warrant liabilities.

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 expense, as determined in accordance with IFRS, divided by the Company's total production.

Boe Conversion

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

Forward-Looking Statements

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

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

2023 Adjusted Funds Flow and Annual Free Funds Flow Assumptions

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