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 20, 2023

(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)

($000s)	Note	**September 30, 2023**	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents		**$ 5,161**	$ 152
Accounts receivable	3(a)	**7,793**	4,845
Prepaid expenses		**1,648**	828
		14,602	5,825
Non-current assets			
Reclamation deposits	8	**116**	116
Exploration and evaluation assets	6	**1,275**	168
Property and equipment	7	**78,997**	71,915
Total assets		**$ 94,990**	$ 78,024
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 6,392**	$ 6,379
Current tax provision		**5,985**	212
Current portion of lease liabilities	11	**696**	633
Current portion of decommissioning obligations	8	**198**	198
Derivative financial instruments	3(c)	**395**	417
		13,666	7,839
Non-current liabilities			
Lease liabilities	11	**2,872**	3,304
Deferred tax liability		**8,551**	8,131
Decommissioning obligations	8	**6,150**	5,750
		31,239	25,024
Shareholders' Equity			
Share capital	12	**65,221**	67,138
Contributed surplus		**5,378**	5,330
Deficit		**(6,848)**	(19,468)
Total shareholders' equity		**63,751**	53,000
Total liabilities and shareholders' equity		**$ 94,990**	$ 78,024

Commitments Note 13

Subsequent events Note 15

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

Approved by the Board of Directors

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

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

CONDENSED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)
(Unaudited)

($000s, except per share amounts)	Note	Three Months Ended September 30 **2023**	Three Months Ended September 30 2022	Nine Months Ended September 30 **2023**	Nine Months Ended September 30 2022
Revenue					
Oil and natural gas revenue	5	**$ 24,342**	$ 23,672	**$ 62,049**	$ 77,135
Royalties		**(5,069)**	(6,386)	**(12,386)**	(20,061)
		19,273	17,286	**49,663**	57,074
Realized loss on derivative financial instruments		**(228)**	(734)	**(637)**	(6,744)
Unrealized gain (loss) on derivative financial instruments	3(c)	**(98)**	3,076	**22**	1,314
Net revenue		**18,947**	19,628	**49,048**	51,644
Expenses					
Production and operating		**3,413**	4,098	**11,337**	9,729
Exploration and evaluation	6	**29**	20	**87**	64
Depletion and depreciation	7	**2,208**	2,013	**6,538**	5,798
General and administrative		**1,178**	1,230	**2,870**	2,754
Share-based payments	12(c)	**46**	-	**90**	64
Impairment of exploratory assets	6	**642**	-	**642**	-
Finance expense	9	**176**	254	**645**	7,656
Foreign exchange loss		**19**	47	**16**	84
Total expenses		**7,711**	7,662	**22,225**	26,149
Income before taxes		**11,236**	11,966	**26,823**	25,495
Current income tax expense		**(2,595)**	(357)	**(6,190)**	(1,330)
Deferred income tax expense		**(176)**	(2,294)	**(420)**	(6,101)
Net income and comprehensive income for the period		**$ 8,465**	$ 9,315	**$ 20,213**	$ 18,064
Net income per share, basic and diluted	12(d)	**$ 0.06**	$ 0.09	**$ 0.20**	$ 0.18

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

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)
(Unaudited)

($000s, except per share amounts)	Note	Number common shares		Share Capital		Contributed Surplus		Deficit		Total Equity
Balance at December 31, 2022		**101,978,939**	**$**	**67,138**	**$**	**5,330**	**$**	**(19,468)**	**$**	**53,000**
Stock option exercise	12(c)	425,000		51		-		-		51
Share-based payments	12(c)	-		-		90		-		90
Transfer on option exercise		-		42		(42)		-		-
Shares repurchased under NCIB	12(b)	(1,594,100)		(2,010)		-		-		(2,010)
Dividends	12(e)	-		-		-		(7,593)		(7,593)
Net income for the period		-		-		-		20,213		20,213
Balance at September 30, 2023		**100,809,839**	**$**	**65,221**	**$**	**5,378**	**$**	**(6,848)**	**$**	**63,751**

Comparison with nine months ended September 30, 2022:

($000s, except per share amounts)	Note	Number common shares		Share Capital		Contributed Surplus		Deficit		Total Equity
Balance at December 31, 2021		91,289,653	$	56,500	$	2,634	$	(33,325)	$	25,809
Stock option exercise	12(c)	4,624,000		1,163		-		-		1,163
Share-based payments	12(c)	-		-		236		-		236
Shares repurchased under NCIB	12(b)	(1,106,200)		(1,693)		-		-		(1,693)
Warrant exercise – cashless		8,302,686		11,929		-		-		11,929
Dividends	12(e)	-		-		-		(5,124)		(5,124)
Net income for the period		-		-		-		18,064		18,064
Balance at September 30, 2022		103,110,139	$	67,899	$	2,870	$	(20,385)	$	50,384

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

CONDENSED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)
(Unaudited)

($000s)	Note	Three Months Ended September 30 **2023**	Three Months Ended September 30 2022	Nine Months Ended September 30 **2023**	Nine Months Ended September 30 2022
Operating activities					
Net income for the period		**$ 8,465**	$ 9,315	**$ 20,213**	$ 18,064
Items not affecting cash:					
Accretion of decommissioning costs	8	**49**	38	**147**	115
Deferred tax expense		**176**	2,294	**420**	6,101
Depletion and depreciation	7	**2,208**	2,013	**6,538**	5,798
Exploration and evaluation expense	6	**29**	20	**87**	64
Share-based payments	12(c)	**46**	-	**90**	64
Unrealized loss (gain) on financial instruments		**98**	(3,076)	**(21)**	(1,314)
Change in fair value of warrant liability	9	**-**	-	**-**	6,783
Impairment		**642**	-	**642**	-
		11,713	10,604	**28,116**	35,675
Decommissioning obligation expenditures	8	**(87)**	-	**(379)**	(115)
Changes in non-cash working capital	14	**714**	2,355	**3,007**	536
Cash provided by operating activities		**12,340**	12,959	**30,744**	36,096
Investing activities					
Exploration and evaluation expenditures	6	**(1,007)**	(287)	**(1,836)**	(881)
Property and equipment expenditures	7	**(7,718)**	(4,311)	**(12,885)**	(11,294)
Changes in non-cash working capital	14	**827**	(1,620)	**(990)**	(1,992)
Cash used in investing activities		**(7,898)**	(6,218)	**(15,711)**	(14,167)
Financing activities					
Shares issued for stock options, cash exercise	12(b)	**51**	261	**51**	1,163
Shares repurchased under NCIB	12(b)	**(639)**	(611)	**(2,010)**	(1,693)
Dividends	12(e)	**(2,525)**	(2,557)	**(7,593)**	(5,123)
Change in bank debt	10	**-**	(3,529)	**-**	(15,505)
Payment of lease liabilities, net		**(161)**	(149)	**(472)**	(537)
Cash used in financing activities		**(3,274)**	(6,595)	**(10,024)**	(21,695)
Net change in cash		**1,168**	146	**5,009**	234
Cash at beginning of period		**3,993**	88	**152**	-
Cash at end of period		**$ 5,161**	$ 234	**$ 5,161**	$ 234

Supplemental cash flow information (Note 14)

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2023 and 2022
(Expressed in Canadian Dollars)
(Unaudited)

1. Nature and Continuance of Operations

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

2. Basis of Presentation

(a) Statement of compliance

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

These unaudited 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, 2022. These unaudited 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, 2022.

These Financial Statements were authorized for issuance by the Board of Directors on November 20, 2023.

(b) Basis of valuation

These Financial Statements have been prepared on a historical cost basis, except for derivative financial instruments and share-based payments, which are measured 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) Reserves - the Company uses estimated proved and probable oil and gas reserves to deplete petroleum and natural gas assets included in property and equipment ("P&E"), to assess for indicators of impairment or impairment reversal on each of the Company's cash generating units ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU.

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

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

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

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

(vi) Derivative financial instruments – estimates of the fair values of the Company's financial derivative commodity contracts are subject to measurement uncertainty due to the estimation of future crude oil and natural gas commodity prices, foreign exchange rates and volatility.

(vii) Determinations of 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 assets based upon the estimation of recoverable quantities of Proved and Probable oil and gas reserves being acquired.

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

(e) Business Risks

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

(f) Environmental and Climate Change Risks

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

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

3. Financial Risk Management

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

(a) Credit risk

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

The maximum exposure to credit risk is as follows:

($000s)	**September 30, 2023**	December 31, 2022
Accounts receivable		
Marketing receivables	**$ 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 heavy crude oil production through two marketers and, therefore, is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. The Company's key marketers are global companies with solid reputations, which the Company considers low risk of a collection concern.

(b) Liquidity risk

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

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

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

At September 30, 2023, the Company had working capital (current assets, less current liabilities, excluding derivative financial instruments, decommissioning obligations, and lease liabilities, and including any bank debt) of $2.2 million (December 31, 2022 – working capital deficiency 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 its Canadian Bank (see Note 10).

(c) Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

(iii) Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices may materially impact the Company's cash flow from operations and ability to raise capital.

At September 30, 2023, the Company held derivative commodity price contracts as follows:

Product	Type	Volume	Price	Index	Term	As at Sep. 30, 2023 Fair Value *($000s)*
Crude oil	Put Spread	500 bbl/d	US$50.00(put sell)/US$60.00(put buy), net cost US$2.55/bbl	WTI-NYMEX	Oct. 1, 2023 – Dec. 31, 2023	**154**
Crude oil	Swap	200 bbl/d	CA$116.20	WTI-NYMEX	Oct. 1, 2023 – Dec. 31, 2023	**64**
Crude oil	Swap	200 bbl/d	CA$117.25	WTI-NYMEX	Oct. 1, 2023 – Dec. 31, 2023	**45**
Crude oil	Swap	200 bbl/d	CA$118.50	WTI-NYMEX	Oct. 1, 2023 – Dec. 31, 2023	**23**
Crude oil	Swap	200 bbl/d	CA$114.50	WTI-NYMEX	Jan. 1, 2024 – Mar. 31, 2024	**(22)**
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	**97**
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	**34**
						395

At September 30, 2023, the Company also held physical commodity price contracts as follows:

Product	Type	Volume	Price	Index	Term
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

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 (September 30, 2022 – gain of $3.1 million and $1.3 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) Maximize shareholder return enhancing the Company's share value through dividends, share buybacks and corporate performance.

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

5. Revenue

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

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

The Company's production revenues were primarily generated in its core areas of the Mannville oil play in the Atlee Buffalo and Jenner areas of southeastern Alberta. The Company's customers are oil and natural gas marketers and joint operations partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by management's policies and practices related to credit risk as discussed in Note 3(a). As at September 30, 2023, production revenue sold to customers was comprised of three marketers which account for $7.6 million of the accounts receivable balance.

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

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

6. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of Proved and Probable oil and gas reserves. A transfer from exploration and evaluation assets to property and equipment is made when reserves are assigned, or the exploration project has been completed. For the nine months ended September 30, 2023, the Company transferred $nil

(December 31, 2022 - $0.5 million) to property and equipment, and recognized exploration and evaluation expense of $87 thousand (December 31, 2022 - $140 thousand).

Cost *($000s)*		
Balance at December 31, 2021	$	568
Additions		1,142
Exploration and evaluation expense		(140)
Impairment		(928)
Transfer to property and equipment		(474)
Balance at December 31, 2022	$	168
Additions		1,836
Exploration and evaluation expense		(87)
Impairment		(642)
Balance at September 30, 2023	**$**	**1,275**

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.

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

7. Property and Equipment

Cost *($000s)*		Petroleum and Natural Gas		Right of Use and Other Assets		Total
Balance at December 31, 2021	$	120,764	$	3,296	$	124,060
Additions right-of-use assets (Note 11)		-		2,041		2,041
Additions property and equipment		17,064		60		17,124
Decrease in decommissioning obligations (Note 7)		(2,340)		-		(2,340)
Capitalized share-based payments		1,225		-		1,225
Transfer from exploration and evaluation assets		474		-		474
Balance at December 31, 2022	$	137,187	$	5,397	$	142,584
Additions right-of-use assets (Note 11)		-		103		103
Additions property and equipment		12,876		10		12,886
Increase in decommissioning obligations		631		-		631
Balance at September 30, 2023	**$**	**150,694**	**$**	**5,510**	**$**	**156,204**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance at December 31, 2021	**$**	62,413	$	458	$	62,871
Depletion and depreciation for the year		7,216		668		7,884
Impairment reversal		(86)		-		(86)
Balance at December 31, 2022	$	**69,543**	$	**1,126**	$	**70,669**
Depletion and depreciation for the period		5,935		603		6,538
Balance at September 30, 2023	**$**	**75,478**	**$**	**1,729**	**$**	**77,207**
Net Book Value						
December 31, 2022	$	67,644	$	4,271	$	71,915
September 30, 2023	**$**	**75,216**	**$**	**3,781**	**$**	**78,997**

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, 2023 (September 30, 2022 - $0.9 million).

The calculation of depletion at September 30, 2023 includes estimated future development costs of $39.7 million (December 31, 2022 - $50.5 million) associated with the development of the Company's Proved plus Probable reserves.

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

At December 31, 2022, the Company performed an assessment of potential impairment indicators on each of its CGUs. The Company identified an indicator of impairment at December 31, 2022 in its Jenner CGU and performed an impairment test to estimate the recoverable amount of this CGU. It was determined that the recoverable amount of the Jenner CGU equaled the CGU's carrying value and therefore no impairment or impairment reversal was recorded. There were no indicators of impairment for its Atlee Buffalo CGU.

The recoverable amounts were determined based on fair value less costs to sell using a discounted cash flow method and categorized in Level 3 of the fair value hierarchy. Significant assumptions in the determination of estimated Proved and Probable oil and gas reserves and cash flows from those reserves include forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs, and discount rates specific to the underlying composition of assets residing in the Jenner CGU. The pre-tax discount rates ranged from 12% to 35% depending on the nature of the reserves. The following tables show the forecasted oil and gas commodity price estimates used by the Company's independent third-party reserve evaluators at December 31, 2022:

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

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

8. Decommissioning Obligations

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

The Company estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations as at September 30, 2023 is $9.0 million (December 31, 2022 - $8.1 million), and $15.4 million with inflation (December 31, 2022 - $12.5 million). These payments are expected to be made over the next 40 years to 2063.

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

($000s)	**Three Months Ended September 30, 2023**	Year Ended December 31, 2022
Decommissioning obligations at beginning of period	**$ 5,948**	$ 9,070
Increase in estimated future obligations	**631**	381
Change in estimate	**-**	(2,722)
Payment of decommissioning obligations	**(379)**	(684)
Government SRP grants	**-**	(251)
Accretion expense	**147**	154
Decommissioning obligations at end of period	**$ 6,348**	$ 5,948
Current portion	**198**	198
Long-term portion	**6,150**	5,750

9. Finance Expenses

	Three Months Ended September 30		**Nine Months Ended September 30**	
($000s)	**2023**	2022	**2023**	2022
Finance expense:				
Loan interest	**$ 69**	$ 152	**$ 320**	$ 605
Lease interest	**58**	64	**178**	152
Change in value of warrant liability	**-**	-	**-**	6,783
Accretion of decommissioning liabilities	**49**	38	**147**	116
Total	**$ 176**	$ 254	**$ 645**	$ 7,656

10. Bank Debt

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

The Credit Facility had an initial term date of May 31, 2022. 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 has met these standard reporting covenants and 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 in November 2023 and is based on the Lender's interpretation of the Company's reserves and future commodity prices. There can be no assurance that the amount or terms of the Credit Facility will not be adjusted at the next semi-annual review. Should the Lender reduce the Credit Facility's borrowing base below the amount drawn at the time of the redetermination, the Company would have 45 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the redetermined borrowing base. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is compliant with all covenants, representations, and warranties.

11. Lease Liabilities

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

The following table summarizes lease liabilities at September 30, 2023:

($000s)		
Balance at December 31, 2021	$	2,584
Lease additions (Note 7)		2,041
Interest expense		215
Lease payments		(903)
Balance at December 31, 2022	$	3,937
Lease additions (Note 6)		103
Interest expense		178
Lease payments		(650)
Balance at September 30, 2023	$	**3,568**
Current portion	$	696
Long-term portion		2,872

12. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

As at September 30, 2023 and December 31, 2022, the Company had the following common shares issued and outstanding:

Common Shares	Shares		Value ($000s)
Balance at December 31, 2021	91,289,653	$	56,500
Shares issued from stock option exercises	4,699,000		1,172
Shares issued for warrants exercises	8,302,686		11,929
Shares repurchased and cancelled (NCIB)	(2,312,400)		(3,387)
Transfer on stock option exercise	-		924
Balance at December 31, 2022	101,978,939	$	67,138
Shares issued from stock option exercises	425,000		51
Shares repurchased and cancelled (NCIB)	(1,594,100)		(2,010)
Transfer on stock option exercise	-		42
Balance at September 30, 2023	**100,809,839**	**$**	**65,221**

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

(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 ten years. Stock options terminate no later than 90 days upon termination of employment or employment contract and one year in the case of retirement, death or disability. The grant price is determined using the closing price of the Company’s shares from the day prior to the grant.

Details of the Company’s stock options as at September 30, 2023 and September 30, 2022 are as follows:

				Changes in the Period				
Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2022	Granted	Exercised	Expired/ Cancelled	**Balance Outstanding Sep. 30, 2023**	**Balance Exercisable Sep. 30, 2023**
$0.12	01-Mar-19	1-Mar-24	50,000	-	-	-	**50,000**	**50,000**
$0.12	17-Jun-20	17-Jun-25	985,000	-	(425,000)	-	**560,000**	**560,000**
$0.91	17-Dec-21	17-Dec-31	1,690,000	-	-	-	**1,690,000**	**1,690,000**
$1.41	17-Mar-22	17-Mar-32	50,000	-	-	-	**50,000**	**50,000**
$1.27	10-May-22	10-May-32	150,000	-	-	-	**150,000**	**150,000**
$1.30	14-Dec-22	14-Dec-32	3,150,000	-	-	-	**3,150,000**	**3,131,250**
$1.25	11-Sep-23	11-Sep-33	-	50,000	-	-	**50,000**	**50,000**
			6,075,000	50,000	(425,000)	-	**5,700,000**	**5,681,250**
Weighted-average exercise price			$0.99	$1.25	$0.12	-	**$1.06**	**$1.06**

				Changes in the Period				
Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2021	Granted	Exercised	Expired/ Cancelled	Balance Outstanding Sep. 30, 2022	Balance Exercisable Sep. 30, 2022
$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

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees, and consultants of the Company. For the nine months ended September 30, 2023, the Company recorded total share-based payments of $90 thousand, compared to $64 thousand for the same period in 2022.

(d) Income per share

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	**2023**	2022
Income (loss) for the period *($000s)*	**$ 8,465**	$ 9,315	**$ 20,213**	$ 18,064
Weighted-average number of common shares outstanding, basic	**100,909,806**	102,652,837	**101,299,916**	98,236,537
Dilutive stock options	**1,035,779**	1,750,284	**1,049,564**	1,675,546
Weighted-average number of common shares outstanding, diluted	**101,945,585**	104,403,121	**102,349,480**	99,912,083
Income per share, basic and diluted	**$ 0.08**	$ 0.09	**$ 0.20**	$ 0.18

For the three and nine months ended September 30, 2023, the Company had dilutive stock options of 1,035,779 and 1,049,564, respectively. For the comparable periods in 2022, the Company had dilutive stock options of 1,750,284 and 1,675,546, respectively.

(e) Dividends

On June 7, 2022, the Company's Board of Directors approved a variable dividend policy. During 2022, the Company paid three variable dividends at $0.025 per share for total distributions of $7.7 million.

During the first nine months of 2023, the Company has paid three variable dividends to Hemisphere's shareholders at $0.025 per share, totalling $7.6 million.

On September 28, 2023, the Company announced a special dividend of $0.030 per share, to be paid on November 1, 2023 to the Company's shareholders of record on October 20, 2023.

On November 20, 2023, the Company's Board of Directors approved a 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.

13. 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

14. Supplemental Cash Flow Information

	Three Months Ended September 30				**Nine Months Ended September 30**			
($000s)		**2023**		2022		**2023**		2022
Provided by (used in):								
Accounts receivable	**$**	**(2,790)**	$	2,434	**$**	**(2,948)**	$	(1,250)
Prepaid expenses		**(495)**		(281)		**(820)**		(604)
Accounts payable and accrued liabilities		**2,231**		(1,776)		**13**		(932)
Current tax provision		**2,595**		358		**5,772**		1,330
Total changes in non-cash working capital	**$**	**1,541**	$	735	**$**	**2,017**	$	(1,456)
Provided by (used in):								
Operating activities	**$**	**714**	$	2,355	**$**	**3,007**	$	536
Investing activities		**827**		(1,620)		**(990)**		(1,992)
Total changes in non-cash working capital	**$**	**1,541**	$	735	**$**	**2,017**	$	(1,456)

Interest paid on the Company's debts during the three and nine months ended September 30, 2023 were $0.1 million and $0.5 million, respectively, compared to $0.2 million and $0.8 million, respectively, for equivalent periods in 2022.

15. Subsequent Events

a) From October 1 to November 20, 2023, the Company purchased and cancelled 1,252,700 shares under the NCIB at an average cost of $1.31 per share.

b) In October 2023, the Company issued 125,000 shares from stock options exercised through the Employee Stock Option Plan, at an exercise price of $0.12 per share.

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

d) Subsequent to the quarter ended September 30, 2023, the Company entered into the following commodity price contract:

Product	Type	Volume	Price	Index	Term
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

OFFICERS

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

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

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

BOARD OF DIRECTORS

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

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

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

Don Simmons, P.Geol.(3)

Gregg Vernon, P.Eng.(2)

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

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

BANKER

Alberta Treasury Branches
Calgary, Alberta

AUDITOR

KPMG LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services Inc.
Vancouver, British Columbia

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta
Harper Grey LLP
Vancouver, British Columbia

INDEPENDENT ENGINEER

McDaniel Associates & Consultants Ltd.
Calgary, Alberta

Hemisphere Energy Corporation
Suite 501, 905 West Pender Street, Vancouver, British Columbia V6C 1L6
Telephone: (604) 685-9255 | Facsimile: (604) 685-9676
www.hemisphereenergy.ca | TSX-V: HME OTCQX: HMENF