Hemisphere ENERGY

TSX-V: HME OTCQX: HMENF
www.hemisphereenergy.ca

Q1 2024

Q1 2024 HIGHLIGHTS

- Produced a quarterly average of 3,133 boe/d (99% heavy oil), including significant downtime in January and early February due to extreme cold weather.
- Attained quarterly revenue of $21.0 million.
- Maintained low operating and transportation costs of $14.24/boe despite reduced quarterly production.
- Delivered an operating netback[1] of $13.1 million, or $46.04/boe.
- Realized quarterly adjusted funds flow from operations ("AFF")[1] of $10.1 million, or $35.38/boe.
- Achieved free funds flow[1] of $4.4 million, or $0.04 per share.
- Executed a $5.6 million capital expenditure[1] program, including drilling five horizontal wells (three producers, two injectors) in the Company's new Marsden, Saskatchewan oil play.
- Received Enhanced Oil Recovery ("EOR") project approval from the Ministry of Energy and Resources for a pilot polymer flood in Marsden.
- Distributed $2.5 million, or $0.025 per share, in dividends to shareholders during the quarter.
- Purchased and cancelled 869,100 shares for $1.2 million under the Company's Normal Course Issuer Bid ("NCIB").
- Exited the first quarter with positive working capital[1] of $4.2 million, compared to $3.0 million at the end of March 2023.

(1) Operating netback, adjusted funds flow from operations (AFF), free funds flow, capital expenditure, and working capital are non-IFRS measures, or when expressed on a per share or boe basis, non-IFRS ratio, that do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Non-IFRS financial measures and ratios are not standardized financial measures under IFRS and may not be comparable to similar financial measures disclosed by other issuers. Refer to the section "Non-IFRS and Other Specified Financial Measures".

Q1 2024 OPERATIONS UPDATE

Hemisphere's Atlee Buffalo polymer injection projects both continue to perform well, contributing to slight overall corporate production growth. Current production is approximately 3,500 boe/d (99% heavy oil, field estimates between April 1 – May 25, 2024), 3% higher than the fourth quarter of 2023 despite no new wells having been brought online since last September.

In the first quarter of 2024, the Company received EOR project approval from the Ministry of Energy and Resources for a polymer flood pilot in its recently acquired Marsden acreage in Saskatchewan. Subsequently, Hemisphere executed a $5.6 million capital expenditure program, which included drilling five Marsden wells (three producers and two injectors). The Company has recently brought one well on primary production to a single well battery in order to gather initial test data required for EOR project planning. Hemisphere expects to commission a new polymer injection skid and oil treating battery for its Marsden project during the third quarter.

Preparation is also underway for the remainder of Hemisphere's 2024 capital expenditure program, which includes up to nine new wells in the Atlee Buffalo area being drilled and brought on production to existing facilities later this summer.

Annual General and Special Meeting of Shareholders

Hemisphere's Annual General and Special Meeting of Shareholders will be held at 10:00 am (Pacific Daylight Time) on May 30, 2024 in the Walker Room of the Terminal City Club located at 837 West Hastings Street, Vancouver, British Columbia.

Q1 2024
FINANCIAL AND OPERATING HIGHLIGHTS

($000s except per unit and share amounts)	Three Months Ended March 31 2024	2023
FINANCIAL		
Petroleum and natural gas revenue	**$ 20,961**	$ 18,694
Operating field netback[(1)]	**12,958**	11,342
Operating netback[(1)]	**13,125**	11,114
Cash flow provided by operating activities	**2,684**	9,034
Adjusted funds flow from operations (AFF)[(1)]	**10,087**	8,280
Per share, basic and diluted[(1)]	**0.10**	0.08
Free funds flow[(1)]	**4,438**	6,815
Net income	**6,778**	5,958
Per share, basic and diluted	**0.07**	0.06
Dividends	**2,471**	2,545
Per share, basic	**0.025**	0.025
NCIB share repurchases	**1,166**	264
Capital expenditures[(1)]	**5,649**	1,465
Working capital[(1)]	**4,210**	3,008
OPERATING		
Average daily production		
Heavy oil (bbl/d)	**3,110**	3,143
Natural gas (Mcf/d)	**135**	169
Combined (boe/d)	**3,133**	3,171
Oil weighting	**99%**	99%
Average sales prices		
Heavy oil ($/bbl)	**$ 73.96**	$ 65.93
Natural gas ($/Mcf)	**2.26**	3.08
Combined ($/boe)	**$ 73.53**	$ 65.51
Operating netback ($/boe)		
Petroleum and natural gas revenue	**$ 73.53**	$ 65.51
Royalties	**(13.83)**	(11.47)
Operating costs	**(11.14)**	(11.08)
Transportation costs	**(3.10)**	(3.21)
Operating field netback[(1)]	**45.46**	39.75
Realized commodity hedging gain (loss)	**0.58**	(0.80)
Operating netback[(1)]	**$ 46.04**	**$** 38.95
General and administrative expense	**(3.57)**	(2.88)
Interest expense and foreign exchange loss	**(0.46)**	(0.67)
Tax expense provision	**(6.63)**	(6.39)
Adjusted funds flow from operations[(1)] ($/boe)	**$ 35.38**	$ 29.01

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

COMMON SHARES	May 28, 2024	**March 31, 2024**	December 31, 2023
Common shares outstanding	97,705,839	**98,471,239**	99,340,339
Stock options outstanding	7,563,000	**7,563,000**	7,563,000
Total fully diluted shares outstanding	105,268,839	**106,034,239**	106,903,339

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at May 28, 2024

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

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

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

Business Overview

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

The Company's principal business is the acquisition, exploration, development and production of petroleum and natural gas interests in Canada. It is a publicly traded company listed on the TSX Venture Exchange under the symbol "HME" and on the OTCQX Best Market under the symbol "HMENF". The Company's head office is located at Suite 501, 905 Pender Street West, Vancouver, British Columbia, Canada V6C 1L6.

Atlee Buffalo, Alberta

Atlee Buffalo is Hemisphere's core area, located approximately 85 kilometers north of Medicine Hat. Hemisphere made its first acquisition in the area in late 2013 and owns 17,120 gross acres (17,120 net acres) as of March 31, 2024. The property has three oil pools delineated by vertical wells and defined by 3D seismic.

Operating Results

The Company generated adjusted funds flow from operations[1] ("AFF") of $10.1 million ($0.10/share, basic and diluted) for the three months ended March 31, 2024, as compared to $8.3 million ($0.08/share, basic and diluted) for the three months ended March 31, 2023. The $1.8 million increase in AFF from operations for the three months ended March 31, 2024 is primarily due to the 18% increase in netbacks over the comparable three months in 2023.

The Company reported net income of $6.8 million ($0.07/share, basic and diluted) for the three months ended March 31, 2024, compared to $5.9 million ($0.06/share, basic and diluted) for the comparable quarter in 2023. This $0.9 million increase in the first quarter of 2024 is primarily the result of a $1.3 million increase in oil and natural gas revenues, offset slightly by a $0.3 million decrease in current and deferred tax expenses for the quarter.

Production

	Three Months Ended March 31	
By product:	**2024**	2023
Oil (bbl/d)	**3,110**	3,143
Natural gas (Mcf/d)	**135**	169
Total (boe/d)	**3,133**	3,171
Oil weighting	**99%**	99%

In the first quarter of 2024, the Company's average daily production was 3,133 boe/d (99% oil), representing a 1% decrease over the comparable quarter in 2023. Corporate production during the month of January was substantially impacted by extremely cold weather. The failure of an electrical panel at Hemisphere's G pool facility resulted in the loss of power to its operations. Subsequent sustained -40°C weather led to freezing of most of the G pool wells and facility, which experienced 5 days of complete downtime and an additional few days of lower production as equipment was repaired and wells were brought back online.

Average Benchmark and Realized Prices

	Three Months Ended March 31	
	2024	**2023**
Benchmark prices		
WTI ($US/bbl)(1)	**$ 77.45**	$ 76.35
WCS Diff ($US/bbl)(2)	**(19.92)**	(24.85)
Exchange rate (1 $US/$C)	**1.3514**	1.3514
WTI ($C/bbl)	**104.66**	103.18
WCS Diff ($C/bbl)	**(26.91)**	(33.58)
WCS ($C/bbl)	**77.75**	69.60
AECO natural gas ($/Mcf)(3)	**2.05**	4.35
Average realized prices		
Crude oil ($/bbl)	**73.96**	65.93
Natural gas ($/Mcf)	**2.26**	3.08
Combined ($/boe)	**$ 73.53**	$ 65.51

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

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

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

The Company's combined average realized price during the three months ended March 31, 2024 increased by 12% to $73.53/boe from $65.51/boe during the comparable period in 2023. This increase is primarily the result of a US$4.93 decrease in the differential between Western Canadian Select ("WCS") and WTI pricing, combined with a slight increase in realized WTI pricing of US$1.10/bbl for the three months ended March 31, 2024 over the comparable period in 2023.

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	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	Swap	500 bbl/d	US$15.00	WCS Differential	Mar. 1, 2024 – Sep. 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

Contracts entered after March 31, 2024:

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

At March 31, 2024, the commodity contracts were fair valued as a liability of $0.4 million recorded on the statement of financial position and an unrealized loss of $0.6 million for the three-month period (March 31, 2023 – unrealized gain of $0.1 million).

Revenue

	Three Months Ended March 31	
($000s)	**2024**	2023
Oil	**$ 20,933**	$ 18,647
Natural gas	**28**	47
Total	**$ 20,961**	$ 18,694

Revenue for the three months ended March 31, 2024 increased by 12% from the comparable period in 2023. This increase is primarily due to the $8.02/boe increase in the Company's combined average realized price, over the comparable three-month period in 2023.

Operating Netback

($000s, except per unit amounts)	Three Months Ended March 31 2024	2023
Operating netback		
Revenue	**$ 20,961**	$ 18,694
Royalties	**(3,943)**	(3,273)
Operating costs	**(3,176)**	(3,161)
Transportation costs	**(884)**	(918)
Operating field netback[(1)]	**$ 12,958**	$ 11,342
Realized commodity hedging gain (loss)	**167**	(228)
Operating netback[(1)]	**$ 13,125**	$ 11,114
Operating netback ($/boe)		
Revenue	**$ 73.53**	$ 65.51
Royalties	**(13.83)**	(11.47)
Operating costs	**(11.14)**	(11.08)
Transportation costs	**(3.10)**	(3.21)
Operating field netback[(1)]	**$ 45.46**	$ 39.75
Realized commodity hedging gain (loss)	**0.58**	(0.80)
Operating netback[(1)]	**$ 46.04**	$ 38.95

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

Royalties paid in the first quarter of 2024 totaled $3.9 million, of which $3.6 million and $0.3 million were paid to Alberta Crown and Over-Riding Royalty ("ORR") holders, respectively. Royalties for the three months ended March 31, 2024 were $13.83/boe (19% of revenue), as compared to $11.47/boe (18% of revenue) during the same period of 2023. This represents a 7% increase in royalty rate, primarily due to the higher realized commodity prices in the first quarter of 2024, combined with the end of royalty holiday on most producing G pool wells.

Operating costs include all costs for gathering, processing, dehydration, compression, water processing and marketing of the oil and natural gas, as well as additional costs incurred periodically for maintenance and repairs. Operating costs for the three months ended March 31, 2024 were $11.14/boe. This represented a 1% increase of just $0.06/boe from the same period in 2023, despite production outages during the quarter.

Transportation costs include all costs incurred to transport emulsion, oil, and gas sales to processing and distribution facilities. Transportation costs were $3.10/boe during the first quarter of 2024, which is an $0.11/boe or 3% decrease over the comparable quarter in 2023.

Operating netback for the three months ended March 31, 2024 was $46.04/boe, which is $7.09/boe or 18% higher than the comparable period in 2023. This is mainly due to the 12% increase in the Company's combined average realized price, combined with a gain of 173% from realized commodity hedging, over the comparable three months of 2023.

Exploration and Evaluation

Exploration and evaluation expense generally consists of certain geological and geophysical costs, expiry of undeveloped lands, and costs of uneconomic exploratory wells. Exploration and evaluation expenses for the three months ended March 31, 2024 and 2023 were $37 thousand and $29 thousand, respectively.

Depletion and Depreciation

($000s, except per boe)		**Three Months Ended March 31** **2024**		2023
Depletion expense	**$**	**2,061**	$	2,014
Depreciation expense		**212**		198
Total	**$**	**2,273**	$	2,212
$ per boe	**$**	**7.97**	$	7.75

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

Depletion and depreciation expenses for the three months ended March 31, 2024 increased to $7.97/boe from $7.75/boe for the same period in 2023. The slight increase in depletion expense for the three months ended March 31, 2024 over the comparable quarter in 2023 is due to allocating the slight 1% decrease in production over the larger reserve base from the Company's December 31, 2023 independent engineer's evaluation report as prepared by McDaniel and Associates Consultants Ltd.

Impairment

At March 31, 2024, the Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units, and management determined that there were no indicators of impairment or reversal identified. As such no impairment test on its petroleum and natural gas assets was required (March 31, 2023 - $nil impairment).

Capital Expenditures

($000s)		**Three Months Ended March 31** **2024**		2023
Land and lease	**$**	**23**	$	25
Geological and geophysical		**196**		215
Drilling and completions		**5,194**		154
Facilities and infrastructure		**236**		1,071
Total capital expenditures(1)	**$**	**5,649**	$	1,465

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

The capital spent during the three months ended March 31, 2024, included the drilling of five wells in Marsden, Saskatchewan, as well as initial preparatory spending for a summer drilling program in the Atlee Buffalo, Alberta area.

General and Administrative

($000s, except per boe)		**Three Months Ended March 31** **2024**		2023
Gross general and administrative	**$**	**1,186**	$	977
Capitalized general and administrative		**(168)**		(155)
Total	**$**	**1,018**	$	822
$ per boe	**$**	**3.57**	$	2.88

General and administrative ("G&A") expenses increased on an absolute basis and per boe basis by 24% over the comparable three months in 2023. These increases in G&A expenses are due to additional investor relations activities, higher overall costs associated with the Company's year-over-year growth, and inflation.

The Company capitalizes some G&A expenses which can be attributed to any costs incurred during the period relating to its development and exploration activities. For the three months ended March 31, 2024, capitalized G&A expenses increased by $13 thousand over the comparable period in 2023. This change relates to an increase in capital activity carried out by the Company during the first quarter of 2024.

Share-based Payments

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

During the first quarter of 2024, the Company did not grant any stock options to employees. However, a tranche of 25% of the options granted to an investor relations consultant during the fourth quarter of 2023 vested in the first quarter of 2024. The total valuation of the options that vested in the first quarter of 2024 was $6 thousand, which was expensed as stock-based compensation.

		Three Months Ended March 31		
($000s)		**2024**		2023
Share-based payments (recovery)	**$**	**6**	$	22
Total share-based payments (recovery)	**$**	**6**	$	22

Finance Expense

		Three Months Ended March 31		
($000s, except per boe)		**2024**		2023
Loan interest	**$**	**133**	$	115
Lease interest		**54**		60
Interest income		**(67)**		-
Accretion of decommissioning liabilities		**50**		49
Total finance expense	**$**	**170**	$	224
$ per boe - Total	**$**	**0.60**	$	0.78
$ per boe - Bank, loan & lease interest	**$**	**0.42**	$	0.61

Loan interest, including standby and facility fees, less interest income, for the three months ended March 31, 2024 reduced by $49 thousand or 42%, over the comparable period in 2023. This decrease is primarily the result of an additional $67 thousand of interest income generated on cash balances over the previous year. The Company also recorded $54 thousand of lease interest on right-of-use assets liability under IFRS 16 for the three months ended March 31, 2024. The finance expense per boe for loan and lease interest has decreased by $0.19/boe or 24% over the comparable quarter of 2023 due primarily to the aforementioned interest income from the Company's maintained cash balances.

Accretion of decommissioning liabilities represents the adjusted present value of the Company's decommissioning obligations which include the abandonment and reclamation costs associated with wells and facilities. During the three months ended March 31, 2024, accretion expenses increased marginally by 1% over the comparable periods in 2023.

Taxes

The Company has approximately $29 million of tax pools available to be applied against future income for tax purposes, as per its tax assessments at December 31, 2023 (December 31, 2022 - $28 million). Based on the Company's revised corporate structure as of January 2, 2024, the Company has recorded current tax expense of $nil and deferred tax expense of $2.2 million for the three months ended March 31, 2024 (March 31, 2023 - $1.8 million current tax and $0.1 million deferred tax). The Company expects to incur additional deferred taxes in 2024 and any taxes payable beyond this will primarily be a function of commodity prices, capital expenditures and production volumes.

Tax Pools

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

Summary of Quarterly Results

	2024	2023				2022		
	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
($000s, except per share and unit amounts)	**Q1(1)**	Q4(2)	Q3(3)	Q2(4)	Q1(5)	Q4(6)	Q3(7)	Q2(8)
Average daily production (boe/d)	**3,133**	3,386	3,056	2,883	3,171	2,907	2,870	2,883
Heavy oil and natural gas revenue	**20,961**	22,423	24,342	19,013	18,694	19,564	23,672	30,608
Cash provided by operating activities	**2,684**	13,496	12,340	9,371	9,034	8,995	12,959	14,926
Net income	**6,778**	3,981	8,465	5,790	5,958	3,253	9,315	4,131
Per share, basic and diluted	**0.07**	0.04	0.08	0.06	0.06	0.03	0.09	0.04
Combined average realized price ($/boe)	**73.53**	71.97	86.57	72.48	65.51	73.16	89.66	116.65

Notes:

(1) The decrease in revenue is due primarily to a slight decrease in production. The increase in net income is due primarily to a reduction in operating expenses. Cash provided by operating activities reduced significantly due to changes in non-cash working capital resulting from payments made to income taxes payable.

(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. Net income decreased due to a decrease in revenues, plus additional expenses recorded for production and operating, taxes, impairment, share based payments.

(3) The increases in revenue and cash provided by operating activities are due primarily to an increase in production. Net income increased primarily due to the increase in revenue.

(4) The increases in revenue and cash provided by operating activities are due primarily to an increase in realized commodity price.

(5) The increases in revenue and cash provided by operating activities are due primarily to an increase in production. Net income increased due to an increase in revenue plus a reduction in expenses for impairment and share based payments.

(6) The decreases in revenue and cash provided by operating activities are due primarily to a decrease in realized commodity price. Net income reduced due to a decrease in revenues and unrealized gains on financial instruments, plus additional expenses recorded for impairment, share based payments and year-end tax adjustments.

(7) The decreases in revenue and cash provided by operating activities are due primarily to a decrease in production and realized commodity prices. Net income increased due to an increase in unrealized gains on financial instruments and a gain on fair value of the warrant liability.

(8) The increases in revenue and cash provided by operating activities are due primarily to an increase in production and realized commodity prices.

Outstanding Share Capital

	May 28, 2024	**March 31, 2024**	December 31, 2023
Fully diluted share capital			
Common shares issued and outstanding	97,705,839	**98,471,239**	99,340,339
Stock options	7,563,000	**7,563,000**	7,563,000
Total fully diluted shares outstanding	105,268,839	**106,034,239**	106,903,339

On July 14, 2023, the Company renewed its normal course issuer bid ("NCIB"), to purchase and cancel, from time to time, up to 8,670,636 common shares of the Company until July 13, 2024. In the three months ended March 31, 2024, the Company purchased and cancelled 869,100 shares under the NCIB for $1.2 million at an average cost of $1.34 per share.

Subsequent to the quarter ended March 31, 2024, the Company has purchased and cancelled 765,400 shares under the NCIB at an average cost of $1.62 per share.

The Company has the following stock options that are outstanding and exercisable as at March 31, 2024 and May 28, 2024:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding	Balance Exercisable
$0.12	June 17, 2020	June 17, 2025	485,000	485,000
$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	3,150,000
$1.25	September 11, 2023	September 11, 2033	50,000	50,000
$1.27	December 15, 2023	December 15, 2028	1,988,000	1,952,000
			7,563,000	7,527,000
Weighted-average exercise price			$1.13	$1.13

Dividends

On June 7, 2022, the Company's Board of Directors approved a variable dividend policy targeting approximately 30% of Hemisphere's annual free funds flow to be paid quarterly. During 2022, the Company paid three quarterly dividends at $0.025 per share for total distributions of $7.6 million. During 2023, the Company paid four quarterly base dividends at $0.025 per share and one special dividend at $0.03 per share for total distributions of $13.1 million.

On January 25, 2024, the Company announced a variable dividend totaling $2.47 million to Hemisphere's shareholders at $0.025 per share which was paid on February 23, 2024. Based on the Company's market capitalization of $146.3 million (98.8 million shares issued and outstanding on February 9, 2024 at the market close price of $1.48 per share) at payment date, the dividend returned an annualized yield of 6.8% ($2.47 million dividend payment times four and divided by the $146.3 million market capitalization) to Hemisphere's shareholders.

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 2024 guidance on January 25, 2024. The Company's Board of Directors approved a 2024 capital expenditure program of $21 million, of which the entire capital program is expected to be funded by Hemisphere's projected 2024 Adjusted Funds Flow of $40 million and annual Free Funds Flow ("FFF") of $19 million, see *Non-IFRS and Other Financial Measures* and *Forward-Looking Financial Information*. The projected FFF will be used for return of capital to shareholders through dividends and share buybacks, and other discretionary purposes, which may include, potential acceleration of other development or exploration projects, acquisitions, and special dividends.

Management's forecasts may change materially based upon actual prices received, changes in future strip pricing, production volumes, operating costs, activity levels, cash flows, and the timing thereof and other factors which may or may not be within the control of the Company. The economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's liquidity and ability to generate profits in the future.

a) Financing

The Company's net cash used in financing activities during the three months ended March 31, 2024 was $3.8 million ($3.0 million for the three months ended March 31, 2023). These activities were dividends issued of $2.5 million, shares purchased under the NCIB of $1.2 million, plus lease liability payments of $0.2 million in the first quarter of 2024.

b) Bank Debt

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

The Credit Facility had a renewed term date of May 31, 2024. Following the completion of its annual bank review, the term date was extended to May 31, 2025. The facility is extendible at the new term date and on an annual basis for an additional 365 days upon request of the Company. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At March 31, 2024, the Company had drawn $nil on the Credit Facility. There are standard reporting covenants under the Credit Facility and a financial covenant for the Company to maintain working capital above a ratio of 1.00 to 1.00. Working capital for the covenant is defined as current assets, less current liabilities, excluding the derivative financial instruments, decommissioning obligations, and lease liabilities, adjusted for tax provision, plus the undrawn amount available under the Credit Facility. The Company met these standard reporting covenants as well as the financial covenant, with a working capital ratio of 5.15 to 1.00 as at March 31, 2024.

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

The next semi-annual renewal of the available lending limit of the Credit Facility is scheduled for review by November 30, 2024 and is based on the Lender's interpretation of the Company's reserves and future commodity prices. There can be no assurance that the amount or terms of the Credit Facility will not be adjusted at the next semi-annual review. Should the Lender reduce the Credit Facility's borrowing base below the amount drawn at the time of the redetermination, the Company would have 45 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the redetermined borrowing base. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is compliant with all covenants, representations, and warranties.

c) Capital Management

The Company manages its capital with the following objectives:

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

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

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

Commitments

($000s)		2024	2025	2026	2027	2028	Total
Office & equipment leases	$	88	40	5	3	-	136
Surface leases		229	56	26	26	26	363
Production equipment leases		923	1,056	1,050	982	927	4,938
	$	1,240	1,152	1,081	1,011	953	5,437

Off-Balance Sheet Arrangements

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

Proposed Transactions

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

Changes in Accounting Policies

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

New accounting policies

The Company adopted Amendments to IAS 1 Presentation of Financial Statements, which were effective for annual reporting periods beginning on or after January 1, 2023. The amendments required companies to disclose material rather than significant accounting policies and includes guidance around defining materiality in this context. The amendments did not have a material impact on the Company's disclosures of accounting policies or measurement, recognition or presentation of any items within these financial statements.

Future accounting pronouncements

Effective January 1, 2024, the Company plans to adopt amendments to IAS 1 Presentation of Financial Statements, which was issued by the IASB in January 2020. The amendments further clarify the requirements for the presentation of liabilities as current or non-current in the statements of financial position. In October 2022, the IASB issued Non-current liabilities with covenants which amended IAS 1 Presentation of Financial Statements. The amendments specify the classification and disclosure of a liability with covenants and is effective January 1, 2024. These amendments are not expected to have a material impact on the Company's financial statements.

Risks

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

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

Business Risk

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

To the extent that the COVID-19 pandemic and other geopolitical events may adversely affect Hemisphere's business, financial condition, and results of operations, it may also have the effect of heightening many of the other risks described in this MD&A and Hemisphere's Annual Information Form for the year ended December 31, 2023.

Credit risk

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

The maximum exposure to credit risk is as follows:

		March 31, 2024		December 31, 2023
Accounts receivable				
Marketing receivables	**$**	**7,808**	$	4,525
Trade receivables		**307**		1,206
Receivables from joint ventures		**20**		20
Reclamation deposits		**116**		116
	$	**8,251**	$	5,867

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 March 31, 2024, the Company had working capital (a non-IFRS measure calculated as current assets, less current liabilities, excluding the fair value of financial instruments, lease and decommissioning obligations, adjusted for tax provision and including any bank debt) of $4.2 million (December 31, 2023 - $3.6 million). The Company funds its operations through operating cash flows and a committed $35.0 million two-year renewable term credit facility with ATB Financial.

Market risk

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

Interest rate risk

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

Foreign currency risk

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

Commodity price risk

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

Other price risk

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

Environmental and Climate Change Risks

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

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

Non-IFRS Measures and Other Financial Measures

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

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

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

	Three Months Ended March 31	
($000s, except per share amounts)	**2024**	2023
Cash provided by operating activities	**$ 2,684**	$ 9,034
Change in non-cash working capital	**9,281**	(832)
Adjust: Tax Provision[(1)]	**(1,888)**	-
Adjust: Decommissioning obligation expenditures	**10**	78
Adjusted funds flow from operations	**$ 10,087**	$ 8,280
Per share, basic and diluted	**$ 0.10**	$ 0.08

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

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

	Three Months Ended March 31	
($000s, except per share amounts)	**2024**	2023
Adjusted funds flow	**$ 10,087**	$ 8,280
Capital expenditures	**(5,649)**	(1,465)
Free funds flow	**$ 4,438**	$ 6,815
Per share, basic and diluted	**$ 0.04**	$ 0.07

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

	Three Months Ended March 31	
($000s)	**2024**	2023
Cash used in investing activities	**$ 3,684**	$ 3,493
Change in non-cash working capital	**1,965**	(2,028)
Capital expenditures	**$ 5,649**	$ 1,465

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.

c) **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.

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

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

		As at March 31		As at December 31
		2024		2023
Current assets[1]	**$**	**12,592**	$	14,110
Current liabilities[1]		**(6,494)**		(10,521)
Adjust: Tax Provision[2]		**(1,888)**		-
Working capital	**$**	**4,210**	$	3,589

Notes:

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

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

f) ***Supplementary Financial Measures***

"Adjusted Funds Flow from operations per basic share" is comprised of funds from operations divided by basic weighted average common shares.

"Adjusted Funds Flow from operations per diluted share" is comprised of funds from operations divided by diluted weighted average common shares.

"Annual Free Funds Flow" is comprised of free funds flow from the current three-month period multiplied by four.

"Operating expense per boe" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total production.

"Realized heavy oil price" is comprised of heavy crude oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's crude oil production.

"Realized natural gas price" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas production.

"Realized combined price" is comprised of total commodity sales from production, as determined in accordance with IFRS, divided by the Company's total production.

"Royalties per boe" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production.

"Transportation costs per boe" is comprised of transportation expense, as determined in accordance with IFRS, divided by the Company's total production.

Boe Conversion

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

Forward-Looking Statements

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.*

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 2024 Adjusted Funds Flow and annual Free Funds Flow, may contain future oriented financial information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Company's activities and results. The FOFI has been prepared based on a number of assumptions including the assumptions discussed and disclosed above and below. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits the Company will derive therefrom. The Company has included the FOFI in order to provide readers with a more complete perspective on the Company's future operations and such information may not be appropriate for other purposes. The Company disclaims any intention or *obligation to update or revise any FOFI statements, whether as a result of new information, future events or otherwise, except as required by law.*

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

2024 Adjusted Funds Flow and Annual Free Funds Flow Assumptions

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

MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

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

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

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

Vancouver, British Columbia
May 28, 2024

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)
(Unaudited)

($000s)	Note	**March 31, 2024**	December 31, 2023
Assets			
Current assets			
Cash and cash equivalents		**$ 2,382**	$ 7,189
Accounts receivable	3(a)	**8,135**	5,751
Prepaid expenses		**2,075**	1,170
Derivative financial instruments		**-**	208
		12,592	14,318
Non-current assets			
Reclamation deposits	8	**116**	116
Exploration and evaluation assets	6	**7,302**	2,161
Property and equipment	7	**72,638**	74,142
Total assets		**$ 92,648**	$ 90,737
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 6,494**	$ 3,298
Current tax provision		**-**	7,224
Current portion of lease liabilities	11	**673**	702
Current portion of decommissioning obligations	8	**184**	184
Derivative financial instruments	3(c)	**414**	-
		7,765	11,408
Non-current liabilities			
Lease liabilities	11	**2,651**	2,702
Deferred tax liability		**11,181**	8,972
Decommissioning obligations	8	**6,681**	6,432
		28,278	29,514
Shareholders' Equity			
Share capital	12	**61,998**	63,164
Contributed surplus		**6,421**	6,415
Deficit		**(4,049)**	(8,356)
Total shareholders' equity		**64,370**	61,223
Total liabilities and shareholders' equity		**$ 92,648**	$ 90,737

Commitments Note 13
Subsequent events Note 15

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

Approved by the Board of Directors

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

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)
(Unaudited)

($000s, except per share amounts)	Note	Three Months Ended March 31 **2024**	2023
Revenue			
Oil and natural gas revenue	5	$ **20,961**	$ 18,694
Royalties		**(3,943)**	(3,273)
		17,018	15,421
Realized (loss) on financial instruments		**167**	(228)
Unrealized gain (loss) on financial instruments	3(c)	**(622)**	114
Net revenue		**16,563**	15,307
Expenses			
Production and operating		**4,060**	4,079
Exploration and evaluation	6	**37**	29
Depletion and depreciation	7	**2,273**	2,212
General and administrative		**1,018**	822
Share-based payments	12(b)	**6**	22
Finance expense	9	**170**	224
Foreign exchange loss		**11**	14
Total Expenses		**7,575**	7,402
Income before taxes		**8,988**	7,905
Current income tax expense		**-**	(1,823)
Deferred income tax expense		**(2,210)**	(124)
Net income and comprehensive income for the period		**$ 6,778**	$ 5,958
Net income per share, basic and diluted	12(c)	**$ 0.07**	$ 0.06

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)
(Unaudited)

($000s, except per share amounts)	Note	Number common shares		Share Capital		Contributed Surplus		Deficit		Total Shareholders' Equity
Balance, December 31, 2022		**101,978,939**	**$**	**67,138**	**$**	**5,330**	**$**	**(19,468)**	**$**	**53,000**
Stock option exercise	12(b)	550,000		66		-		-		66
Share-based compensation	12(b)	-		-		1,140		-		1,140
Transfer on option exercise	12(b)	-		55		(55)		-		-
Shares repurchased under NCIB	12(a)	(3,188,600)		(4,095)		-		-		(4,095)
Dividends	12(d)	-		-		-		(13,083)		(13,083)
Net income for the year		-		-		-		24,195		24,195
Balance, December 31, 2023		**99,340,339**	**$**	**63,164**	**$**	**6,415**	**$**	**(8,356)**	**$**	**61,223**
Balance, December 31, 2023		**99,340,339**	**$**	**63,164**	**$**	**6,415**	**$**	**(8,356)**	**$**	**61,223**
Share-based compensation	12(b)	-		-		6		-		6
Shares repurchased under NCIB	12(a)	(869,100)		(1,166)		-		-		(1,166)
Dividends	12(d)	-		-		-		(2,471)		(2,471)
Net income for the period		-		-		-		6,778		6,778
Balance, March 31, 2024		**98,471,239**	**$**	**61,998**	**$**	**6,421**	**$**	**(4,049)**	**$**	**64,370**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)
(Unaudited)

($000s)		Three Months Ended March 31	
	Note	**2024**	2023
Operating activities			
Net income for the period		**$ 6,778**	$ 5,958
Items not affecting cash:			
Accretion of decommissioning costs	8	**49**	49
Deferred tax expense		**2,210**	124
Depletion and depreciation	7	**2,273**	2,212
Exploration and evaluation expense	6	**37**	29
Share-based payments	12(b)	**6**	22
Unrealized loss (gain) on financial instruments	3(c)	**622**	(114)
		11,975	8,280
Decommissioning obligation expenditures	8	**(10)**	(78)
Changes in non-cash working capital	14	**(9,281)**	832
Cash provided by operating activities		**2,684**	9,034
Investing activities			
Exploration and evaluation expenditures	6	**(5,178)**	(50)
Property and equipment expenditures	7	**(471)**	(1,415)
Changes in non-cash working capital	14	**1,965**	(2,028)
Cash used in investing activities		**(3,684)**	(3,493)
Financing activities			
Shares repurchased under NCIB	12(a)	**(1,166)**	(264)
Dividends	12(d)	**(2,471)**	(2,545)
Payment of lease liabilities, net		**(170)**	(154)
Cash used in financing activities		**(3,807)**	(2,963)
Net change in cash		**(4,807)**	2,578
Cash, beginning of period		**7,189**	152
Cash, end of period		**$ 2,382**	$ 2,730

Supplemental cash flow information (Note 14)

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2024 and 2023
(Expressed in Canadian Dollars)
(Unaudited)

1. Nature and Continuance of Operations

Hemisphere Energy Corporation ("HEC") was incorporated under the laws of British Columbia on March 6, 1978. On January 2, 2024, HEC formed a wholly-owned subsidiary, Hemi Energy Inc. ("HEI"). On January 2, 2024, HEC and HEI formed two general partnerships under the laws of Alberta; Hemi Energy Partnership, which owns substantially all of the Company's producing assets, and Hemi Energy Partnership II, which may be used to hold other assets of the Company in the future. Unless the context otherwise requires, references to Hemisphere or the Company include all subsidiaries of HEC. The Company's principal business is the acquisition, exploration, development and production of petroleum and natural gas interests in Canada. It is a publicly traded company listed on the TSX Venture Exchange under the symbol "HME" and on the OTCQX Best Market under the symbol "HMENF". The Company's head office is located at Suite 501, 905 Pender Street West, Vancouver, British Columbia, Canada V6C 1L6.

2. Basis of Presentation

(a) Statement of compliance

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

These unaudited consolidated 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, 2023. These unaudited consolidated 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, 2023.

These Consolidated Financial Statements were authorized for issuance by the Board of Directors on May 28, 2024.

(b) Basis of valuation

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

As part of its capital management process the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company. See further discussions relating to liquidity in Note 4.

Significant areas of estimation, uncertainty, and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements include:

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

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

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

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

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

(vi) Financial instruments

The estimated fair values of the Company's financial derivative commodity contracts are subject to measurement uncertainty due to the estimation of future crude oil and natural gas commodity prices, foreign exchange rates and volatility.

(vii) Warrants and stock options
The estimated fair value of the stock options issued under the Company's stock option plans were based on the Black Scholes pricing model incorporating assumptions on volatility, risk-free interest rate, forfeiture rate and the expected term.

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

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

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

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

(e) Business Risks

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

During the past twelve months, demand for oil and natural gas has been relatively stable as the global economy has steadied after the novel strain of the coronavirus ("COVID-19") pandemic. Energy prices strengthened due to elevated uncertainty of global oil and natural gas supply after Russia's invasion of Ukraine and tensions in the Middle East, in addition to restricted oil and gas investment globally. While the Company has benefited from the improvement in commodity prices, there is a degree of uncertainty related to geopolitical events that have been considered in our estimates as at and for the period ended March 31, 2024.

To the extent that the COVID-19 pandemic and other geopolitical events may adversely affect the Company's business, financial condition, and results of operations, it may also have the effect of heightening many of the other risks described in the Company's Management's Discussion & Analysis, and Annual Information Form for the year ended December 31, 2023.

(f) Environmental and Climate Change Risks

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

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

(g) New accounting policies

The Company adopted Amendments to IAS 1 Presentation of Financial Statements, which were effective for annual reporting periods beginning on or after January 1, 2023. The amendments required companies to disclose material rather than significant accounting policies and includes guidance around defining materiality in this context. The amendments did not have a material impact on the Company's disclosures of accounting policies or measurement, recognition or presentation of any items within these financial statements.

(h) Future accounting pronouncements

Effective January 1, 2024, the Company plans to adopt amendments to IAS 1 Presentation of Financial Statements, which was issued by the IASB in January 2020. The amendments further clarify the requirements for the presentation of liabilities as current or non-current in the statements of financial position. In October 2022, the IASB issued Non-current liabilities with covenants which amended IAS 1 Presentation of Financial Statements. The amendments specify the classification and disclosure of a liability with covenants and is effective January 1, 2024. These amendments are not expected to have a material impact on the Company's financial statements.

3. Financial Risk Management

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

(a) Credit risk

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

The maximum exposure to credit risk is as follows:

($000s)	**March 31, 2023**	December 31, 2023
Accounts receivable		
Marketing receivables	**$ 7,808**	$ 4,525
Trade receivables	**307**	1,206
Receivables from joint ventures	**20**	20
Reclamation deposits	**116**	116
	$ 8,251	$ 5,867

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

(b) Liquidity risk

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

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

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

At March 31, 2024, the Company had working capital (a non-IFRS measure calculated as current assets, less current liabilities, excluding the derivative financial instruments, decommissioning obligations, and lease liabilities, adjusted for tax provision and including any bank debt) of $4.2 million (December 31, 2023 – $3.6 million). The Company funds its operations through operating cash flows and a committed $35 million two-year renewable term credit facility at ATB Financial (see Note 10).

(c) Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

(iii) Commodity price risk

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

At March 31, 2024, the Company held derivative commodity price contracts as follows:

Product	Type	Volume	Price	Index	Term	As at Mar. 31, 2024 Fair Value *($000s)*
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	**(70)**
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	**(70)**
Crude oil	Put Spread	500 bbl/d	US$15.00 WCS Differential	WCS Differential	Jul. 1, 2024 – Sep. 30, 2024	**(274)**
						(414)

At March 31, 2024, the commodity contracts were fair valued as a liability of $0.4 million recorded on the statement of financial position and an unrealized loss for the three-month period of $0.6 million (March 31, 2023 – unrealized gain of $0.1 million). Subsequent to the quarter ended March 31, 2024, the Company has entered into additional commodity contracts (see Note 15).

(iv) Other price risk

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

4. Capital Management

The Company manages its capital with the following objectives:

(a) To ensure sufficient financial flexibility to achieve the Company's ongoing business objectives including the replacement of production, funding of future growth opportunities and pursuit of accretive acquisitions; and

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is comprised of working capital, shareholders' equity, and bank debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, and issuing new debt instruments (see Note 10), or other financial or equity-based instruments, adjusting capital spending, or disposing of assets. The capital structure is reviewed on an ongoing basis. There were no changes to capital management during the period.

5. Revenue

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

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

The Company's production revenues were primarily generated from its core area of the Mannville oil play in Atlee Buffalo, southeast Alberta. The Company's customers are oil and natural gas marketers and joint operations partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by management's policies and practices related to credit risk as discussed in Note 3(a). As at March 31, 2024, production revenue sold to customers was comprised of two marketers which account for $5.8 million of the accounts receivable balance.

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

	Three Months Ended March 31	
($000s)	**2024**	2023
Heavy crude oil	**$ 20,933**	$ 18,647
Conventional natural gas	**28**	47
Total	$ **20,961**	$ 18,694

6. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of Proved and Probable oil and gas reserves. A transfer from exploration and evaluation assets to property and equipment is made when reserves are assigned, or the exploration project has been completed. For the three months ended March 31, 2024, the Company transferred $nil (December 31, 2023 - $nil) to property and equipment, and recognized exploration and evaluation expense of $37 thousand (December 31, 2023 - $124 thousand).

Cost *($000s)*	
Balance, December 31, 2023	$ 168
Additions	2,753
Exploration and evaluation expense	(124)
Impairment	(636)
Balance, December 31, 2023	$ 2,161
Additions	5,178
Exploration and evaluation expense	(37)
Balance, March 31, 2024	**$ 7,302**

At December 31, 2023, the Company performed an assessment of potential impairment indicators on its exploration and evaluation assets ("E&E assets"), and management determined that an impairment test on its non-core Alberta E&E assets was required. It was determined that the carrying amount for the non-core Alberta exploration properties exceeded any economic viability and should be recognized as an impairment charge of $0.6 million.

7. Property and Equipment

Cost *($000s)*		Petroleum and Natural Gas		Right of Use and Other Assets		Total
Balance at December 31, 2022	$	137,187	$	5,397	$	142,584
Additions right-of-use assets		-		103		103
Additions property and equipment		14,109		11		14,120
Increase in decommissioning obligations (Note 8)		907		-		907
Capitalized share-based payments		294		-		294
Balance at December 31, 2023	$	152,497	$	5,511	$	158,008
Additions right-of-use assets		-		89		89
Additions property and equipment		471		-		471
Increase in decommissioning obligations (Note 8)		209		-		209
Balance, March 31, 2024	**$**	**153,177**	**$**	**5,600**	**$**	**159,777**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance at December 31, 2022	**$**	69,543	$	1,126	$	70,669
Depletion and depreciation for the year		8,209		808		9,017
Impairment		4,179		-		4,179
Balance at December 31, 2023	$	81,932	$	1,934	$	83,866
Depletion and depreciation for the period		2,061		212		2,273
Balance at March 31, 2024	**$**	**83,993**	**$**	**2,146**	**$**	**86,139**
Net Book Value						
December 31, 2023	$	70,565	$	3,577	$	74,142
March 31, 2024	**$**	**69,184**	**$**	**3,454**	**$**	**72,638**

The Company's additions for property and equipment included capitalized general and administrative expenses of $168 thousand for the three months ended March 31, 2024 (year ended December 31, 2023 - $155 thousand).

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

At March 31, 2024, the Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units ("CGU"), and management determined that there were no indicators of impairment or reversal identified. As such no impairment test on its petroleum and natural gas assets was required.

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

8. Decommissioning Obligations

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

The Company estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations as at March 31, 2024 is $8.3 million (December 31, 2023 - $8.3 million), and $13.6 million with inflation (December 31, 2023 - $13.6 million). These payments are expected to be made over the next 37 years.

The discount factor as at March 31, 2024, being the risk-free rate related to the liability, is 3.00% (December 31, 2023 – 3.00%). Inflation of 2.00% (December 31, 2023 – 2.00%) has also been factored into the calculation of amounts in the table below. The Company also has $116 thousand in various reclamation bonds for its properties held by the Alberta Energy Regulator and British Columbia Ministry of Energy, Mines and Petroleum Resources at March 31, 2024 (December 31, 2023 - $116 thousand).

($000s)	**Three Months Ended March 31, 2024**	Year Ended December 31, 2023
Decommissioning obligations at beginning of period	**$ 6,616**	$ 5,948
Increase in estimated future obligations	**209**	4,352
Change in estimate	**-**	(3,445)
Payment of decommissioning obligations	**(10)**	(436)
Accretion expense	**50**	197
Decommissioning obligations at end of period	**$ 6,865**	$ 6,616
Current portion	**184**	184
Long-term portion	**6,681**	6,432

9. Finance Expense

($000s)	Note	**Three Months Ended March 31 2023**	2023
Finance expense:			
Loan interest		**$ 133**	$ 115
Lease interest		**54**	60
Interest income		**(67)**	-
Accretion of decommissioning liabilities	8	**50**	49
Total finance expense		**$ 170**	$ 224

10. Bank Debt

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

The Credit Facility had a renewed term date of May 31, 2024. Following the completion of its annual bank review, the term date was extended to May 31, 2025. The facility is extendible at the new term date and on an annual basis for an additional 365 days upon request of the Company. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At March 31, 2024, the Company had drawn $nil on the Credit Facility. There are standard reporting covenants under the Credit Facility and a financial covenant for the Company to maintain working capital above a ratio of 1.00 to 1.00. Working capital for the covenant is defined as current assets, less current liabilities, excluding the derivative financial instruments, decommissioning obligations, and lease liabilities, plus the undrawn amount available under the Credit Facility. The Company met these standard reporting covenants as well as the financial covenant, with a working capital ratio of 5.15 to 1.00 as at March 31, 2024.

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

The next semi-annual renewal of the available lending limit of the Credit Facility is scheduled for review by November 30, 2024 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 March 31, 2024:

($000s)		
Balance at December 31, 2022	$	3,937
Lease additions (Note 7)		103
Interest expense		234
Lease payments		(870)
Balance at December 31, 2023	$	3,404
Lease additions (Note 7)		90
Interest expense		54
Lease payments		(224)
Balance at March 31, 2024	$	**3,324**
Current portion	$	673
Long-term portion		2,651

12. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at March 31, 2024 and December 31, 2023, the Company had the following common shares issued and outstanding:

Common Shares	Shares		Value ($000s)
Balance at December 31, 2022	101,978,939	$	67,138
Shares issued for stock option exercises	550,000		66
Shares repurchased and cancelled (NCIB)	(3,188,600)		(4,095)
Transfer on stock option exercise			55
Balance at December 31, 2023	99,340,339	$	63,164
Shares repurchased and cancelled (NCIB)	(869,100)		(1,166)
Balance at March 31, 2024	**98,471,239**	**$**	**61,998**

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. In the three months ended March 31, 2024, the Company purchased and cancelled 869,100 shares under the NCIB for $1.2 million at an average cost of $1.34 per share.

(b) Stock options

The Company has a stock option plan in place and is authorized to grant stock options to officers, directors, employees, and consultants whereby the aggregate number of shares reserved for issuance may not exceed 10% of the issued shares at the time of grant and 5% of the issued shares to each optionee. Stock options are non-transferable and have a maximum term of ten years. Stock options terminate no later than 90 days upon termination of employment or employment contract and one year in the case of retirement, death or disability. The grant price is determined using the closing price of the Company's shares from the day prior to the grant.

Details of the Company's stock options as at March 31, 2024 and 2023 are as follows:

				Changes in the Period				
Exercise Price	Grant Date	Expiry Date	Balance Outstanding December 31, 2023	Granted	Exercised	Expired/ Cancelled	**Balance Outstanding March 31, 2024**	**Balance Exercisable March 31, 2024**
$0.12	17-Jun-20	17-Jun-25	485,000	-	-	-	**485,000**	**485,000**
$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**	**3,150,000**
$1.25	11-Sep-23	11-Sep-33	50,000	-	-	-	**50,000**	**50,000**
$1.27	15-Dec-23	15-Dec-28	1,988,000	-	-	-	**1,988,000**	**1,952,000**
			7,564,000	-	-	-	**7,563,000**	**7,527,000**
Weighted-average exercise price			$1.13	-	-	-	**$1.13**	**$1.13**

Exercise Price	Grant Date	Expiry Date	Balance Outstanding December 31, 2023	Changes in the Period: Granted	Exercised	Expired/ Cancelled	Balance Outstanding March 31, 2024	Balance Exercisable March 31, 2024
$0.12	17-Jun-20	17-Jun-25	1035,000	-	-	-	1035,000	1035,000
$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	6,018,750
			6,075,000	-	-	-	6,075,000	6,018,750
Weighted-average exercise price			$0.99	-	-	-	$0.99	$0.99

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees, and consultants of the Company. For the three months ended March 31, 2024, the Company recorded total share-based payments of $6 thousand, compared to $22 thousand for the same period in 2022.

(c) Income per share

($000s, except per share amounts)		Three Months Ended March 31 **2024**		2023
Net income for the period	**$**	**6,778**	$	5,958
Weighted average number of common shares outstanding, basic		**98,806,128**		101,835,965
Dilutive stock options and warrants		**1,586,051**		2,366,422
Weighted average number of common shares outstanding, diluted		**100,392,179**		104,202,387
Income per share, basic and diluted	**$**	**0.07**	$	0.06

In computing the weighted-average shares outstanding for the three months ended March 31, 2024, the Company included 1,586,051 dilutive stock options. For the comparable period in 2023, the Company included 2,366,422 dilutive stock options.

(d) Dividends

On January 25, 2024, the Company announced a variable dividend payment of $2.47 million to its shareholders at $0.025 per share which was paid on February 23, 2024.

13. Commitments

($000s)		2024	2025	2026	2027	2028	Total
Office & equipment leases	$	88	40	5	3	-	136
Surface leases		229	56	26	26	26	363
Production equipment leases		923	1,056	1,050	982	927	4,938
	$	1,240	1,152	1,081	1,011	953	5,437

14. Supplemental Cash Flow Information

	Three Months Ended March 31	
($000s)	**2024**	2023
Provided by (used in):		
Accounts receivable	**$ (2,384)**	$ (1,056)
Prepaid expenses	**(905)**	(563)
Accounts payable and accrued liabilities	**3,197**	423
Current tax provision	**(7,224)**	1,823
Total changes in non-cash working capital	**$ (7,316)**	$ (1,196)
Provided by (used in):		
Operating activities	**$ (9,281)**	$ 832
Investing activities	**1,965**	(2,028)
Total changes in non-cash working capital	**$ (7,316)**	$ (1,196)

Cash interest, including standby and other bank fees, less interest income, paid on the Company's debts during the three months ended March 31, 2024 was $67 thousand, compared to $115 thousand for equivalent for the same period in 2023.

15. Subsequent Events

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

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

b) As at May 28, 2024, the Company has purchased and cancelled an additional 765,400 shares under the NCIB for $1.2 million at an average cost of $1.62 per share.

c) On May 28, 2024, the Company's Board of Directors approved a quarterly dividend of $0.025 per share to the Company's shareholders of record on June 20, 2024 for payment on June 28, 2024.

OFFICERS

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

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

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

Andrew Arthur, P.Geol.
Vice President, Exploration

BOARD OF DIRECTORS

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/Nominating and Corporate Governance Committee
(3) Reserves Committee

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