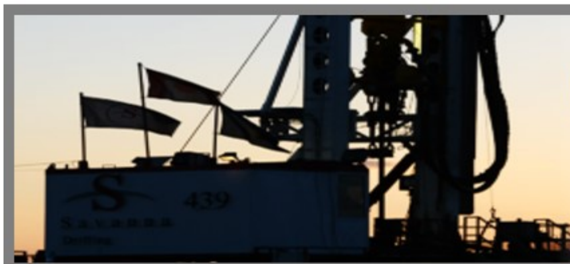

Q1 2021

Hemisphere ENERGY

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

Q1 2021 HIGHLIGHTS

- Recorded a 9% increase in production over the previous quarter, at 1,654 boe/d (99% heavy crude oil and 1% conventional natural gas).
- Generated revenue of $7.9 million, a 59% increase from the first quarter of 2020.
- Achieved low operating and transportation costs of $10.51/boe.
- Attained $5.3 million ($0.06/basic share) in operating netback, or $35.59/boe, which includes $0.67/boe in hedging losses.
- Realized $4 million ($0.05/basic share) in adjusted funds flow from operations, or $27.15/boe.
- Lowered net debt by 36% when compared to the first quarter of 2020, to $21.1 million.
- Lowered Net Debt to AFF by 66% from the first quarter of 2020, to 1.3.

CORPORATE UPDATE

The first quarter of 2021 yielded excellent results for Hemisphere. Production averaged 9% higher than the fourth quarter, as wells started to respond to injector conversions done late in 2020. Production has since climbed even further, averaging over 1,800 boe/d to date in the second quarter (99% heavy crude oil and 1% conventional natural gas), based on field estimates between April 1st to May 16th, 2021 and including an April turnaround and some downtime during facilities and pipeline work.

The Company invested $1.1 million in capital expenditures during the first three months of the year, which included facility upgrades to allow for polymer injection start-up at the Atlee Buffalo G pool by the end of June. With strong oil pricing through the quarter, Hemisphere generated adjusted funds flow from operations (AFF) of $4 million ($27.15/boe), and attained nearly $3 million in free cash flow which was utilized to pay down debt. This brings Hemisphere's current ratio of net debt to annualized AFF to 1.3. Management anticipates that with an AFF of $27.15/boe, Hemisphere's bottom line during the first quarter is amongst the highest of all its peers.

Outlook

With continued strength in oil prices this year, Hemisphere plans to implement the Atlee Buffalo G pool polymer flood conversion, complete a late summer 3-well drilling program, move forward the F pool polymer conversion project for 2022 implementation, and continue to reduce debt and lower financing costs. The Company believes that substantial untapped value still exists in further developing its exceptional quality, low decline, and high free cash flow assets.

Annual General and Special Meeting of Shareholders

Hemisphere's Annual General and Special Meeting of Shareholders is being held in the offices of Harper Grey LLP, 3200 – 650 West Georgia Street, Vancouver, British Columbia on Wednesday, June 15, 2021 at 9:00 a.m. (Pacific Daylight Time).

2021 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended March 31	
	2021	2020
FINANCIAL		
Petroleum and natural gas revenue	**$ 7,889,016**	$ 4,963,201
Operating field netback[1]	**5,397,952**	2,690,809
Operating netback[2]	**5,297,855**	3,524,639
Cash flow provided by operating activities	**3,202,500**	3,357,363
Adjusted funds flow from operations (AFF)[3]	**4,041,562**	2,154,594
Per share, basic[3]	**0.05**	0.02
Per share, diluted[3]	**0.04**	0.02
Net income	**1,767,336**	1,210,299
Per share, basic and diluted	**0.02**	0.01
Capital expenditures	**1,081,584**	434,787
Net debt[4]	**21,096,033**	33,196,190
Net debt to annualized AFF[3][4]	**1.3**	3.9
Gross term loan[5]	**$ 24,174,150**	$ 35,855,550
Average daily production		
Heavy oil (bbl/d)	**1,638**	1,941
Natural gas (Mcf/d)	**92**	192
Combined (boe/d)	**1,654**	1,973
Oil weighting	**99%**	98%
Average sales prices		
Heavy oil ($/bbl)	**$ 53.34**	$ 27.90
Natural gas ($/Mcf)	**2.85**	1.97
Combined ($/boe)	**$ 53.00**	$ 27.64
Operating netback ($/boe)		
Petroleum and natural gas revenue	**$ 53.00**	$ 27.64
Royalties	**(6.23)**	(2.65)
Operating costs	**(8.20)**	(7.36)
Transportation costs	**(2.31)**	(2.64)
Operating field netback[1]	**36.26**	14.99
Realized commodity hedging gain (loss)	**(0.67)**	4.64
Operating netback[2]	**$ 35.59**	**$ 19.63**
Adjusted funds flow from operations[3] ($/boe)	**$ 27.15**	$ 12.00

Notes:

(1) Operating field netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties, operating expenses and transportation costs on an absolute and per barrel of oil equivalent basis.

(2) Operating netback is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) on an absolute and per barrel of oil equivalent basis.

(3) Adjusted funds flow from operations, is a non-IFRS measure that represents cash generated by operating activities, before changes in non-cash working capital and adjusted for any decommissioning expenditures, and may not be comparable to measures used by other companies.

(4) Net debt is a non-IFRS measure calculated as current assets minus current liabilities, excluding fair value of financial instruments, lease and warrant liabilities, plus gross term loan.

(5) Gross term loan is calculated as the total USD draws, less any payments, on the term loan translated to Canadian Dollars at the period end exchange rate.

	Three months ended March 31	
	2021	2020
SHARE CAPITAL		
Common shares outstanding	**88,199,802**	88,582,302
Stock options outstanding	**6,759,000**	7,084,000
Warrants outstanding	**13,750,000**	13,750,000
Fully Diluted	**108,708,802**	109,416,302
Weighted-average shares outstanding – basic	**87,456,246**	88,636,720
Weighted-average shares outstanding – diluted	**92,693,093**	89,478,843

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at May 19, 2021

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, 2021 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the unaudited condensed interim financial statements and related notes for the three months ended March 31, 2021, and the audited annual financial statements and related notes for the year ended December 31, 2020. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.

The information in this MD&A is based on the unaudited condensed interim financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of unaudited condensed 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 additional IFRS Measures" and "Forward-Looking Statements" included at the end of this MD&A. All figures are in Canadian dollars unless otherwise noted.

Business Overview

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

Atlee Buffalo, Alberta

The Company owns and operates all of its wells in the Atlee Buffalo area. The property is accessible year-round and is located north of Medicine Hat in southeastern Alberta. Hemisphere has a 100% working interest in 8,800 net acres.

Jenner, Alberta

Hemisphere owns and operates all of its wells and has a land position of 8,024 net acres in the Jenner area. The property is accessible year-round and is located 25 kilometers west of the Company's Atlee Buffalo property in southeastern Alberta.

Operating Results

The Company generated adjusted funds flow from operations[1] of $4,041,562 ($0.05/share) for the three months ended March 31, 2021, as compared to $2,154,492 ($0.02/share) for the three months ended March 31, 2020. The increase in adjusted funds flow from operations for the three months ended March

[1] *Adjusted funds flow from operations, is a non-IFRS measure that represents cash generated by operating activities, before changes in non-cash working capital and adjusted for any decommissioning expenditures, and may not be comparable to measures used by other companies.*

31, 2020 is due primarily to a 92% increase in the combined average realized sales price, which was somewhat offset by a 16% decrease in production over the comparable quarter of 2020.

The Company reported net income of $1,767,336 ($0.02/share) for the three months ended March 31, 2021, compared to a net income of $1,210,299 ($0.01/share) for the comparable quarter in 2020. This increase of $557,037 in the first quarter of 2021 is generally the result of an increase in operating field netback of $2,707,143, and a foreign exchange gain of $2,939,793, offset by a decrease in impairment of $3,859,110, and realized and unrealized hedging gains of $933,927 and $8,134,444, respectively, over first three months of 2020.

Production

	Three Months Ended March 31	
By product:	**2021**	2020
Oil (bbl/d)	**1,638**	1,941
Natural gas (Mcf/d)	**92**	192
Total (boe/d)	**1,654**	1,973
Oil weighting	**99%**	98%

In the first quarter of 2021, the Company's average daily production was 1,654 boe/d (99% heavy crude oil and 1% conventional natural gas) representing a 16% decrease over the comparable quarter in 2020. This decrease can be attributed to natural decline and the conversion of three wells in the Atlee G Pool from oil producing wells to water injectors in late 2020.

Average Benchmark and Realized Prices

	Three Months Ended March 31	
	2021	**2020**
Benchmark prices		
WTI ($US/bbl)[1]	**$ 57.84**	$ 46.17
Exchange rate (1 $US/$C)	**1.2663**	1.3425
WTI ($C/bbl)	**73.24**	61.98
WCS Diff ($C/bbl)	**(15.82)**	(27.88)
WCS ($C/bbl)[2]	**57.43**	34.10
AECO natural gas ($/Mcf)[3]	**3.13**	2.03
Average realized prices		
Crude oil ($/bbl)	**53.34**	27.90
Natural gas ($/Mcf)	**2.85**	1.97
Combined ($/boe)	**$ 53.00**	$ 27.64

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

The Company's oil and natural gas sales 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 Western Canada Select ("WCS") and Hemisphere's crude oil, are based on price postings, which is WTI-adjusted for transportation, quality, and the currency conversion rates from United States dollar ("USD") to Canadian dollar.

The Company's combined average realized price increased by 92% from $27.64/boe during the three months ended March 31, 2020 to $53.00/boe during the three months ended March 31, 2021. This increase is the result of a higher realized WTI price, combined with an decrease of $12.07/bbl in the differential between the WCS and WTI pricing.

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

Product	Type	Volume	Price	Index	Term
Crude oil	3-Way	625 bbl/d	US$40.00(put)/US$48.00(put)/US $60(call)	WTI-NYMEX	Apr. 1, 2021 – Jun. 30, 2021
Crude oil	Phys. Swap	400 bbl/d	US$48.00	WCS	Apr. 1, 2021 – Jun. 30, 2021
Crude oil	Swap	200 bbl/d	US$11.15	WCS Differential	May 1, 2021 – Jun. 30, 2021
Crude oil	Phys. Swap	200 bbl/d	US$46.05	WCS	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Phys. Swap	200 bbl/d	US$9.45	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	100 bbl/d	US$56.75	WTI-NYMEX	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	500 bbl/d	US$60.07	WTI-NYMEX	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	200 bbl/d	US$11.50	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	100 bbl/d	US$11.20	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	100 bbl/d	US$11.15	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	800 bbl/d	US$58.45	WTI-NYMEX	Oct. 31, 2021 – Dec. 31, 2021
Crude oil	Swap	100 bbl/d	US$12.50	WCS Differential	Oct. 31, 2021 – Dec. 31, 2021
Crude oil	Swap	100 bbl/d	US$12.00	WCS Differential	Oct. 31, 2021 – Dec. 31, 2021
Crude oil	Swap	800 bbl/d	US$57.03	WTI-NYMEX	Jan. 1, 2022 – Mar. 31, 2022
Crude oil	Put Spread	725 bbl/d	US$30.00(put sell)/US$40.00(put buy), net cost US$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022

At March 31, 2021, the commodity contracts were fair valued as a current asset of $182,194 and a non-current liability of $8,932, and an unrealized loss was recorded for the three month period of $20,426 (March 31, 2020 – unrealized gain of $8,114,018).

Revenue

	Three Months Ended March 31	
	2021	2020
Oil	**$ 7,865,413**	$ 4,928,793
Natural gas	**23,603**	34,408
Total	**$ 7,889,016**	$ 4,963,201

Revenue for the three months ended March 31, 2021 increased by 59% from the comparable period in 2020. This increase is due primarily to the $25.36/boe increase in the Company's combined average realized price during the period, which was somewhat offset by a 16% decrease in production.

Operating Netback

		Three Months Ended March 31		
		2021		2020
Operating netback				
Revenue	**$**	**7,889,016**	$	4,963,201
Royalties		**(927,784)**		(475,817)
Operating costs		**(1,219,860)**		(1,322,257)
Transportation costs		**(343,420)**		(474,318)
Operating field netback[(1)]	**$**	**5,397,952**	$	2,690,807
Realized commodity hedging gain (loss)		**(100,097)**		833,830
Operating netback[(2)]	**$**	**5,297,855**	$	3,524,637
Operating netback ($/boe)				
Revenue	**$**	**53.00**	$	27.64
Royalties		**(6.23)**		(2.65)
Operating costs		**(8.20)**		(7.36)
Transportation costs		**(2.31)**		(2.64)
Operating field netback[(1)]	**$**	**36.26**	$	14.98
Realized commodity hedging gain (loss)		**(0.67)**		4.64
Operating Netback[(2)]	**$**	**35.59**	$	19.63

Notes:

(1) Operating field netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties, operating expenses and transportation costs on an absolute and per barrel of oil equivalent.

(2) Operating netback is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) on an absolute and per barrel of oil equivalent.

Royalties per barrel for the three months ended March 31, 2021 were $6.23/boe, representing a 135% increase from the three months ended March 31, 2020. This was primarily the result of higher realized commodity prices.

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, 2021 increased on a per boe basis by $0.83, or 11% over the same period in 2020. This increase per boe is due to those costs being distributed across decreased production resulting from the conversion of three producing wells in the Atlee Buffalo G Pool to water injectors. The Company continues to work to find efficiencies in its operations to keep operating costs low.

Transportation costs include all costs incurred to transport emulsion and oil and gas sales to processing and distribution facilities. Transportation costs were $2.31/boe during the first quarter of 2021, which is a $0.33/boe or 13% decrease from the comparable quarter in 2020. This slight decrease in trucking costs for the three months ended March 31, 2021 over the comparable periods in 2020 is due to reduced wait times at the various sales points to which oil is trucked.

Operating netback at $35.59/boe for the three months ended March 31, 2021 was 81% higher than the comparable quarter in 2020, mainly due to the 92% increase in the Company's combined average realized price, offset by the higher royalties and operating costs discussed above, combined with a $0.67/boe hedging loss in the first quarter of 2021 (March 31, 2020 – gain of $4.64/boe).

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, 2021 and 2020 were $17,085 and $12,275, respectively.

Depletion and Depreciation

	Three Months Ended March 31	
	2021	2020
Depletion expense	**$ 920,598**	$ 1,350,018
Depreciation expense	**26,465**	27,503
Total	**$ 947,062**	$ 1,377,521
$ per boe	**$ 6.36**	$ 7.67

The depletion rate is calculated using the unit-of-production method on Proved and Probable oil and natural 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, 2021 decreased to $6.36/boe from $7.67/boe for the same period in 2020. The decrease in depletion expense for the period ended March 31, 2021 as compared to the same periods in 2020 is due to amortization of production over a larger reserve base from the Company's December 31, 2020 independent engineer's evaluation report as prepared by McDaniel and Associates Consultants Ltd.

Impairment

At March 31, 2021, the Company performed an assessment of potential impairment indicators on each of its Cash Generating Units (CGUs), and management determined that no impairment test on its petroleum and natural gas assets was required (March 31, 2020 - $3,859,110 impairment).

The recoverable amounts were determined with fair value less costs to sell using a discounted cash flow method and categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, royalties, operating costs, future development costs and discount rates specific to the underlying composition of assets residing in each CGU.

Capital Expenditures

	Three Months Ended March 31	
	2021	2020
Land and lease	**$ 2,184**	$ 4,164
Geological and geophysical	**163,828**	191,748
Drilling and completions	**119,535**	214,090
Facilities and infrastructure	**794,288**	20,745
Total capital expenditures(1)	**$ 1,081,584**	$ 434,787

Note:

(1) Total capital expenditures exclude decommissioning obligations and non-cash items.

The development capital spent during the three months ended March 31, 2021 included preparatory spending for the polymer skid installation at the Company's Atlee G Pool, as well as projects that intend to provde long-term operating costs savings and increase oil recovery.

General and Administrative

	Three Months Ended March 31	
	2021	2020
Gross general and administrative	**$ 814,505**	$ 629,467
Capitalized general and administrative	**(137,655)**	(128,784)
Total	**$ 676,850**	$ 500,683
$ per boe	**$ 4.55**	$ 2.79

General and administrative ("G&A") expenses increased on an absolute and per boe basis by $176,168 and $1.76/boe for the three months ended March 31, 2021 over the comparable period in 2020. The G&A costs increased due to higher costs for legal, computer systems, OTC listing, investor relations, consulting fees, and staffing costs in the first quarter of 2021. G&A also reflected higher on a per boe basis, as this was calculated over a lower production number from the prior year's comparable quarter.

The Company capitalizes some general and administrative 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, 2021, capitalized general and administrative expenses increased by $8,870 over the comparable period in 2020.

Finance Expense

	Three Months Ended March 31	
	2021	2020
Loan interest	**$ 547,041**	$ 863,844
Lease interest	**8,702**	9,897
Loss/(gain) in fair value of warrant liability	**1,486,766**	942,696
Accretion of debt issuance costs	**54,891**	117,080
Amortization of deferred charges	**48,792**	75,892
Accretion of decommissioning liabilities	**25,592**	32,256
Total finance expense	**$ 2,171,783**	$ 2,041,665
Total $ per boe	**$ 14.59**	$ 11.37
Loan interest $ per boe	**$ 3.68**	$ 4.81

Loan interest for the three months ended March 31, 2021 decreased by $316,804 or 37%, over the comparable period in 2020 which is the result of a decrease in the 3-month LIBOR rate for the periods upon which the term loan quarterly interest is calculated, combined with a reduction in the principle of the term loan via US$7.25 million of repayments during the year. The Company also recorded $8,702 of lease interest on right-of-use assets liability under IFRS 16 for the three months ended March 31, 2021. The finance expense per boe has increased by $3.22/boe compared to the first quarter of 2020 due primarily to an increase in the warrant liability valuation.

Accretion expense 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, 2021, accretion expense decreased by 21% over the comparable period in 2020.

Remeasurement Loss/(Gain) on Warrant Liability

For the three months ended March 31, 2021 and year ended December 31, 2020, the Company recognized a remeasurement loss of $942,696, and a gain of $228,256, respectively ($531,154 loss and $656,620 loss for comparable periods in the prior year[2]). The Company issued 13,750,000 warrants to a third-party lender on September 15, 2017 in conjunction with its term loan. Each warrant entitles the holder to purchase one common share of Hemisphere at an exercise price of $0.28 per share prior to September 15, 2022. The exercise price of the warrants represented a 40% premium to the 30-day volume weighted average price ("VWAP") of Hemisphere's common shares at market close on September 14, 2017. The warrants are subject to a forced exercise clause which applies upon a 30-day VWAP equaling or exceeding $1.40 per share. The warrants are non-transferable.

[2] *Prior period comparisons have been restated as outlined in note 3 in the March 31, 2021 quarterly financial statements.*

The warrants are classified as a financial liability as a result of a cashless exercise provision. The fair value of the warrants is revalued every quarter using the Black and Scholes pricing model. Valuations for the current and previous quarter were calculated with the following inputs:

	March 31, 2021	December 31, 2020
Share Price	$ 0.43	$ 0.20
Risk-free interest rate	0.99%	0.39%
Expected life (years)	1.46	1.70
Expected volatility	109%	112%

Tax Pools

The Company has approximately $60.2 million of tax pools available to be applied against future income for tax purposes. Based on available pools and current commodity prices, the Company does not expect to pay current income tax in 2021 and any taxes payable beyond 2021 will primarily be a function of commodity prices, capital expenditures and production volumes.

	Deduction Rate	**December 31, 2020**	December 31, 2019
Canadian exploration expense (CEE)	100%	**$ 3,336,823**	$ 3,336,823
Canadian development expense (CDE)	30%	**19,655,797**	19,140,307
Canadian oil and gas property expense (COGPE)	10%	**4,438,962**	4,932,180
Non-capital losses carry forwards (NCL)	100%	**31,174,540**	37,947,967
Undepreciated capital cost (UCC)	20-55%	**811,977**	1,086,076
Share issuance costs and other	Various	**748,801**	1,140,239
Total		**$ 60,166,900**	$ 67,583,592

Summary of Quarterly Results

	2021		2020				2019	
	Mar. 31 Q1(1)	Dec. 31 Q4(2)	Sep. 30 Q3(3)	Jun. 30 Q2(4)	Mar. 31 Q1(5)	Dec. 31 Q4(6)	Sep. 30 Q3(7)	Jun. 30 Q2(8)
Average daily production (boe/d)	**1,654**	1,522	1,686	1,645	1,973	2,166	1,738	1,367
Heavy oil and natural gas revenue	**7,889,016**	5,354,596	5,889,668	2,452,793	4,963,201	9,472,078	8,207,658	7,396,095
Operating field netback(9)	**5,397,952**	2,931,465	3,862,969	1,259,856	2,690,808	6,284,329	5,206,705	4,357,767
Cash provided by operating activities	**3,202,500**	2,127,640	3,087,950	816,755	3,357,353	3,519,506	3,792,868	2,524,737
Adjusted funds flow from operations(10)	**4,041,562**	2,380,051	3,406,612	1,353,680	2,154,594	4,324,443	3,547,634	2,548,388
Per share, basic and diluted	**0.05**	0.03	0.04	0.02	0.02	0.05	0.04	0.03
Net income (loss)(12)	**1,767,336**	(1,501,079)	1,410,470	(3,420,988)	3,095,690	(2,888,075)	2,744,160	3,142,104
Per share, basic and diluted	**0.02**	(0.02)	0.02	(0.04)	0.02	(0.03)	0.03	0.03
Combined average realized price ($/boe)	**53.00**	38.24	37.96	16.38	27.64	47.53	51.34	59.44
Operating netback ($/boe)(11)	**35.59**	25.43	30.41	17.74	19.63	30.70	30.64	31.10

Notes:

(1) The increases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to an increase in realized commodity prices.

(2) The decreases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to a decrease in realized commodity prices and average production rates.

(3) The increases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to an increase in realized commodity prices.

(4) The decreases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to a decrease in realized commodity prices and average production rates.

(5) The decreases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to a decrease in realized commodity prices.

(6) The increases in revenue, netbacks and adjusted funds flow from operations are due to increases in production rates and realized commodity prices.

(7) The increases in revenue, netbacks and adjusted funds flow from operations are due to increases in production rates.

(8) The increases in revenue and netbacks are due to increases in realized commodity prices.

(9) Operating field netback per boe is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties, operating expenses and transportation costs on an absolute and per barrel of oil equivalent basis.

(10) Adjusted funds flow from operations is a non-IFRS measure that represents cash generated by operating activities, before changes in non-cash working capital and adjusted for any decommissioning expenditures, and may not be comparable to measures used by other companies.

(11) Operating netback is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) on an absolute and per barrel of oil equivalent basis

(12) The net income (loss) has changed from prior presentation due to the recast of warrants from equity to debt, see note 3 of the quarterly financial statements

Outstanding Share Capital

	May 19, 2021	**March 31, 2021**	December 31, 2020
Fully diluted share capital			
Common shares issued and outstanding	87,914,802	**88,199,802**	88,582,302
Stock options	6,759,000	**6,759,000**	7,084,000
Warrants	13,750,000	**13,750,000**	13,750,000
Total fully diluted shares outstanding	108,423,802	**108,708,802**	109,416,302

On June 27, 2019 the Company announced notice of a normal course issuer bid (NCIB) to purchase and cancel, from time to time, up to 8,016,731 common shares of the Company until July 1, 2020. The Company subsequently purchased and cancelled 1,301,000 shares under this NCIB for $179,273 as at June 30, 2020, for an average cost of $0.14 per share. This included 320,000 shares purchased and cancelled in the first half of fiscal 2020 for $55,597 at an average cost of $0.17 per share.

Further, on June 29, 2020, the Company announced the renewal of the normal course issuer bid (NCIB) to purchase and cancel, from time to time, up to 7,869,931 common shares of the Company until July 1, 2021. During the six months ended December 31, 2020, the Company purchased and cancelled 1,800,000 shares under the NCIB for $209,880 at an average cost of $0.12 per share. For the quarter ended March 31, 2021, the Company purchased and cancelled an 252,500 shares under the NCIB for $47,000 at an average cost of $0.19 per share.

Subsequent to the quarter ended March 31, 2021, the Company has purchased and cancelled an additional 285,000 shares under the NCIB for $117,070 at an average cost of $0.41 per share.

During the quarter ended March 31, 2021, the Company issued 1,670,000 shares for stock options exercised through the Employee Stock Option Plan, at an exercise price of $0.08 per share.

The Company has the following stock options that are outstanding and exercisable as at May 19, 2021:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding May 19, 2021	Balance Exercisable May 19, 2021
$0.25	September 21, 2017	September 21, 2022	4,809,000	4,809,000
$0.28	October 2, 2017	October 2, 2022	150,000	150,000
$0.25	January 1, 2018	January 1, 2023	250,000	250,000
$0.12	March 1, 2019	March 1, 2024	50,000	50,000
$0.12	June 17, 2020	June 17, 2025	1,500,000	1,500,000
			6,759,000	6,759,000
Weighted-average exercise price			$0.22	$0.22

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.

Management plans over the next two years to significantly lower debt while growing production and funds flow, which should allow the Company to accelerate internal projects, make strategic acquisitions, and increase return of capital to shareholders. In 2021, Hemisphere has set a capital program of approximately $6 million on polymer flood implementation, facilities upgrades, and a drilling program.

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, 2021 was $1,512,580. These funds are primarily a repayment of US$1,250,000 (CAD$1,579,250) towards the Company's term loan in the first quarter of 2021, plus shares purchased under the NCIB, and lease liability payments in the period.

b) Term Loan

On September 15, 2017, the Company entered into a first lien senior secured credit agreement (the "Credit Agreement") with a third-party lender (the "Lender") providing for a multi-draw, non-revolving term loan facility of a maximum aggregate principal amount of up to US$35.0 million. Security granted by the Company under the Credit Agreement included a demand debenture for US$75.0 million which provides for a first ranking security interest and floating and fixed charges over all of the real and personal property present and after acquired of the Company.

An initial commitment amount of US$15.0 million (the "Term Loan") was granted at inception and on January 23, 2018 and June 1, 2018 the Company amended its credit agreement with its Lender to increase the commitment amount by US$5.0 million and US$10.0 million, respectively. This brings the Company's aggregate amount committed by the Lender under the Term Loan to US$30.0 million.

As at March 31, 2021, the Company had a term loan balance of US$19.25 million (CAD$24,174,150) at period close exchange rate) resulting from total draws of US$26.5 million less total repayments of US$7.25 million.

The Company's ability to access additional commitments in excess of US$30.0 million is subject to approval of the Lender based on review and approval of the Company's future development plans.

The interest rate for the Term Loan is the three-month United States dollar London Interbank Offered Rate ("LIBOR") with a LIBOR floor of 1%, plus 7.50% payable quarterly, for a five-year term with a maturity date of September 15, 2022. The Company issued 13,750,000 warrants, in conjunction with the term loan, entitling the Lender to purchase one common share of Hemisphere at an exercise price of $0.28/share prior to September 15, 2022.

The Term Loan is subject to certain quarterly financial and performance covenants to the maturity date of the loan on September 15, 2022:

1. Interest coverage ratio shall not be less than 3.00 to 1.00.
2. Total leverage ratio shall not be more than 3.25 to 1.00.
3. Minimum average production shall not be less than 1,500 boe/d.
4. Proved developed producing coverage ratio, based on reserve reports internally prepared by Hemisphere, shall not be less than 1.00 to 1.00.
5. Total proved reserves coverage, based on reserve reports internally prepared by Hemisphere, shall not be less than 1.50 to 1.00.

Covenants[3] table for the quarter ended March 31, 2021:

Ratio			**Required**	**Actual March 31, 2021**
1.	Interest Coverage Ratio	Greater than	3.00	8.27
2.	Total Leverage Ratio	Less than	3.25	1.32
3.	Minimum Average Production Boe/d	Greater than	1,500	1,654
4.	Proved Developed Producing Coverage Ratio	Greater than	1.00	2.90
5.	Total Proved Reserves Coverage Ratio	Greater than	1.50	5.53

At March 31, 2021, the Company was in compliance with the financial and performance covenants as noted in the table above. In the event of a covenant violation, this would represent a default under the Term Loan and, if not remedied or waived by the lender, would result in the right of the lender to demand repayment of all amounts owed.

Management forecasts the Company will continue to meet all financial and operational covenants. Management's forecasts may change materially based upon actual prices received during the year, 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.

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 through enhancing the Company's share value.

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.

[3] Details on the calculations of the covenants can be found in the Credit Agreement and the amendment thereto filed on SEDAR at www.sedar.com on September 22, 2017 and February 1, 2018 respectively, under the Company's profile.

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 the Term Loan. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, incurring additional indebtedness under the Term Loan, 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

The Company has a commitment to make monthly operating cost payments pursuant to the office lease agreement at its current location until May 31, 2023.

As at March 31, 2021, the gross balance of the Term Loan was $24,174,150 (US$19,250,000), exclusive of the debt issuance costs. The Term Loan matures on September 15, 2022.

		2021	2022	2023	Total
Office agreement	$	58,977	78,636	32,675	170,378
Term loan		-	24,174,150	-	24,174,150
Term loan interest		1,541,102	1,541,102	-	3,082,204
	$	1,600,079	25,793,888	32,675	27,426,732

Off-Balance Sheet Arrangements

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

Related Party Transactions

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

		Three Months Ended March 31		
		2021		2020
Salaries and wages	**$**	**285,000**	$	285,000
Share-based payments		**-**		-

Proposed Transactions

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

Changes in Accounting Policies

As of the effective date, there are no changes in accounting policies.

Risks

The Company's activities expose it to a variety of risks that arise as a result of its exploration, development, production and financing activities. These risks and uncertainties include, among other things, volatility in market prices for oil and natural gas, general economic conditions in Canada, the US and globally and other factors described under "Risk Factors" in Hemisphere's most recently filed Annual Information Form which is available on the Company's website at www.hemisphereenergy.ca or on SEDAR at www.sedar.com. 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 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.

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, 2021	December 31, 2020
Accounts receivable		
Marketing receivables	**$ 3,045,385**	$ 1,767,578
Trade receivables	**81,731**	159,776
Receivables from joint ventures	**7,817**	5,309
Reclamation deposits	**115,535**	115,535
	$ 3,250,468	$ 2,048,198

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 marketer.

Liquidity risk

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

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

In light of the current volatility in oil and gas prices 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, 2021, the Company had net debt (a non-IFRS measure calculated as current assets less current liabilities excluding fair value of financial instruments and lease liabilities, and including the gross term loan) of $21,096,033 (December 31, 2020 - $24,429,190). The Company funds its operations through operating cash flows and the term loan. At March 31, 2021, the Company has an additional US$3.5 million of borrowing base committed with its lender, which it can draw from for future capital programs, subject to the lender's approval.

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 Term Loan are subject to variable interest rates. A one percent change in interest rates would have a $242,000 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 USD, and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales, and ii) the Company's Term Loan is denominated in USD and, as a result, the amount that the Company will be obligated to repay at the term of the loan will be affected by fluctuations in the exchange rate between the USD and the Canadian dollar at that time. A one percent change in the foreign exchange rate would have a $276,000 effect on the annual net income.

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.

COVID-19 Risk

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures enforced to limit the spread of the pandemic contributed to volatility in financial markets. The pandemic has adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil and natural gas. The full extent of the impact of COVID-19 on the Company's operations and future financial performance, including the recoverable amounts of its exploration and evaluation assets and property, plant and equipment, is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, the global roll-out of a vaccine and the virus' continued impact on financial markets. The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the interim financial statements, particularly related to recoverable amounts. There is a high degree of uncertainty regarding the estimates and assumptions used in determining the recoverable amounts including future crude oil and natural gas commodity prices, foreign exchange rates, discount rates and the Company's future crude oil and natural gas production. As the understanding of the longer-term impacts of COVID-19 develops, the estimates and assumptions used in determining the recoverable amounts could change and there could be a material financial impact in future periods.

Non-IFRS Measures

This document contains the terms "adjusted funds flow from operations," "operating netback", "operating field netback" and "net debt" which are not recognized measures under IFRS and may not be comparable to similar measures presented by other companies.

a) The Company considers adjusted funds flow from operations 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. Adjusted funds flow from operations is a measure that represents cash 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. Adjusted funds flow from operations 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 adjusted funds flow from operations to cash provided by operating activities is presented as follows:

	Three Months Ended March 31	
	2021	2020
Cash provided by operating activities	**$ 3,202,500**	$ 3,357,363
Add back: Change in non-cash working capital	**802,469**	(1,299,299)
Adjust: Decommissioning obligation expenditures	**36,592**	96,530
Adjusted funds flow from operations	**$ 4,041,561**	$ 2,154,594
Per share, basic and diluted	**$ 0.05**	$ 0.02

b) Operating field netback is 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 is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) on an absolute and per barrel of oil equivalent basis.

a) Net debt is closely monitored by the Company to ensure that its capital structure is maintained by a strong balance sheet to fund the future growth of the Company. 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 the fair value of financial instruments, lease and warrant liabilities, and including the gross term loan. There is no IFRS measure that is reasonably comparable to net debt.

The following table outlines the Company calculation of net debt:

	As at	
	March 31, 2021	December 31, 2020
Current assets[(1)]	**$ 4,805,383**	$ 3,001,610
Current liabilities[(1)]	**(1,727,266)**	(1,334,300)
Gross term loan[(2)]	**(24,174,150)**	(26,096,500)
Net debt	**$ (21,096,033)**	$ (24,429,190)

Note:

(1) Excluding fair value of financial instruments and lease and warrant liabilities.

(2) Gross term loan is calculated as the total USD draws on the term loan translated to Canadian Dollars at the period end exchange rate.

Boe Conversion

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

Forward-Looking Statements

In the interest of providing Hemisphere's shareholders and potential investors with information regarding the Company, including management's assessment of the future plans and operations of Hemisphere, certain statements contained in this MD&A (particularly the Message to Shareholders) 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 (particularly the Message to Shareholders) contains forward-looking statements *pertaining to the following: management's plans over the next two years to significantly lower debt while 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. 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; 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 website at www.hemisphereenergy.ca or on SEDAR at www.sedar.com. 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.