Q1 2020 HIGHLIGHTS

- Achieved revenue of $5.0 million.
- Realized an operating netback of $3.5 million.
- Attained quarterly adjusted funds flow from operations of $2.2 million.
- Increased quarterly production by 43% to 1,973 boe/d (99% heavy crude oil and 1% conventional natural gas), as compared to the first quarter of 2019.
- Reduced operating and transportation expenses to $10.00/boe, a 17% decrease from the first quarter of 2019.
- Increased corporate Liability Management Ratio (LMR) with the Alberta Energy Regulator to 11.54 as of the end of the first quarter of 2020.

CORPORATE UPDATE

During the first quarter of 2020, the world began to respond to the COVID-19 pandemic with economic lockdowns and severe travel restrictions. In March 2020, oil prices collapsed due to a price war between Russia and Saudi Arabia. The combined effect of these two events has brought oil prices to levels never seen before, including into negative territory.

Hemisphere responded to these market challenges by layering in additional hedges at the start of April that allowed the Company to continue to produce at approximately 85% of its capacity through the second quarter, while avoiding potential reservoir and equipment damage that could have arisen from temporary shut-ins during winter operating conditions.

As countries attempt to reopen their economies, demand for oil is returning and pricing is slowly recovering back to economic levels for producers. Significant volatility remains in the pricing of both the WTI benchmark and WCS differential as demand, supply, storage, government policies, and behaviours change in unpredicted ways.

Given the commodity outlook and in order to maintain operational flexibility, Hemisphere proactively entered an agreement with its lender in April to temporarily waive the application of and compliance with its two financial covenants (being the interest coverage ratio and total leverage ratio covenants), two reserve-based covenants (being the PDP coverage ratio and total proved reserve coverage ratio covenants), and its production covenant that are included in the credit agreement with the lender, in each case for the fiscal quarter ending June 30, 2020.

The Company will continue to produce at slightly restricted rates and limited operating costs until it feels that stability has returned to the markets as the world moves through the required phases of economic recovery. With low operating costs and efficient operations both in the field and office, Hemisphere is expected to be ready to restart its shut-in production and begin further optimization work when conditions allow.

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 17, 2020 at 9:00 a.m. (Pacific Daylight Time).

Q1 2020 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended March 31	
	2020	2019
OPERATING		
Average daily production		
Oil (bbl/d)	**1,941**	1,329
Natural gas (Mcf/d)	**192**	287
NGL (bbl/d)	**0**	2
Combined (boe/d)	**1,973**	1,379
Oil and NGL weighting	**98%**	97%
Average sales prices		
Oil ($/bbl)	**$ 27.90**	$ 52.18
Natural gas ($/Mcf)	**1.97**	7.14
NGL ($/bbl)	**68.84**	43.84
Combined ($/boe)	**$ 27.64**	$ 51.85
Operating netback ($/boe)		
Petroleum and natural gas revenue	**$ 27.64**	$ 51.85
Royalties	**(2.65)**	(5.30)
Operating costs	**(7.36)**	(9.65)
Transportation costs	**(2.64)**	(2.45)
Operating field netback(1)	**14.98**	34.45
Realized commodity hedging gain (loss)	**4.64**	(3.56)
Operating netback(2)	**$ 19.63**	$ 30.89
FINANCIAL		
Petroleum and natural gas revenue	**$ 4,963,201**	$ 6,435,252
Operating field netback(1)	**2,690,807**	4,274,261
Operating netback(2)	**3,524,637**	3,832,225
Cash flow provided by operating activities	**3,367,261**	626,659
Adjusted Funds flow from operations(3)	**2,164,492**	2,634,984
Per share, basic and diluted	**0.02**	0.03
Net income (loss)	**2,152,995**	(889,224)
Per share, basic and diluted	**0.02**	(0.01)
Capital expenditures	**434,787**	611,795
Net debt(4)	**33,196,190**	32,771,889
Gross term Loan(5)	**$ 35,855,550**	$ 34,707,400

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 including gross term loan, and excluding fair value of financial instruments and lease liabilities.

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

	Three months ended March 31	
	2020	2019
SHARE CAPITAL		
Common shares outstanding	**88,582,302**	89,883,302
Stock options outstanding	**7,084,000**	8,184,000
Warrants outstanding	**13,750,000**	13,750,000
Fully Diluted	**109,416,302**	111,817,302
Weighted-average shares outstanding – basic	**88,636,720**	89,803,302
Weighted-average shares outstanding – diluted	**89,478,843**	89,803,302

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at May 27, 2020

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, 2020 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the unaudited interim condensed financial statements and related notes for the three months ended March 31, 2020, and the audited annual financial statements and related notes for the year ended December 31, 2019. 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 interim condensed financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of unaudited interim condensed 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 Jenner and Atlee Buffalo properties in southeast Alberta. The Company is headquartered in Vancouver, British Columbia and is traded on the TSX Venture Exchange under the symbol "HME".

The Company is adapting to the recent outbreak of the novel coronavirus "COVID-19" and the related economic and social disruption, volatility in financial markets, potential disruption to global supply chains, and the ability to directly and indirectly staff the Company's day to day operations. The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and ability to generate income and cash flows in the future. The current volatility in commodity prices and uncertainty regarding the timing for recovery creates inherent challenges with the preparation of financial forecasts.

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 northeast of Brooks in southeastern Alberta. Hemisphere has a 100% working interest in 9,760 net acres.

Jenner, Alberta

Hemisphere owns and operates all of its wells and has a land position of 7,224 net acres in the Jenner area. The property is accessible year-round and is located 30 kilometers west of the Company's Atlee Buffalo property in southeastern Alberta.

Operating Results

The Company generated adjusted funds flow (AFF) from operations of $2,164,492 ($0.02/share) for the three months ended March 31, 2020, as compared to $2,634,984 ($0.03/share) for the three months ended March 31, 2019. The decrease in AFF from operations for three months ended March 31, 2020 is due primarily to a 47% decrease in the combined average realized sales price, which was somewhat offset by a 43% increase in production over the comparable quarter of 2019.

The Company reported net income of $2,152,995 ($0.02/share) for the three months ended March 31, 2020, compared to a net loss of $889,224 ($0.01/share) for the comparable quarter in 2019. This increase of $3,042,220 in the first quarter of 2020 is generally the result of increases in realized and unrealized hedging gains of $1,275,866 and $10,923,906 respectively offset by decreases in operating field netback of $1,583,452 and foreign exchange loss of $3,366,176 over first three months of 2019.

Production

	Three Months Ended March 31	
By product:	**2020**	2019
Oil (bbl/d)	**1,941**	1,329
Natural gas (Mcf/d)	**192**	287
NGL (bbl/d)	**0**	2
Total (boe/d)	**1,973**	1,379
Oil and NGL weighting	**98%**	97%

In the first quarter of 2020, the Company's average daily production was 1,973 boe/d (98% oil and NGL) representing a 43% increase over the comparable quarter in 2019. This increase in production can be attributed to 11 new wells drilled and placed on production in the third quarter of 2019, as well as the continued success and improvement of the base waterflood performance in the Upper Mannville F and G pools.

Average Benchmark and Realized Prices

	Three Months Ended March 31	
	2020	**2019**
Benchmark prices		
WTI ($US/bbl)[1]	**$ 46.17**	$ 54.81
Exchange rate (1 $US/$C)	**1.3425**	1.3294
WTI ($C/bbl)	**61.98**	72.87
WCS Diff ($C/bbl)	**(27.88)**	(16.21)
WCS ($C/bbl)[2]	**34.10**	56.66
AECO natural gas ($/Mcf)[3]	**2.03**	2.62
Average realized prices		
Crude oil ($/bbl)	**27.90**	52.18
Natural gas ($/Mcf)	**1.97**	7.14
NGL ($/bbl)	**68.84**	43.84
Combined ($/boe)	**$ 27.64**	$ 51.85

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 decreased by 47% from $51.85/boe during the three months ended March 31, 2019 to $27.64/boe during three months ended March 31, 2020. This decrease is the result of a lower realized WTI price, combined with an increase of $11.67/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	Swap	425 bbl/d	US$57.15	WTI-NYMEX	April 1, 2020 – June 30, 2020
Crude oil	Swap	750 bbl/d	US$23.80	WTI-NYMEX	April 1, 2020 – June 30, 2020
Crude oil	Swap	100 bbl/d	US$16.95	WCS	April 1, 2020 – June 30, 2020
Crude oil	Swap	100 bbl/d	US$15.25	WCS	April 1, 2020 – June 30, 2020
Crude oil	Swap	100 bbl/d	US$14.35	WCS	April 1, 2020 – June 30, 2020
Crude oil	Swap	750 bbl/d	US$17.55	WCS	May 1, 2020 – June 30, 2020
Crude oil	Swap	200 bbl/d	US$50.67	WTI-NYMEX	January 1, 2020 – August 31, 2020
Crude oil	Swap	425 bbl/d	US$55.85	WTI-NYMEX	July 1, 2020 – September 30, 2020
Crude oil	Swap	100 bbl/d	US$15.30	WCS	July 1, 2020 – September 30, 2020
Crude oil	Collar	120 bbl/d	US$40.00-US$68.25	WTI-NYMEX	January 1, 2020 – December 31, 2020
Crude oil	Collar	200 bbl/d	US$40.00-US$67.05	WTI-NYMEX	September 1, 2020 – December 31, 2020
Crude oil	Swap	425 bbl/d	US$54.85	WTI-NYMEX	October 1, 2020 – December 31, 2020
Crude oil	Collar	275 bbl/d	US$40.00-US$65.50	WTI-NYMEX	January 1, 2021 – March 31, 2021
Crude oil	3-Way	350 bbl/d	US$40.00(put)/US$48.60(put)/US$60(call)	WTI-NYMEX	January 1, 2021 – March 31, 2021
Crude oil	3-Way	625 bbl/d	US$40.00(put)/US$48.00(put)/US$60(call)	WTI-NYMEX	April 1, 2021 – June 31, 2021

At March 31, 2020 the commodity contracts were fair valued as an asset of $6,984,475 and an unrealized gain for the three month period of $8,114,018 (March 31, 2019 – loss of $2,809,888).

Revenue

	Three Months Ended March 31	
	2020	2019
Oil	**$ 4,928,576**	$ 6,243,337
Natural gas	**34,408**	184,411
NGL	**217**	7,504
Total	**$ 4,963,201**	$ 6,435,252

Revenue for the three months ended March 31, 2020 decreased by 23% from the comparable period in 2019. This decrease is due primarily to the $24.21/boe decrease in the Company's combined average realized price during the period, which was somewhat offset by a 43% increase in production.

Operating Netback

	Three Months Ended March 31	
	2020	2019
Operating netback		
Revenue	**$ 4,963,201**	$ 6,435,252
Royalties	**(475,817)**	(658,137)
Operating costs	**(1,322,257)**	(1,198,390)
Transportation costs	**(474,318)**	(304,464)
Operating field netback[(1)]	**$ 2,690,807**	$ 4,274,261
Realized commodity hedging gain (loss)	**833,830**	(442,036)
Operating netback[(2)]	**$ 3,524,637**	$ 3,832,225
Operating netback ($/boe)		
Revenue	**$ 27.64**	$ 51.85
Royalties	**(2.65)**	(5.30)
Operating costs	**$ (7.36)**	$ (9.65)
Transportation costs	**(2.64)**	$ (2.45)
Operating field netback[(1)]	**$ 14.98**	$ 34.45
Realized commodity hedging gain (loss)	**4.64**	(3.56)
Operating Netback[(2)]	**$ 19.63**	$ 30.89

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 for the three months ended March 31, 2020 were $2.65/boe, representing a 50% decrease from the three months ended March 31, 2019. This was primarily the result of lower realized prices and Hemisphere's newly drilled 2019 wells being on royalty holiday.

Operating costs include all costs for gathering, processing, dehydration, compression, water processing and marketing of the oil, natural gas and NGLs, as well as additional costs incurred periodically for maintenance and repairs. Operating costs for the three months ended March 31, 2020 increased on an absolute basis by 10%, but decreased on a per boe basis by $2.29 or 24%, over the same period in 2019. The increase to absolute operating costs is the result of more operating wellbores and corresponding production, while the decrease per boe is due to stable fixed operating costs and efficiencies from the higher production.

Transportation costs include all costs incurred to transport emulsion and oil and gas sales to processing and distribution facilities. Transportation costs were $2.64/boe during the first quarter of 2020, which is a $0.19/boe or 7% increase from the comparable quarter in 2019. This slight increase in trucking costs for the three months ended March 31, 2020 over the comparable periods in 2019 is due to the use of varied sales points to which oil is trucked.

Operating netback at $19.63/boe for the three months ended March 31, 2020 was 36% lower than the comparable quarter in 2019, mainly due to the 47% decrease in the Company's combined average realized price, offset by the lower royalties and operating costs discussed above, combined with a $4.64/boe hedging gain in the first quarter of 2020 (March 31, 2019 – loss of $3.56/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, 2020 and 2019 were $12,275 and $14,745, respectively.

Depletion and Depreciation

		Three Months Ended March 31		
		2020		2019
Depletion expense	**$**	**1,350,018**	$	1,210,792
Depreciation expense		**27,503**		26,580
Total	**$**	**1,377,521**	$	1,237,372
$ per boe	**$**	**7.67**	$	9.97

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, 2020 decreased to $7.67/boe from $9.97/boe for the same period in 2019. The decrease in depletion expense for the period ended March 31, 2020 as compared to the same periods in 2019 is due to amortization of production over a larger reserve base from the Company's December 31, 2019 independent engineer's evaluation report as prepared by McDaniel and Associates Consultants Ltd.

Impairment

At March 31, 2020 the Company performed an assessment of potential impairment indicators on each of its Cash Generating Units (CGUs), and management determined that an impairment test on its petroleum and natural gas assets was required due to volatile and low commodity prices. It was determined that the carrying amount of Jenner exceeded its recoverable amount of $3,615,333 for the quarter ended March 31, 2020 (year ended December 31, 2019 - $7,705,533). Accordingly, the Company recognized an impairment charge of $3,859,110 as at March 31, 2020 (December 31, 2019 - $2,908,641). No impairment was recognized for Atlee Buffalo as its recoverable value exceeded the carrying amount.

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, loss factors and discount rates specific to the underlying composition of assets residing in each CGU.

Capital Expenditures

		Three Months Ended March 31		
		2020		2019
Land and lease	**$**	**8,474**	$	2,380
Geological and geophysical		**191,748**		123,270
Drilling and completions		**214,090**		393,237
Facilities and infrastructure		**20,745**		92,908
Total capital expenditures[1]	**$**	**434,787**	$	611,794

Note:

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

The development capital spent during the three months ended March 31, 2020 focused on projects that have long-term operating costs savings and will increase oil recovery.

General and Administrative

	Three Months Ended March 31			
		2020		2019
Gross general and administrative	**$**	**629,467**	$	399,939
Capitalized general and administrative		**(128,784)**		(119,003)
Total	**$**	**500,683**	$	280,936
$ per boe	**$**	**2.79**	$	2.26

General and administrative ("G&A") expenses increased on an absolute and per boe basis by $229,528 and $0.52/boe for the three months ended March 31, 2020 over the comparable period in 2019. The G&A costs increased due to production growth resulting in higher consulting fees and staffing costs.

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, 2020, capitalized general and administrative expenses increased by $9,781 over the comparable period in 2019.

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. For the three months ended March 31, 2020, the Company recorded share-based payments of $nil, compared to $60,225 for the same period in 2019.

	Three Months Ended March 31			
		2020		2019
Share-based payments	**$**	**-**	$	60,225
Capitalized costs		**-**		31,433
Total share-based payments	**$**	**-**	$	91,658

Finance Expense

	Three Months Ended March 31			
		2020		2019
Interest expense	**$**	**863,844**	$	893,976
Lease interest		**9,897**		11,968
Accretion of debt issuance costs		**117,080**		48,524
Amortization of deferred charges		**75,892**		55,654
Accretion of decommissioning liabilities		**32,256**		37,233
Total finance expense	**$**	**1,098,970**	$	1,047,355
$ per boe	**$**	**6.12**	$	8.44

Interest expense for the three months ended March 31, 2020 decreased by $30,132 over the comparable period in 2019, which is mainly the result of a decrease in the 3-month LIBOR rate, upon which the term loan quarterly interest is calculated. The Company also recorded $9,897 for lease interest on right-of-use assets liability under IFRS 16. The finance expense per boe has decreased by 27% over the comparable period in 2019 due to the marginal increase in absolute costs being assessed over a larger production base for the period.

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, 2020 accretion expense decreased by 8% over the comparable period in 2019.

Tax Pools

The Company has approximately $68 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 2020 and any taxes payable beyond 2020 will primarily be a function of commodity prices, capital expenditures and production volumes.

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

Summary of Quarterly Results

	2020			2019			2018	
	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
	Q1(1)	Q4(2)	Q3(3)	Q2(4)	Q1(5)	Q465)	Q3(7)	Q2(8)
Average daily production (boe/d)	1,973	2,166	1,738	1,367	1,379	1,378	1,150	1,053
Oil and natural gas revenue	4,963,201	9,472,078	8,207,658	7,396,095	6,435,252	2,886,840	5,856,762	5,618,915
Operating field netback(9)	2,690,808	6,284,329	5,206,705	4,357,767	4,274,261	1,023,282	3,239,217	3,279,840
Cash provided by operating activities	3,367,261	3,530,061	3,803,907	2,536,247	626,659	231,079	2,192,827	413,989
Adjusted funds flow from (used in) operations(10)	2,164,492	4,334,995	3,558,673	2,559,898	2,634,984	(725,431)	1,387,470	1,251,089
Per share, basic and diluted	0.02	0.05	0.04	0.03	0.03	(0.01)	0.02	0.01
Net income (loss)	2,152,995	(2,543,542)	2,854,615	2,812,582	(889,224)	25,334	(236,344)	(2,253,163)
Per share, basic and diluted	0.02	(0.03)	0.03	0.03	(0.01)	0.00	(0.00)	(0.03)
Combined average realized price ($/boe)	27.64	47.53	51.34	59.44	51.85	22.78	55.36	58.64
Operating netback ($/boe)(11)	19.63	30.70	30.64	31.10	30.89	5.14	23.43	24.27

Notes:

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

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

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

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

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

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

(7) The increases in revenue and adjusted funds flow from operations are due to increases in production rates, while netbacks remained relatively the same due to the decrease in commodity prices.

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

(9) The decreases in netbacks and adjusted funds flow from operations are primarily due to the wider WCS/WTI differential and losses incurred from hedging contracts.

(10) 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.

(11) 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 may not be comparable to measures used by other companies.

Outstanding Share Capital

	May 27, 2020	**March 31, 2020**	December 31, 2019
Fully diluted share capital			
Common shares issued and outstanding	88,582,302	**88,582,302**	88,902,302
Stock options	7,084,000	**7,084,000**	8,184,000
Warrants	13,750,000	**13,750,000**	13,750,000
Total fully diluted shares outstanding	109,416,302	**109,416,302**	111,817,302

The Company has the following stock options that are outstanding and exercisable as at May 27, 2020:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding	Balance Exercisable
$0.08	February 11, 2016	February 11, 2021	1,595,000	1,595,000
$0.08	February 12, 2016	February 12, 2021	125,000	125,000
$0.25	September 21, 2017	September 21, 2022	4,914,000	4,914,000
$0.28	October 2, 2017	October 2, 2022	150,000	150,000
$0.25	January 1, 2018	January 1, 2023	250,000	250,000
$0.08	March 1, 2019	March 1, 2024	50,000	50,000
			7,084,000	7,084,000
Weighted-average exercise price			$0.21	$0.21

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.

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.

a) Financing

The Company's net cash used in financing activities during the three months ended March 31, 2020 was $1,409,252 These funds are primarily a repayment of US$1,000,000 (CAD$1,323,600) towards the Company's term loan in the first quarter of 2020, 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, 2020 the Company had a term loan balance of US$25.5 million (CAD$35,855,550 at period close exchange rate) resulting from total draws of US26.5 million less total repayments of US$1.0 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. In conjunction, the Company issued 13,750,000 warrants 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 from the quarter ended March 31, 2020 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 table for the quarter ended March 31, 2020:

Ratio			Required	Actual March 31, 2020	
1.	Interest Coverage Ratio	Greater than	3.00	3.47	
2.	Total Leverage Ratio	Less than	3.25	2.90	
3.	Minimum Average Production	Greater than	1,500	1,973	Boe/d
4.	Proved Developed Producing Coverage Ratio	Greater than	1.00	1.20	
5.	Total Proved Reserves Coverage Ratio	Greater than	1.50	1.69	

At March 31, 2020 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's forecasts for the remainder of 2020 and Q1 2021, based on current strip pricing, indicates a potential breach of certain of its financial and performance covenants as at June 30, 2020. The Company has obtained covenant relief from its lender in respect of potential breaches for June 30, 2020.

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.

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.

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	
	2020	2019
Salaries and wages	**$ 280,000**	$ 265,000

Commitment

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, 2020, the gross balance of the Term Loan was $35,855,550 (US$25,500,000), exclusive of the debt issuance costs. The Term Loan matures on September 15, 2022.

		2020	2021	2022	2023	Total
Lease operating costs	$	58,977	78,636	78,636	32,765	249,014
Term loan		-	-	35,855,550	-	35,855,550
Term loan interest		3,373,785	3,373,785	2,530,339	-	9,277,909
	$	3,432,762	3,452,421	38,464,525	32,765	45,382,473

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

New Accounting Standard

In October 2018, the IASB issued amendments to the definition of IFRS 3 "Business Combinations". The amendments are intended to provide additional guidance to determine if a transaction should be recorded as a business combination or an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess if an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. This standard is effective January 1, 2020 and will be applied prospectively. No business combinations were completed by the Company as of the date of these financial statements.

Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, changes in assumptions can significantly affect estimated fair values. At March 31, 2020, the Company's financial instruments include cash and cash equivalents, accounts receivable, reclamation deposits, term loan, and accounts payable and accrued liabilities.

The fair values of cash and cash equivalents, accounts receivable, reclamation deposits and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these financial instruments. The fair value of the term loan is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

a) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

b) Non-derivative financial instruments

Financial assets

At initial recognition, financial assets are classified into four main categories: loans and receivables; held-to-maturity investments; available for sale financial assets; or financial assets at fair value through profit or loss. All financial assets are recognized initially at fair value, normally being the transaction price, plus any directly attributable transaction costs. Transaction costs for instruments at fair value through profit or loss are recognized immediately in earnings.

The subsequent measurement of financial assets depends on their classification.

Loans, receivables and held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Gains and losses are recognized in earnings when the asset is derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets are subsequently measured at fair value, with changes in fair value recognized directly in other comprehensive income until the asset is derecognized or determined to be impaired, at which time the cumulative change in fair value previously reported in other comprehensive income is recognized in earnings.

Financial assets at fair value through profit or loss are subsequently measured at fair value, with changes in those fair values recognized in earnings.

Financial assets are derecognized when the contractual rights to the cash flows expire, or when substantially all the risks and rewards of ownership of the financial asset are transferred to a third party.

Financial assets and liabilities are shown separately in the statement of financial position unless the Company has a legal right to offset the amounts and intends to either settle on a net basis or to realize the asset and settle the liability simultaneously, in which case they are presented on a net basis.

Impairment of financial assets

A financial asset that is not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after initial recognition and has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant financial assets are tested for impairment on an individual basis. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. The remaining financial assets are assessed collectively for impairment in groups that share similar credit risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses are recognized in earnings.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

Financial liabilities

At initial recognition, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities. All financial liabilities are recognized initially at fair value, normally being the transaction price less any directly attributable transaction costs. Transaction costs for instruments at fair value through profit or loss are recognized immediately in earnings.

The subsequent measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value, with changes in those fair values recognized in earnings.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the contractual obligation expires, is discharged, or cancelled. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in earnings.

c) Financial derivative instruments

The Company may use financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices and foreign exchange. These instruments are not used for trading or speculative purposes.

The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all derivative contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recognized at fair value. Transaction costs are recognized in earnings when incurred.

Physical delivery contracts are entered into for the purpose of delivery of oil in accordance with the Company's expected sale requirements, and therefore are not recorded in the statement of financial position. These contracts are recorded in revenue on their settlement dates.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized in earnings.

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:

The maximum exposure to credit risk is as follows:

	March 31, 2020	December 31, 2019
Accounts receivable		
Marketing receivables	$ 653,776	$ 2,773,405
Trade receivables	757,877	11,438
Receivables from joint ventures	5,383	6,809
Reclamation deposits	115,535	115,535
	$ 1,532,571	$ 2,907,187

The Company sells the majority of its oil production to a single oil marketer 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 meet debt covenants in the future.

A covenant violation is an event of 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. At March 31, 2020 the Company was in compliance with the financial and performance covenants.

Management's forecasts for the remainder of 2020 and Q1 2021, based on current strip pricing, indicates a potential breach of certain of its financial and performance covenants as at June 30, 2020. The Company has obtained covenant relief from its lender in respect of the above potential breaches for June 30, 2020.

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.

At March 31, 2020, the Company had net debt (current assets less current liabilities excluding fair value of financial instruments and lease liabilities) of $33,196,190 (December 31, 2019 - $31,982,764), which includes the gross term loan of $35,855,550 (December 31, 2019 - $34,418,200). The Company funds its operations through operating cash flows and the term loan, which has an additional US$3.5 million of borrowing base committed by its lender at March 31, 2020 plus an additional US$5 million of principle loan capacity. The Company's ability to access additional commitment funds is subject to approval of the Lender, based on review and approval of the Company's future development plans.

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 $359,000 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 $235,000 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

The Company's business, operations and financial condition has been significantly adversely affected by COVID-19. Actions taken to reduce the spread of COVID-19 have resulted in volatility and disruptions in regular business operations, supply chains and financial markets, as well as declining trade and market sentiment. COVID-19 as well as other factors have resulted in the deepest drop in crude oil prices that global markets have seen since 1991. With the rapid spread of COVID-19 and additional oil supply expected to come on-stream over the near term, oil prices and global equity markets have deteriorated significantly and are expected to remain under pressure. The extreme supply / demand imbalance is anticipated to cause a reduction in industry spending in 2020. These events and conditions have caused a significant decrease in the valuation of oil and natural gas companies and a decrease in confidence in the oil and natural gas industry. COVID-19 also poses a risk on the financial capacity of the Company's contract counterparties and potentially their ability to perform contractual obligations. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation.

Non-IFRS Measures

This document contains the terms "adjusted funds flow from (used in) 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	
	2020	2019
Cash provided by operating activities	**$ 3,367,261**	$ 626,659
Add back: Change in non-cash working capital	**1,299,299**	(2,008,325)
Adjust: Decommissioning obligation expenditures	**(96,530)**	-
Adjusted funds flow from (used in) Operations	**$ 2,164,492**	$ 2,634,984
Per share, basic and diluted	**$ 0.02**	$ 0.03

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.

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.

c) 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, 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, 2020	December 31, 2019
Current assets(1)	**$ 3,952,028**	$ 4,301,975
Current liabilities(2)	**(1,292,668)**	(1,866,538)
Term Loan	**(35,855,550)**	(34,418,200)
Net debt	**$ (33,196,190)**	$ (31,982,764)

Note:
(1) Excluding fair value of financial instruments and lease 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: volumes and estimated net present value of the future net revenue of Hemisphere's oil and natural gas reserves; 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 reserves 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; 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; 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.

Analogous Information

The information concerning analogue pools in this MD&A (particularly in the Message to Shareholders, included with the Annual Report) may be considered to be "analogous information" within the meaning of applicable securities laws. Such information was obtained by Hemisphere management throughout the year ended December 31, 2019 from various public sources including information available to Hemisphere through the Alberta Energy Regulator. Management believes that the performance of such pools is analogous to the pools in which the Company has an interest at its Atlee Buffalo property area and is relevant as it may help to demonstrate the reaction of such pools to waterflood stimulations. Hemisphere is unable to confirm whether the analogous information was prepared by a qualified reserves evaluator or auditor or in accordance with National Instruments 51-101 – Standards of Disclosure *for Oil and Gas Activities and the COGE Handbook and therefore, the reader is cautioned that the data relied upon by Hemisphere may be in error and/or may not be analogous to the oil pools in which Hemisphere holds an interest.*

Reserves Advisories

It should not be assumed that the net present value of the estimated net revenues of the reserve presented in herein represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions upon which such estimates are made will be attained and variances could be material. The reserve estimates of Hemisphere's crude oil, natural gas liquids and natural gas reserves and any estimated recovery factors provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.

Original Oil in Place

The reference to Original Oil-In-Place ("OOIP") in the Message to Shareholders is equivalent to Discovered Petroleum Initially-In-Place ("DPIIP"). DPIIP, as defined in the Canadian Oil and Gas Handbook, is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of DPIIP includes production, reserves and contingent resources; the remaining portion of DPIIP is unrecoverable. It should not be assumed that any portion of the OOIP/DPIIP set forth in the presentation is recoverable other than the portion which has been attributed reserves by McDaniel & Associates Consultants Ltd. There is uncertainty that it will be commercially viable to produce any portion of the OOIP/DPIIP other than the portion that is attributed reserves. The OOIP/DPIIP set forth in the Message to Shareholders has been provided for the sole purpose of highlighting the potential recovery factors for the reservoirs in which the Company holds an interest. The OOIP/DPIIP volumes set forth in the Message to Shareholders are from the mapping of the reservoirs by McDaniel & Associates Consultants Ltd. (who is independent of Hemisphere) in connection with preparing the Company's reserve report effective as of December 31, 2019.

MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

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

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

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

Vancouver, British Columbia
May 27, 2020

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

CONDENSED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)
(Unaudited)

	Note		**March 31, 2020**		December 31, 2019
Assets					
Current assets					
Cash and cash equivalents		**$**	**2,278,031**	$	1,179,516
Accounts receivable			**1,417,036**		2,791,652
Prepaid expenses			**256,960**		330,806
Fair value of financial instruments	3(c)		**6,602,443**		-
			10,554,470		4,301,974
Non-current assets					
Reclamation deposits	8		**115,535**		115,535
Fair value of financial instruments	3(c)		**382,032**		-
Exploration and evaluation assets	6		**2,991,438**		2,800,569
Property and equipment	7		**48,895,636**		53,900,623
Deferred charges	10		**325,763**		401,655
Total assets		**$**	**63,264,874**	$	61,520,356
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**1,292,668**	$	1,866,537
Current portion of lease liabilities	11		**89,923**		94,434
Fair value of financial instruments	3(c)		**-**		977,543
			1,382,591		2,938,514
Non-current liabilities					
Term loan	10		**34,190,640**		32,755,677
Lease liabilities	11		**266,909**		282,558
Fair value of financial instruments	3(c)		**-**		152,000
Decommissioning obligations	8		**7,266,602**		7,330,876
			43,106,742		43,459,625
Shareholders' Equity					
Share capital	12		**54,552,368**		54,607,961
Contributed surplus			**870,648**		1,057,734
Warrant reserve	12(c)		**1,043,136**		1,043,136
Deficit			**(36,308,020)**		(38,648,100)
Total shareholders' equity			**20,158,132**		18,060,731
Total liabilities and shareholders' equity		**$**	**63,264,874**	$	61,520,356

Future operations	Note 2(a)
Commitments	Note 13
Subsequent events	Note 15

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

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in Canadian dollars)
(Unaudited)

	Note	Three Months Ended March 31 2020	2019
Revenue			
Oil and natural gas revenue	5	**$ 4,963,201**	$ 6,435,252
Royalties		**(475,817)**	(658,137)
		4,487,384	5,777,115
Realized gain (loss) on financial instruments		**833,830**	(442,036)
Unrealized gain (loss) on financial instruments	3(c)	**8,114,018**	(2,809,888)
Net revenue		**13,435,232**	2,525,191
Expenses			
Production and operating		**1,796,575**	1,502,855
Exploration and evaluation	6	**12,275**	14,745
Depletion and depreciation	7	**1,377,521**	1,237,372
General and administrative		**500,683**	280,936
Share-based payments	12(b)	**-**	60,225
Impairment of property and equipment	7	**3,859,110**	
		7,546,164	3,096,132
Results from operating activities		**5,889,068**	(570,941)
Finance expense	9	**(1,098,969)**	(1,047,355)
Foreign exchange gain (loss)		**(2,637,104)**	729,072
Net income (loss) and comprehensive income (loss) for the period		**$ 2,152,995**	$ (889,224)
Net income (loss) per share, basic and diluted	12(d)	**$ 0.02**	$ (0.01)

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

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)
(Unaudited)

	Note	Number common shares	Share Capital	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
Balance, December 31, 2018		**89,793,302**	**$ 54,724,441**	**$ 1,014,623**	**$ 1,043,136**	**$ (40,911,337)**	**$ 15,870,863**
Stock Option Exercise		90,000	7,200	-	-	-	7,200
Share-based payments		-	-	71,918	-	-	71,918
Cancelation of Stock Options	12(b)	-	-	(28,807)	-	28,807	-
Shares repurchased under NCIB	12(a)	(981,000)	(123,680)	-	-	-	(123,680)
Net income for the period		-	-	-	-	2,234,430	2,234,430
Balance, December 31, 2019		**88,902,302**	**$ 54,607,961**	**$ 1,057,734**	**$ 1,043,13**	**$ (38,648,100)**	**$ 18,060,731**
Balance, December 31, 2019		**88,902,302**	**$ 54,607,961**	**$ 1,057,734**	**$ 1,043,136**	**$ (38,648,100)**	**$ 18,060,731**
Expiry of Stock Options	12(b)	-	-	(187,086)	-	187,086	-
Shares repurchased under NCIB	12(a)	(320,000)	(55,593)	-	-	-	(55,593)
Net income for the period		-	-	-	-	2,152,995	2,152,995
Balance, March 31, 2020		**88,582,302**	**$ 54,552,368**	**$ 870,648**	**$ 1,043,136**	**$ (36,308,020)**	**$ 20,158,132**

Comparison with three months ended March 31, 2019:

	Note	Number common shares	Share Capital	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
Balance, December 31, 2018		**89,793,302**	**$ 54,724,441**	**$ 1,014,623**	**$ 1,043,136**	**$ (40,911,337)**	**$ 15,870,863**
Stock Option Exercise		90,000	7,200	-	-	-	7,200
Share-based payments		-	-	91,658	-	-	91,658
Expiry of Stock Options		-	-	(28,807)	-	28,807	-
Net loss for the period		-	-	-	-	(889,224)	(889,224)
Balance, March 31, 2019		**89,883,302**	**$ 54,731,641**	**$ 1,077,474**	**$ 1,043,136**	**$ (41,771,755)**	**$ 15,080,497**

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

CONDENSED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)
(Unaudited)

	Three Months Ended March 31 2020	2019
Operating activities		
Net income (loss) for the period	**$ 2,152,995**	$ (889,224)
Items not affecting cash:		
Accretion of debt issuance costs	**117,080**	48,524
Accretion of decommissioning costs	**32,256**	37,233
Amortization of deferred charges	**75,892**	55,654
Lease Interest	**9,898**	11,968
Depletion and depreciation	**1,377,251**	1,237,372
Exploration and evaluation expense	**12,275**	14,745
Share-based payments	**-**	60,225
Unrealized loss (gain) on financial instruments	**(8,114,018)**	2,809,888
Unrealized loss (gain) on foreign exchange	**2,641,483**	(751,400)
Impairment	**3,859,110**	-
Funds flow from operations	**2,164,492**	2,634,984
Decommissioning obligation expenditures	**(96,530)**	-
Changes in non-cash working capital	**1,299,299**	(2,008,325)
Cash provided by operating activities	**3,367,261**	626,659
Investing activities		
Property and equipment expenditures	**(231,644)**	(153,938)
Exploration and evaluation expenditures	**(203,145)**	(457,857)
Changes in non-cash working capital	**(424,705)**	(742,376)
Cash used in investing activities	**(859,494)**	(1,354,171)
Financing activities		
Shares issued for stock options and warrants	**-**	7,200
Shares repurchased under NCIB	**(55,593)**	**-**
Repayment of term loan	**(1,323,600)**	**-**
Payment of lease liabilities	**(30,059)**	(30,059)
Cash used in financing activities	**(1,409,252)**	(22,859)
Net change in cash	**1,098,515**	(750,371)
Cash, beginning of period	**1,179,516**	1,780,658
Cash , end of period	**$ 2,278,031**	$ 1,030,287

Supplemental cash flow information (Note 14)

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019
(Expressed in Canadian Dollars)
(Unaudited)

1. Nature and Continuance of Operations

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

2. Basis of Presentation

(a) Future operations

As at March 31, 2020, the Company was in compliance with all financial and performance covenants on its term loan (note 10). Management's forecast for the remainder of 2020 and the first quarter of 2021, based upon current strip pricing, indicates a potential breach of certain financial and performance covenants for the second quarter 2020. Management forecasts may change materially based upon actual prices received during the year, changes in future strip pricing and its future business plan. If these financial covenants are not met, the lender would have the right to immediately demand repayment of the amount owed on the term loan. This material uncertainty may cast significant doubt with respect to the ability of the Company to continue as a going concern.

The financial statements have been prepared on a going concern basis, which presumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The financial statements do not reflect adjustments and classifications of assets, liabilities, revenues and expenses which, would be necessary if the Company were unable to continue as a going concern. Such adjustments could be material.

(b) Statement of compliance

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

These interim condensed 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, 2019 except as detailed in note 2(f) below. These interim condensed 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, 2019.

These financial statements were authorized for issuance by the Board of Directors on May 27, 2020.

(c) Basis of valuation

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

(d) Functional and presentation currency

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

(e) Use of estimates and judgments

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

Estimates and their underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

(f) New Accounting Standard

In October 2018, the IASB issued amendments to the definition of IFRS 3 "Business Combinations". The amendments are intended to provide additional guidance to determine if a transaction should be recorded as a business combination or an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess if an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. This standard is effective January 1, 2020 and will be applied prospectively. No business combinations were completed by the Company as of the date of these financial statements.

(g) Subsequent to December 31, 2019, global oil prices declined considerably caused by reduced demand driven by the coronavirus disease 2019 ("COVID-19") health pandemic and over supply concerns stemming from failed negotiations between OPEC+ countries on production curtailments. While the OPEC+ countries have now reached an agreement on production cuts, the macro economic environment remains weak and considerable uncertainty exists regarding the duration and extent of oil demand destruction from the COVID-19 pandemic. The current challenging economic climate may have significant adverse impacts on the Corporation, including, but not limited to:

- material declines in revenue and cash flows due to reduced commodity prices,

- declines in future revenue, which could result in increased impairment charges on long-term assets,
- increased risk of non-performance by the Corporation's customers which could materially increase collection risk of accounts receivable and customer defaults on contracts, and
- prolonged demand destruction, which could negatively impact the Corporation's ability to maintain liquidity.

The current situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect the Corporation is not known at this time. Estimates and judgements made by management in the preparation of these consolidated financial statements are subject to a higher degree of measurement uncertainty during this volatile period.

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:

		March 31, 2020		December 31, 2019
Accounts receivable				
Marketing receivables	**$**	**653,776**	$	2,773,405
Trade receivables		**757,877**		11,438
Receivables from joint ventures		**5,383**		6,809
Reclamation deposits		**115,535**		115,535
	$	**1,532,571**	$	2,907,187

The Company sells the majority of its oil production through one marketer 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 (see note 2(a)).

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 (see note 10).

At March 31, 2020, the Company had net debt (current assets less current liabilities excluding fair value of financial instruments and lease liabilities, and including outstanding term loan) of $33,196,190 (December 31, 2019 - $31,982,764). The Company funds its operations through operating cash flows and the term loan. At March 31, 2020, the Company has an additional US$3.5 million of borrowing base committed with its lender, which it can draw for future capital programs, subject to the lender's approval.

(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 Term Loan are subject to variable interest rates. A one percent change in interest rates would have a $359,000 effect on net loss.

(ii) Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar. The Company does not sell or transact in any foreign currency; except; i) the Company's commodity prices are largely denominated in United States dollars ("USD"), and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. 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. ii) the Company's Term Loan is denominated in USD, and as 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 100 basis points change in the foreign exchange rate would have a $235,000 effect on the annual net loss.

(iii) Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices may materially impact the Company's adjusted funds flow from operations and ability to raise capital. The Company does have hedging swap agreements in place as further disclosed herein.

At March 31, 2020, the Company held derivative commodity price contracts as follows:

Product	Type	Volume	Price	Index	Term	Mar. 31, 2020 Fair Value
Crude oil	Swap	425 bbl/d	US$57.15	WTI-NYMEX	April 1, 2020 – June 30, 2020	(1,735,263)
Crude oil	Swap	100 bbl/d	US$16.95	WCS	April 1, 2020 – June 30, 2020	27,025
Crude oil	Swap	100 bbl/d	US$15.25	WCS	April 1, 2020 – June 30, 2020	5,273
Crude oil	Swap	100 bbl/d	US$14.35	WCS	April 1, 2020 – June 30, 2020	(6,243)
Crude oil	Swap	200 bbl/d	US$50.67	WTI-NYMEX	January 1, 2020 – August 31, 2020	(996,217)
Crude oil	Swap	425 bbl/d	US$55.85	WTI-NYMEX	July 1, 2020 – September 30, 2020	(1,347,903)
Crude oil	Swap	100 bbl/d	US$15.30	WCS	July 1, 2020 – September 30, 2020	(2,587)
Crude oil	Collar	120 bbl/d	US$40.00-US$68.25	WTI-NYMEX	January 1, 2020 – December 31, 2020	(529,366)
Crude oil	Collar	200 bbl/d	US$40.00-US$67.05	WTI-NYMEX	September 1, 2020 – December 31, 2020	(312,955)
Crude oil	Swap	425 bbl/d	US$54.85	WTI-NYMEX	October 1, 2020 – December 31, 2020	(1,161,620)
Crude oil	Collar	275 bbl/d	US$40.00-US$65.50	WTI-NYMEX	January 1, 2021 – March 31, 2021	(286,152)
Crude oil	3-Way	350 bbl/d	US$40.00(put)/US$48.60(put)/US$60(call)	WTI-NYMEX	January 1, 2021 – March 31, 2021	(256,433)
Crude oil	3-Way	625 bbl/d	US$40.00(put)/US$48.00(put)/US$60(call)	WTI-NYMEX	April 1, 2021 – June 31, 2021	(382,032)
					Total	(6,984,475)

At March 31, 2020 the commodity contracts were fair valued as an asset of $6,984,475 and an unrealized gain for the three months ended March 31, 2020 of $8,114,018 (March 31, 2019 – loss of $2,809,888).

(iv) Other price risk

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

4. Capital Management

The Company manages its capital with the following objectives:

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

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is composed of shareholders' equity and the Term Loan. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing from the Company's 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. There were no changes to capital management during the period.

5. Revenue

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

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

The Company's production revenues were primarily generated in its core areas of the Mannville oil play in the Atlee Buffalo and Jenner areas of southeastern Alberta. The Company's customers are oil and natural gas marketers and joint operations partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by management's policies and practices related to credit risk as discussed in note 3(a). As at March 31, 2020, production revenue sold to customers was comprised primarily of three marketers which account for $653,776 of the accounts receivable balance.

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

	Three Months Ended March 31	
	2020	2019
Oil	**$ 4,928,576**	$ 6,243,337
Natural gas	**34,408**	184,411
NGL	**217**	7,504
Total	**$ 4,963,201**	$ 6,435,252

6. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of Proved and Probable reserves. A transfer from exploration and evaluation assets to property and equipment is made when reserves are assigned or the exploration project has been completed. For the three months ended March 31, 2020, the Company had $nil transfers (December 31, 2019 - $8,110,664) to property and equipment, capitalized general and administrative expenses of $117,852 (December 31, 2019 - $173,487) to exploration and evaluation assets, and recognized exploration and evaluation expense of $12,275 (December 31, 2019 - $1,047,447).

Cost		
Balance, December 31, 2018	$	3,195,215
Additions		8,763,465
Exploration and evaluation expense		(1,047,447)
Transfer to property and equipment		(8,110,664)
Balance, December 31, 2019	$	2,800,569
Additions		203,144
Exploration and evaluation expense		(12,275)
Balance, March 31, 2020	**$**	**2,991,438**

7. Property and Equipment

Cost		Petroleum and Natural Gas		Right of Use and Other Assets		Total
Balance, December 31, 2018	$	93,260,225	$	114,492	$	93,374,716
Right-of-use assets		-		452,152		452,152
Additions		2,159,409		24,455		2,183,864
Increase in decommissioning obligations		(498,857)		-		(498,857)
Capitalized share-based payments		62,865		-		62,865
Transfer from exploration and evaluation assets		8,110,664		-		8,110,664
Balance, December 31, 2019	$	103,094,306	$	591,099	$	103,685,405
Additions		227,480		4,164		231,643
Balance, March 31, 2020	**$**	**103,321,786**	**$**	**595,263**	**$**	**103,917,048**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance, December 31, 2018	$	41,050,434	$	98,173	$	41,148,607
Depletion and depreciation for the year		5,617,663		109,871		5,727,534
Impairment Loss		2,908,641		-		2,908,641
Balance, December 31, 2019	$	49,576,738	$	208,044	$	49,784,782
Depletion and depreciation for the period		1,350,018		27,503		1,377,521
Impairment Loss		3,859,110		-		3,859,110
March 31, 2020	**$**	**54,785,866**	**$**	**235,547**	**$**	**55,021,413**
Net Book Value						
December 31, 2019	$	53,517,568	$	383,055	$	53,900,623
March 31, 2020	**$**	**48,535,920**	**$**	**359,716**	**$**	**48,895,636**

The Company's additions for property and equipment included capitalized general and administrative expenses of $10,933 for the period ended March 31, 2020 (March 31, 2019 - $10,564).

The calculation of depletion at March 31, 2020 includes estimated future development costs of $38,751,500 (December 31, 2019 - $38,751,500) associated with the development of the Company's Proved plus Probable reserves.

At March 31, 2020 the Company performed an assessment of potential impairment indicators on each of its Cash Generating Units (CGUs), and management determined that an impairment test on its petroleum and natural gas assets was required due to volatile and low commodity prices. It was determined that the carrying amount of Jenner exceeded its recoverable amount of $3,615,333 for the quarter ended March 31, 2020 (year ended December 31, 2019 - $7,705,533). Accordingly, the Company recognized an impairment charge of $3,859,110 as at March 31, 2020 (December 31, 2019 - $2,908,641). No impairment was recognized for Atlee Buffalo as its recoverable value exceeded the carrying amount.

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, loss factors and discount rates specific to the underlying composition of assets residing in each CGU. The pre-tax discount rates ranged from 12% to 30% depending on the nature of the reserves. The following tables show the future commodity price estimates used by the Company's independent reserves evaluator at March 31, 2020:

	2020	2021	2022	2023	2024	2025	2026	2027	Thereafter
WTI (US$/bbl)	32.50	43.35	52.02	58.37	59.53	60.72	61.94	63.18	+2%/yr
WCS (C$/bbl)	24.43	39.56	50.15	56.82	57.95	59.11	60.30	61.50	+2.2%/yr
AECO(Cdn$/MMbtu)	1.85	2.30	2.44	2.49	2.54	2.59	2.65	2.70	+2%/yr

8. Decommissioning Obligations

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

The Company estimates the total undiscounted and inflated amount of cash flows required to settle its decommissioning obligations as at March 31, 2020 is $11,243,978 (March 31, 2019 - $11,993,913). These payments are expected to be made over the next 47 with the majority of costs to be incurred between 2030 and 2057. The discount factor, being the risk-free rate related to the liability, is 1.76% (March 31, 2019 – 1.92%). Inflation of 1.35% (March 31, 2019 – 2.10%) has also been factored into the calculation of amounts in the table below. The Company also has $115,535 (March 31, 2019 - $115,535) in various reclamation bonds for its properties held by the Alberta Energy Regulator and British Columbia Ministry of Energy, Mines and Petroleum Resources.

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
Decommissioning obligations, beginning of period	**$ 7,330,876**	$ 7,756,866
Increase in estimated future obligations	**-**	556,092
Change in estimate	**-**	(1,054,949)
Payment towards decommissioning obligations	**(96,530)**	(76,065)
Accretion expense	**32,256**	148,932
Decommissioning obligations, end of period	**$ 7,266,602**	$ 7,330,876

9. Finance Expenses

		Three Months Ended March 31 2020		2019
Finance expense:				
Interest expense	**$**	**863,843**	$	893,976
Lease interest		**9,898**		11,968
Accretion of debt issuance costs		**117,080**		48,524
Amortization of deferred charges		**75,892**		55,654
Accretion of decommissioning liabilities		**32,256**		37,233
Total finance expense	**$**	**1,098,969**	$	1,047,355

10. 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 obtain an increased commitment of 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, 2020 the Company had a term loan balance of US$25.5 million (CAD$35,855,550 at period close exchange rate) resulting from total draws of US$26.5 million less total repayments of US$1.0 million. The Company's ability to access additional commitment funds 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. In conjunction, the Company issued 13,750,000 warrants entitling the Lender to purchase one common share of Hemisphere at an exercise price of $0.28/share prior to September 15, 2022. The effective interest rate is 10.92%.

The below table summarizes the sum of issuance costs included in both the term loan and deferred charges as at March 31, 2020:

Term Loan		**Three Months Ended March 31, 2020**		**Year Ended December 31, 2019**
Term Loan, beginning of period	$	32,755,677	$	33,323,584
Principal amount of Term Loan issued (repaid)		(1,323,600)		661,000
Foreign exchange adjustment		2,641,483		(1,569,655)
Transfer of debt issuance costs – cash		-		(66,425)
Accretion of debt issuance costs		117,080		407,173
Balance, end of period	**$**	**34,190,640**	**$**	**32,755,677**

Deferred Costs		**March 31, 2020**		**December 31, 2019**
Deferred costs, beginning of period	$	(401,655)	$	(546,062)
Amortization of deferred costs		75,892		144,407
Deferred costs, end of period	**$**	**(325,763)**	**$**	**(401,655)**

The Company has recognized a portion of the debt issuance costs and value allocated to the warrants [Note 12(c)] against the Term Loan based on the proportion of the facility drawn, with the balance included in deferred charges. The portion recognized against the Term Loan will be accreted using the effective interest method (refer to effective interest rate above) through finance expense while the deferred charge balance is being straight-line amortized over the five-year term. As future draws are made under the term Loan, the unamortized proportion of the deferred charges will be transferred against the debt obligation and accreted also using the effective interest method.

The Term Loan is subject to certain quarterly financial and performance covenants from the quarter ended March 31, 2020 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 table for the year ended March 31, 2020:

Ratio	Covenant		Required	Actual March 31, 2020	
1.	Interest Coverage Ratio	Greater than	3.00	3.47	
2.	Total Leverage Ratio	Less than	3.25	2.90	
3.	Minimum Average Production	Greater than	1,500	1,973	Boe/d
4.	Proved Developed Producing Coverage Ratio	Greater than	1.00	1.20	
5.	Total Proved Reserves Coverage Ratio	Greater than	1.50	1.69	

At March 31, 2020 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's forecasts for the remainder of 2020 and Q1 2021, based on current strip pricing, indicates a potential breach of certain of its financial and performance covenants as at June 30, 2020. The Company has obtained covenant relief from its lender in respect of potential breaches for June 30, 2020 (see note 2(a)).

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.

11. Lease Liabilities

The Company has lease liabilities for contracts related to financing facilities, surface leases, vehicles and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Discount rate used during the three months ended March 31, 2020 was 10.92%. The following table summarizes lease liabilities at March 31, 2020:

		Three Months Ended March 31, 2020
Balance, December 31, 2019	$	376,992
Interest expense		9,898
Lease payments		(30,059)
Balance, March 31, 2020	**$**	**356,832**
Current Portion	$	89,923
Long-term portion		266,909

12. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at March 31, 2020, the Company had 88,582,302 common shares issued and outstanding.

- 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. The Company has since purchased and canceled 1,301,000 shares under the NCIB for $179,273 as at March 31, 2020, for an average cost of $0.14 per share. For the three months ended March 31, 2020, the Company purchased and canceled 320,000 shares under the NCIB for $179,273, for an average cost of $0.17 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 five years. Stock options terminate no later than 90 days (30 days for investor-related services) upon termination of employment or employment contract and one year in the case of retirement, death or disability. The grant price is determined using the closing price of the Company’s shares from the day prior to the grant.

Details of the Company's stock options as at March 31, 2020 are as follows:

Exercise Price	Expiry Date	Balance Outstanding December 31, 2019	Changes in the Period: Granted	Changes in the Period: Exercised	Changes in the Period: Expired/ Cancelled	Balance Outstanding March 31, 2020	Balance Exercisable March 31, 2020
$0.24	29-Jan-20	1,000,000	-	-	(1,000,000)	-	-
$0.39	1-Mar-20	100,000	-	-	(100,000)	-	-
$0.08	11-Feb-21	1,595,000	-	-	-	1,595,000	1,595,000
$0.08	12-Feb-21	125,000	-	-	-	125,000	125,000
$0.25	21-Sep-22	4,914,00	-	-	-	4,914,000	4,914,000
$0.28	2-Oct-22	150,000	-	-	-	150,000	150,000
$0.25	1-Jan-23	250,000	-	-	-	250,000	250,000
$0.12	1-Mar-24	50,000	-	-	-	50,000	50,000
		8,184,000	-	-	(1,100,000)	7,084,000	7,084,000
Weighted-average exercise price		$0.21	-	-	$0.25	$0.21	$0.21

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, 2020, the Company recorded total share-based payments of $nil, compared to $60,225 for the same period in 2019.

In the quarter ended March, 31 2020 the Company did not grant any stock options and all granted options had fully vested prior to 2020.

(c) Share purchase warrants

On September 15, 2017, the Company issued 13,750,000 warrants to a third-party lender in conjunction with its Term Loan (Note 10). 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.

The Company ascribed a value to the warrants of $1,428,954 by comparing the fair value of the Term Loan both with and without the warrant feature determining the difference in value to be related to the warrants. The effective rates have been disclosed in Note 10. Further, a deferred tax liability of $385,818 was incurred with regard to the warrants that is applied against the recorded warrant reserve.

As at March 31, 2020, the Company had 13,750,000 outstanding and exercisable share purchase warrants.

(d) Income (loss) per share

		Three Months Ended March 31 2020		2019
Net income (loss) for the period	**$**	**2,152,995**	$	(889,224)
Weighted average number of common shares outstanding, basic		**88,636,720**		89,803,302
Dilutive stock options and warrants		**842,123**		-
Weighted average number of common shares outstanding, diluted		**89,478,843**		89,803,302
Loss per share, basic and diluted	**$**	**0.02**	$	(0.01)

For the three months ended March 31, 2020, the Company had dilutive stock options of 842,123. For the comparable periods in 2019 the Company incurred a loss; therefore, dilutive stock options and share purchase warrants were nil.

13. Commitment

		2020	2021	2022	2023	Total
Lease operating costs	$	58,977	78,636	78,636	32,765	249,014
Term loan		-	-	35,855,550	-	35,855,550
Term loan interest		3,373,785	3,373,785	2,530,339	-	9,277,909
	$	3,432,762	3,452,421	38,464,525	32,765	45,382,473

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, 2020, the gross balance of the Term Loan was $35,855,550 (US$25,500,000), exclusive of the debt issuance costs. The Term Loan matures on September 15, 2022.

14. Supplemental Cash Flow Information

		Three Months Ended March 31 2020		2019
Provided by (used in):				
Accounts receivable	**$**	**1,374,616**	$	(2,354,784)
Prepaid expenses		**73,846**		(45,484)
Accounts payable and accrued liabilities		**(573,870)**		(350,433)
Total changes in non-cash working capital	**$**	**874,592**	$	(2,750,701)
Provided by (used in):				
Operating activities	**$**	**1,299,299**	$	(2,008,325)
Investing activities		**(424,707)**		(742,376)
Total changes in non-cash working capital	**$**	**874,592**	$	(2,750,701)

Interest paid on the Company's debts during the three months ended March 31, 2020 was $863,844, compared to $893,976 for equivalent period in 2019.

15. Subsequent Events

Subsequent to the quarter ended March 31, 2020, the Company entered into the following commodity price contracts:

Product	Type	Volume	Price	Index	Term
Crude oil	Swap	750 bbl/d	US$23.80	WTI-NYMEX	April 1, 2020 – June 30, 2020
Crude oil	Swap	750 bbl/d	US$17.55	WCS	May 1, 2020 – June 30, 2020

OFFICERS

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President & Chief Executive Officer

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

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

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

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

Don Simmons, P.Geol.(3)

Gregg Vernon, P.Eng.(2)

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

Audit Committee

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

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