



## Q3 2020 HIGHLIGHTS

- Achieved revenue of \$5.9 million.
- Realized an operating netback of \$4.7 million, including hedging gains of \$0.9 million.
- Attained quarterly adjusted funds flow from operations of \$3.4 million or \$0.04 per share (basic).
- Maintained average quarterly production at 1,686 boe/d (99% heavy crude oil).
- Reduced operating and transportation expenses to \$9.31/boe, a 21% decrease from the third quarter of 2019.
- Achieved an operating netback of \$30.41/boe, including a \$5.51/boe hedging gain.
- Lowered net debt to \$27.4 million, an 11% decrease from the end of the second quarter 2020.
- Corporate Liability Management Ratio (LMR) with the Alberta Energy Regulator was 12.23 as of the end of the third quarter of 2020.

## CORPORATE UPDATE

Hemisphere had a very successful third quarter with oil prices recovering significantly from those seen during the second quarter. Combined with flat production and considerable reductions in operating costs, the Company attained adjusted funds flow from operations (“funds flow”) of \$3.4 million (\$0.04 per basic share). With minimal capital expenditures, Hemisphere was able to focus on debt reduction. As a result, net debt was lowered to \$27.4 million by the end of the third quarter, yielding an annualized net debt to funds flow ratio of 2.0.

Hemisphere’s production averaged 1,686 boe/d (99% heavy crude oil) through the third quarter of 2020, up slightly by 2.5% over the second quarter. The Company has already converted one of its Atlee Buffalo G pool wells to an injector, and plans to convert three more wells in the pool to injectors over the next few months to further optimize waterflood performance. Emphasis continues to be placed on production efficiencies, which has resulted in a 21% reduction in operating and transportation costs as compared to the third quarter of 2019. Hemisphere has focused heavily on debt repayment over the past year, and has lowered its net debt position by \$8.6 million, or 24% as compared to the third quarter of 2019.

Overcoming unprecedented challenges presented this year, Hemisphere has recorded \$13.3 million in revenue, \$10.9 million in operating netback, and \$6.9 million (\$0.08 per basic share) in funds flow, with capital expenditures of just under \$1.1 million during the first nine months of 2020. Over this same period, average production has grown by 18% from the first three quarters of 2019 to 1,768 boe/d (99% heavy crude oil) this year, and operating and transportation costs have been reduced by 30% from the comparable period in 2019 to \$9.06/boe this year.

## CORPORATE OUTLOOK

In the coming quarters, Hemisphere will continue to move its plans forward to convert its Atlee Buffalo G oil pool from water to polymer flood. Approval for polymer flood conversion has already been received by the Alberta Energy Regulator, and engineering design is progressing with expectations for injection start-up in mid-2021. This enhanced oil recovery project has substantial long-term value potential in terms of incremental and accelerated reserve recovery, and sets the stage for follow-up polymer flood conversion in the neighboring Atlee Buffalo F oil pool.

## Q3 2020 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
<b>OPERATING</b>				
<b>Average daily production</b>				
Oil (bbl/d)	1,675	1,670	1,754	1,440
Natural gas (Mcf/d)	70	404	87	329
NGL (bbl/d)	-	1	-	1
Combined (boe/d)	1,686	1,738	1,768	1,496
Oil and NGL weighting	99%	96%	99%	96%
<b>Average realized sales prices</b>				
Oil (\$/bbl)	\$ 38.14	\$ 53.21	\$ 27.59	\$ 55.63
Natural gas (\$/Mcf)	2.13	0.80	2.01	1.74
NGL (\$/bbl)	-	55.62	-	43.79
Combined (\$/boe)	\$ 37.96	\$ 51.34	\$ 27.47	\$ 53.96
<b>Operating netback (\$/boe)</b>				
Petroleum and natural gas revenue	\$ 37.96	\$ 51.34	\$ 27.47	\$ 53.96
Royalties	(3.75)	(6.95)	(2.28)	(7.07)
Operating costs	(6.79)	(9.37)	(6.53)	(10.51)
Transportation costs	(2.52)	(2.45)	(2.53)	(2.49)
Operating field netback <sup>(1)</sup>	\$ 24.90	\$ 32.57	\$ 16.13	\$ 33.88
Realized commodity hedging gain (loss)	5.51	(1.93)	6.37	(3.03)
Operating netback <sup>(2)</sup>	\$ 30.41	\$ 30.64	\$ 22.50	\$ 30.85
<b>FINANCIAL</b>				
Petroleum and natural gas revenue	\$ 5,889,668	\$ 8,207,658	\$ 13,305,661	\$ 22,039,005
Operating field netback <sup>(1)</sup>	3,862,969	5,206,705	7,813,633	13,838,733
Operating netback <sup>(2)</sup>	4,718,540	4,898,806	10,899,880	12,600,471
Cash flow provided by operating activities	3,097,786	3,803,907	7,292,033	6,966,814
Adjusted funds flow from operations <sup>(3)</sup>	3,416,449	3,558,673	6,944,853	8,753,556
Per share, basic and diluted	0.04	0.04	0.08	0.10
Net income	1,442,021	2,854,615	407,810	4,777,972
Per share, basic and diluted	0.02	0.03	0.00	0.05
Capital expenditures	392,199	6,386,377	1,067,373	9,978,618
Net debt <sup>(4)</sup>	27,363,336	35,934,983	27,363,336	35,934,983
Gross term Loan <sup>(5)</sup>	\$ 29,967,750	\$ 34,426,600	\$ 29,967,750	\$ 34,426,600

## 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, less any payments, on the term loan translated to Canadian Dollars at the period end exchange rate.

## Nine months ended September 30

	2020	2019
<b>SHARE CAPITAL</b>		
Common shares outstanding	87,882,302	89,408,302
Stock options outstanding	8,584,000	8,184,000
Warrants outstanding	13,750,000	13,750,000
Fully Diluted	110,216,302	111,342,302
Weighted-average shares outstanding – basic	88,446,525	89,820,390
Weighted-average shares outstanding –diluted	89,174,530	90,520,664

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at November 18, 2020

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three and nine months ended September 30, 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 and nine months ended September 30, 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](http://www.sedar.com) or the Company's website at [www.hemisphereenergy.ca](http://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

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

#### 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 8,800 net acres.

#### Jenner, Alberta

Hemisphere owns and operates all of its wells and has a land position of 8,664 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 \$3,416,449 (\$0.04/share) during the third quarter of 2020, as compared to adjusted funds flow from operations of \$3,558,673 (\$0.04/share) during the third quarter of 2019, a slight decrease of \$142,224. Adjusted funds flow for

the nine months ended September 30, 2020 decreased 21% to \$6,944,853 (\$0.08/share) from \$8,753,556 (\$0.10/share) for the same period in 2019.

The decrease in AFF from operations for three months and nine months ended September 30, 2020 is due primarily to a respective 26% and 49% decrease in the combined average realized sales price, which was somewhat offset by a 48% and 62% decrease in royalties, and a 30% and 26% decrease in operating costs over the respective comparable periods of 2019.

For the three and nine months ended September 30, 2020, the Company reported net income of \$1,442,021 (\$0.02/share) and \$407,810 (\$0.00/share) respectively, compared to net incomes of \$2,854,615 (\$0.03/share) and \$4,777,972 (\$0.05/share) respectively for the three and nine months ended September 30, 2019. This decrease of \$4,370,162 in the first three quarters of 2020 is generally the result of decreased oil and natural gas revenues of \$8,733,344 combined with an impairment of \$3,859,110 and increased foreign exchange loss of \$2,633,753, offset by a reduction in royalties and operating and transportation expenses of \$1,781,598 and \$926,646 respectively, as well as increases in realized and unrealized hedging gains of \$4,324,509 and \$3,341,072 respectively.

### Production

By product:	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Oil (bbl/d)	1,675	1,670	1,754	1,440
Natural gas (Mcf/d)	70	404	87	329
NGL (bbl/d)	-	1	-	1
Total (boe/d)	1,686	1,738	1,768	1,496
Oil and NGL weighting	99%	96%	99%	96%

In the third quarter of 2020, the Company's average daily production was 1,686 boe/d (99% oil and NGL) which is a decrease of 52 boe/d from the 1,738 boe/d achieved in the comparable quarter of 2019. For the nine months ended September 30, 2020, the Company's average daily production was 1,768 boe/d (99% oil and NGL), representing an 18% increase from 1,496 boe/d for the same period in 2019. This increase in production can be attributed to 11 new wells drilled and placed on production within the third quarter of 2019, as well as the continued success of the base waterflood performance in the Upper Mannville F and G pools, and in spite of the shut-in of the high water cut Jenner wells during the quarter.

### Average Benchmark and Realized Prices

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
<b>Benchmark prices</b>				
WTI (\$US/bbl) <sup>(1)</sup>	\$ 40.93	\$ 56.47	\$ 38.31	\$ 57.04
Exchange rate (1 \$US/\$C)	1.3316	1.3205	1.3528	1.3291
WTI (\$C/bbl)	54.50	74.57	51.83	75.81
WCS Diff (\$C/bbl)	12.08	16.19	18.85	15.55
WCS (\$C/bbl) <sup>(2)</sup>	42.41	58.38	32.98	60.26
AECO natural gas (\$US/Mcf) <sup>(3)</sup>	2.27	1.00	2.10	1.57
<b>Average realized prices</b>				
Crude oil (\$C/bbl)	38.14	53.21	27.59	55.63
Natural gas (\$C/Mcf)	2.13	0.80	2.01	1.74
NGL (\$C/bbl)	-	55.62	68.84	43.79
Combined (\$C/boe)	\$ 37.96	\$ 51.34	\$ 27.47	\$ 53.96

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 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 26% from \$51.34/boe during the three months ended September 30, 2019 to \$37.96/boe during three months ended September 30, 2020. The Company's combined average realized price decreased by 49% from \$53.96/boe during the nine months ended September 30, 2019 to \$27.47/boe during the nine months ended September 30, 2020. This decrease is the result of decreases in realized WTI pricing of US\$15.54/bbl and US\$18.73/bbl respectively, combined with increases to the differential between WCS and WTI pricing of \$4.11/bbl and (\$3.30)/bbl respectively, for the three and nine ended September 30, 2020 over the comparable periods in 2019.

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

Product	Type	Volume	Price	Index	Term
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 September 30, 2020 the commodity contracts were fair valued as an asset of \$1,388,472 recorded on the balance sheet, an unrealized loss for the three month period of \$1,319,060 and an unrealized gain for the nine month period of \$2,518,015 respectively (September 30, 2019 – gain of \$875,506 and loss of \$823,057 respectively).

## Revenue

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Oil	\$ 5,875,899	\$ 8,174,202	\$ 13,257,267	\$ 21,868,981
Natural gas	13,769	29,746	48,177	156,575
NGL	-	3,710	217	13,449
Total	\$ 5,889,668	\$ 8,207,658	\$ 13,305,661	\$ 22,039,005

Revenue for the three and nine months ended September 30, 2020 decreased by 28% and 40%, respectively, from the comparable periods in 2019. These declines are attributed to decreases of 26% and 49% in the Company's combined average realized prices during the periods respectively over the comparable periods in 2019.

## Operating Netback

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
<b>Operating netback</b>				
Revenue	\$ 5,889,668	\$ 8,207,658	\$ 13,305,661	\$ 22,039,005
Royalties	(582,409)	(1,111,091)	(1,106,149)	(2,887,747)
Operating costs	(1,053,565)	(1,497,806)	(3,162,256)	(4,294,097)
Transportation costs	(390,725)	(392,056)	(1,223,623)	(1,018,429)
Operating field netback <sup>(1)</sup>	\$ 3,862,969	\$ 5,206,705	\$ 7,813,633	\$ 13,838,733
Realized commodity hedging gain (loss)	855,571	(307,899)	3,086,247	(1,238,262)
Operating netback <sup>(2)</sup>	\$ 4,718,540	\$ 4,898,805	\$ 10,899,880	\$ 12,600,470
<b>Operating netback (\$/boe)</b>				
Revenue	\$ 37.96	\$ 51.34	\$ 27.47	\$ 53.96
Royalties	(3.75)	(6.95)	(2.28)	(7.07)
Operating costs	(6.79)	(9.37)	(6.53)	(10.51)
Transportation costs	(2.52)	(2.45)	(2.53)	(2.49)
Operating field netback <sup>(1)</sup>	\$ 24.90	\$ 32.57	\$ 16.13	\$ 33.89
Realized commodity hedging gain (loss)	5.51	(1.93)	6.37	(3.03)
Operating Netback <sup>(2)</sup>	\$ 30.41	\$ 30.64	\$ 22.50	\$ 30.86

### 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 September 30, 2020 were \$3.75/boe, representing a 46% decrease from the three months ended September 30, 2019. Royalties for the nine months ended September 30, 2020 were \$2.28/boe, representing a 68% decrease from the same period in 2019. This was primarily the result of lower realized prices combined with many of Hemisphere's newly drilled 2019 wells remaining 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 September 30, 2020 decreased on an absolute basis by \$444,241 or 30% and on a per boe basis by \$2.58 or 28% over the comparable period in 2019. For the nine months ended September 30, 2020 operating costs decreased on an absolute basis by \$1,131,841 or 26% and on a per boe basis by \$3.98 or 38% over the comparable period in 2019. As a direct result of the historically low realized commodity prices due to the ongoing global pandemic the Company took steps to reduce operating costs. The Company shut in the majority of high water cut production in Jenner, worked with vendors and oilfield service providers for temporary rate reductions, optimized maintenance work, optimized chemical use, and reduced operator overtime. The Company continues to work to find efficiencies in its operations to keep operating costs low.

Transportation costs include all costs incurred to transport emulsion, oil and gas sales to processing and distribution facilities. Transportation costs were \$2.52/boe during the third quarter of 2020, which is a \$0.07/boe increase over the comparable quarter in 2019. Transportation costs were \$2.53/boe for the nine months ended September 30, 2020, which represents a \$0.04/boe increase over the same period in 2019. This slight increase in trucking costs for the nine months ended September 30, 2020 over the comparable periods in 2019 is due to the use of varied sales points to which oil is trucked.

Operating netback for the three and nine months ended September 30, 2020 were \$30.41/boe and \$22.50/boe respectively, 1% and 27% lower than the comparable quarters in 2019. This is mainly due to the 26% and 49% decrease in the Company's combined average realized price over the comparable periods, offset by the lower royalties and operating costs discussed above, and the respective \$5.51/boe and \$6.37/boe hedging gains in the comparable three and nine month periods of 2020 (losses of \$1.93/boe for the three months and of \$3.03/boe for the nine months ended September 30, 2019).

### 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 September 30, 2020 and 2019 were \$12,275 and \$15,441, respectively. For the nine months ended September 30, 2020 and 2019, exploration and evaluation expenses were \$36,958 and \$52,929, respectively.

### Depletion and Depreciation

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Depletion expense	\$ 1,118,119	\$ 1,617,171	\$ 3,487,177	\$ 4,078,315
Depreciation expense	28,606	28,356	85,403	81,516
Total	\$ 1,146,725	\$ 1,645,527	\$ 3,572,580	\$ 4,159,831
\$ per boe	\$ 7.39	\$ 10.29	\$ 7.37	\$ 10.18

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 September 30, 2020 decreased to \$7.39/boe from \$10.29/boe for the same period in 2019. For the nine months ended September 30, 2020, depletion and depreciation expenses decreased to \$7.37/boe from \$10.18/boe for the same period in 2019. The decrease in depletion expense for the three and nine months ended September 30, 2020 over the comparable periods in 2019 is primarily 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 September 30, 2020 the Company performed an assessment of potential impairment indicators on each of its Cash Generating Units (CGUs), and management determined that no impairment test on its petroleum and natural gas assets was required.

As at March 31, 2020 and December 31, 2019, 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 as at March 31, 2020 (as at December 31, 2019 - \$7,705,533). Accordingly, the Company recognized an impairment charge of \$3,859,110 as at March 31, 2020 (as at 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 September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Land and lease	\$ 1,812	\$ 82,923	\$ 10,286	\$ 110,646
Geological and geophysical	250,191	16,625	682,325	323,921
Drilling and completions	124,357	4,981,297	338,448	7,486,378
Facilities and infrastructure	15,839	1,305,533	36,314	2,057,674
Total capital expenditures <sup>(1)</sup>	\$ 392,199	\$ 6,386,377	\$ 1,067,373	\$ 9,978,618

Note:

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

The development capital spent during the first three quarters of 2020 focused on projects that have long-term operating costs savings and will increase oil recovery.

### General and Administrative

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Gross general and administrative	\$ 732,655	\$ 604,124	\$ 2,012,107	\$ 1,645,764
Capitalized general and administrative	(177,755)	(121,055)	(525,142)	(454,594)
Total	\$ 554,900	\$ 483,070	\$ 1,486,965	\$ 1,191,170
\$ per boe	\$ 3.58	\$ 3.02	\$ 3.07	\$ 2.92

General and administrative ("G&A") expenses increased on an absolute basis by 15% and 25% for the three and nine months ended September 30, 2020, and on a per boe basis \$0.56/boe and \$0.15/boe respectively over the comparable period in 2019. The G&A costs increased due to production growth resulting in higher consulting fees and staffing costs in the first three quarters of 2020. G&A cost increases were somewhat offset by a reduction in wages of \$81,312 through claims made to the Canada Revenue Agency under the Canada Emergency Wage Subsidy program to support businesses through the COVID-19 pandemic and subsequent economic downturn.

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 and nine months ended September 30, 2020, capitalized general and administrative expenses increased by 47% and 16% over the respective comparable periods in 2018.

### Share-based Payments

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

In June of 2020 the Company granted 1,500,000 stock options to officers, directors, employees and consultants at an exercise price of \$0.12 over five years, all of which vested immediately. The Company uses a Black-Scholes option pricing model to calculate the fair value of stock option grants where the

corresponding expense is recognized over the option vesting period. The total valuation of the vested options from grants in the nine months ended September 30, 2020, was \$150,866, of which \$115,664 was expensed as stock-based compensation and \$35,202 was capitalized.

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Share-based payments	\$ -	\$ -	\$ 115,664	\$ 117,079
Capitalized costs	-	-	35,202	62,866
Total share-based payments	\$ -	\$ -	\$ 150,866	\$ 179,945

### Finance Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Loan interest	\$ 701,282	\$ 857,710	\$ 2,340,978	\$ 2,620,745
Lease interest	9,837	11,039	29,967	34,518
Accretion of debt issuance costs	54,891	86,908	323,045	199,972
Amortization of deferred charges	48,792	64,216	208,165	179,499
Accretion of decommissioning liabilities	32,256	37,233	96,768	111,699
Total	\$ 847,058	\$ 1,057,107	\$ 2,998,923	\$ 3,146,433
\$ per boe	\$ 4.72	\$ 8.52	\$ 6.19	\$ 7.70

Loan interest for the three and nine months ended September 30, 2020 decreased by \$156,428 and \$279,767 over the respective periods in 2019 which is the result of a decrease in the 3-month LIBOR rate for the quarter, upon which the term loan quarterly interest is calculated, combined with a reduction in the principle of the Term Loan via repayments. The Company also recorded \$9,837 and \$29,967 of lease interest on right-of-use assets liability under IFRS 16 for the three and nine months ended September 30, 2020. The finance expense per boe has decreased by 45% and 20% over the comparable three and nine month periods in 2019 due to the decreases in absolute costs, combined with 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 and nine months ended September 30, 2020 accretion expense decreased by 13% over the comparable periods 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
<b>Total</b>		<b>\$ 67,583,592</b>

## Summary of Quarterly Results

	2020				2019			2018
	Sep. 30 Q3 <sup>(1)</sup>	Jun. 30 Q2 <sup>(2)</sup>	Mar. 31 Q1 <sup>(3)</sup>	Dec. 31 Q4 <sup>(4)</sup>	Sep. 30 Q3 <sup>(5)</sup>	Jun. 30 Q2 <sup>(5)</sup>	Mar. 31 Q1 <sup>(7)</sup>	Sep. 30 Q4 <sup>(8)</sup>
Average daily production (boe/d)	1,686	1,645	1,973	2,166	1,738	1,367	1,379	1,378
Oil and natural gas revenue	5,889,668	2,452,793	4,963,201	9,472,078	8,207,658	7,396,095	6,435,252	2,886,840
Operating field netback <sup>(9)</sup>	3,862,969	1,259,793	2,690,808	6,284,329	5,206,705	4,357,767	4,274,261	1,023,282
Cash provided by operating activities	3,097,786	826,988	3,367,261	3,530,061	3,803,907	2,536,247	626,659	231,079
Adjusted funds flow from (used in) operations <sup>(10)</sup>	3,416,449	1,363,914	2,164,492	4,334,995	3,558,673	2,559,898	2,634,984	(725,431)
Per share, basic and diluted	0.04	0.02	0.02	0.05	0.04	0.03	0.03	(0.01)
Net income (loss)	1,442,021	(3,187,206)	2,152,995	(2,543,542)	2,854,615	2,812,582	(889,224)	25,334
Per share, basic and diluted	0.02	(0.04)	0.02	(0.03)	0.03	0.03	(0.01)	0.00
Combined average realized price (\$/boe)	37.96	16.38	27.64	47.53	51.34	59.44	51.85	22.78
Operating netback (\$/boe) <sup>(11)</sup>	30.41	17.74	19.63	30.70	30.64	31.10	30.89	5.14

### Notes:

- (1) The increases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to an increase in realized commodity prices.
- (2) The decreases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to a decrease in realized commodity prices.
- (3) The decreases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to a decrease in realized commodity prices.
- (4) The increases in revenue, netbacks and adjusted funds flow from operations are due to increases in production rates and realized commodity prices.
- (5) The increases in revenue, netbacks and adjusted funds flow from operations are due to increases in production rates.
- (6) The increases in revenue and netbacks are due to increases in realized commodity prices.
- (7) The increases in revenue, netbacks and adjusted funds flow from operations are due to increases in realized commodity prices.
- (8) The decreases in revenue, netbacks and adjusted funds flow from (used in) operations are due to a sharp decrease in realized commodity prices.
- (9) Operating field netback per boe is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties, operating expenses and transportation costs on an absolute and per barrel of oil equivalent basis.
- (10) Adjusted funds flow from operations is a non-IFRS measure that represents cash generated by operating activities, before changes in non-cash working capital and may not be comparable to measures used by other companies.
- (11) Operating netback is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) on an absolute and per barrel of oil equivalent basis.

## Outstanding Share Capital

	November 18, 2020	September 30, 2020	December 31, 2019
Fully diluted share capital			
Common shares issued and outstanding	86,938,302	<b>87,882,302</b>	88,902,302
Stock options	8,584,000	<b>8,584,000</b>	8,184,000
Warrants	13,750,000	<b>13,750,000</b>	13,750,000
Total fully diluted shares outstanding	109,272,302	<b>110,216,302</b>	111,817,302

On June 27, 2019 the Company announced notice of a normal course issuer bid (NCIB) to purchase and cancel, from time to time, up to 8,016,731 common shares of the Company until July 1, 2020. The Company has since purchased and canceled 1,301,000 shares under this NCIB for \$179,273 as at June 30, 2020, for an average cost of \$0.14 per share. This includes 320,000 shares purchased and canceled in the first half of fiscal 2020 for \$55,593 at an average cost of \$0.17 per share.

Further, on June 29, 2020 the Company announced the renewal of the normal course issuer bid (NCIB) to purchase and cancel, from time to time, up to 7,869,931 common shares of the Company until July 1, 2021. During the three months ended September 30, 2020, the Company has purchased and canceled 700,000 shares under the NCIB for \$81,121 at an average cost of \$0.12 per share.

Subsequent to the quarter ended September 30, 2020, the Company has purchased and canceled an additional 944,000 shares under the NCIB for \$111,097 at an average cost of \$0.12 per share.

The Company has the following stock options that are outstanding and exercisable as at November 18, 2020:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding November 18, 2020	Balance Exercisable November 18, 2020
\$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	100,000
\$0.25	January 1, 2018	January 1, 2023	250,000	250,000
\$0.12	March 1, 2019	March 1, 2024	50,000	50,000
\$0.12	June 17, 2020	June 17, 2025	1,500,000	1,500,000
			8,584,000	8,584,000
Weighted-average exercise price			\$0.19	\$0.19

### 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 25<sup>th</sup> 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 and nine months ended September 30, 2020 were \$3,466,899 and \$5,595,230 respectively. These funds are primarily a repayment of US\$4,000,000 (CAD\$5,301,800) towards the Company's term loan in the first nine months 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 September 30, 2020 the Company had a term loan balance of US\$22.5 million (CAD\$29,967,750 at period close exchange rate) resulting from total draws of US\$26.5 million less total repayments of US\$4.0 million. In October 2020, the Company paid down an additional US\$1.25 million (CAD\$1,650,625) on the term loan.

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 June 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 September 30, 2020:

Ratio			Required	Actual Sep. 30, 2020
1.	Interest Coverage Ratio	Greater than	3.00	5.79
2.	Total Leverage Ratio	Less than	3.25	1.82
3.	Minimum Average Production Boe/d	Greater than	1,500	1,686
4.	Proved Developed Producing Coverage Ratio	Greater than	1.00	1.52
5.	Total Proved Reserves Coverage Ratio	Greater than	1.50	2.63

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

### 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.

### Commitment

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

As at September 30, 2020, the gross balance of the Term Loan was \$29,967,750 (US\$22,500,000), exclusive of the debt issuance costs. The Term Loan matures on September 15, 2022.

	2020	2021	2022	2023	Total
Lease operating costs	\$ 19,659	78,636	78,636	32,765	209,626
Term loan	-	-	29,967,750	-	29,967,750
Term loan interest	636,815	2,547,259	1,910,444	-	5,094,518
	\$ 656,474	2,625,895	31,956,830	32,765	35,271,964

### 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.

### Government Grants

Since commencement of the Canada Emergency Wage Subsidy ("CEWS") program on March 15, 2020, the Company has applied for a subsidy for its eligible employees. Government grants are recognized when there is reasonable assurance that the grant will be received, and all conditions associated with the grant are met. Claims under government grant programs related to income are deducted in reporting the related expense and are recorded in the period in which the eligible expenses were incurred.

## 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 September 30, 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](http://www.hemisphereenergy.ca) or on SEDAR at [www.sedar.com](http://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:

	September 30, 2020	December 31, 2019
Accounts receivable		
Marketing receivables	\$ 1,569,705	\$ 2,773,405
Trade receivables	328,532	11,438
Receivables from joint ventures	5,383	6,809
Reclamation deposits	115,535	115,535
	<b>\$ 2,019,155</b>	<b>\$ 2,907,187</b>

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 generate profits in the future.

At September 30, 2020, the Company had net debt (current assets less current liabilities excluding fair value of financial instruments and lease liabilities, and including the outstanding term loan) of \$27,363,336 (December 31, 2019 - \$31,982,764). The Company funds its operations through operating cash flows and the term loan. At September 30, 2020, the Company has an additional US\$3.5 million of borrowing base committed with its lender, which it can draw from for future capital programs, subject to the lender's approval.

### Market risk

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

### *Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under the Company's Term Loan are subject to variable interest rates. A one percent change in interest rates would have a \$300,000 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 \$271,000 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 funds flow from operations to cash provided by operating activities is presented as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Cash provided by operating activities	\$ 3,097,786	\$ 3,803,907	\$ 7,292,033	\$ 6,966,814
Change in non-cash working capital	316,959	245,234	(460,450)	(1,786,742)
Adjust: Decommissioning obligation expenditures	1,704	-	113,270	-
Adjusted funds flow from operations	\$ 3,416,449	\$ 3,558,673	\$ 6,944,853	\$ 8,753,556
Per share, basic and diluted	\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.10

- a) 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.

- b) 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	
	September 30, 2020	December 31, 2019
Current assets <sup>(1)</sup>	\$ 3,693,596	\$ 4,301,975
Current liabilities <sup>(1)</sup>	(1,089,182)	(1,866,538)
Gross Term Loan <sup>(2)</sup>	(29,967,750)	(34,418,200)
Net debt	\$ (27,363,336)	\$ (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, less any payments, 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](http://www.hemisphereenergy.ca) or on SEDAR at [www.sedar.com](http://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 the financial statements with management. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Vancouver, British Columbia  
November 18, 2020

(signed) "Don Simmons"

Don Simmons, President & CEO

(signed) "Dorlyn Evancic"

Dorlyn Evancic, Chief Financial Officer

**CONDENSED STATEMENTS OF FINANCIAL POSITION***(Expressed in Canadian dollars)**(Unaudited)*

	Note	September 30, 2020	December 31, 2019
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 1,465,071	\$ 1,179,516
Accounts receivable		1,903,620	2,791,652
Prepaid expenses		324,905	330,806
Fair value of financial instruments	3(c)	1,388,472	-
		<b>5,082,068</b>	<b>4,301,974</b>
<b>Non-current assets</b>			
Reclamation deposits	8	115,535	115,535
Exploration and evaluation assets	6	3,464,586	2,800,569
Property and equipment	7	46,931,366	53,900,623
Deferred charges	11	193,490	401,655
<b>Total assets</b>		<b>\$ 55,787,045</b>	<b>\$ 61,520,356</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 1,089,182	\$ 1,866,537
Current portion of lease liability	9	80,569	94,434
Fair value of financial instruments	3(c)	-	977,543
		<b>1,169,751</b>	<b>2,938,514</b>
<b>Non-current liabilities</b>			
Term loan	11	28,548,996	32,755,677
Lease liability	9	271,232	282,558
Fair value of financial instruments	3(c)	-	152,000
Decommissioning obligations	8	7,314,373	7,330,876
		<b>37,304,352</b>	<b>43,459,625</b>
<b>Shareholders' Equity</b>			
Share capital	12	54,471,247	54,607,961
Contributed surplus		1,021,514	1,057,734
Warrant reserve	12(c)	1,043,136	1,043,136
Deficit		(38,053,204)	(38,648,100)
<b>Total shareholders' equity</b>		<b>18,482,693</b>	<b>18,060,731</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 55,787,045</b>	<b>\$ 61,520,356</b>
Commitments	Note 13		
Subsequent event	Note 12(a)		

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

**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME***(Expressed in Canadian dollars)**(Unaudited)*

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2020	2019	2020	2019
<b>Revenue</b>					
Oil and natural gas revenue	5	\$ 5,889,668	\$ 8,207,658	\$ 13,305,661	\$ 22,039,005
Royalties		(582,409)	(1,111,091)	(1,106,149)	(2,887,747)
		<b>5,307,259</b>	<b>7,096,567</b>	<b>12,199,512</b>	<b>19,151,258</b>
Realized gain (loss) on financial instruments		<b>855,571</b>	(307,899)	<b>3,086,247</b>	(1,238,262)
Unrealized gain (loss) on financial instruments	3(c)	<b>(1,319,060)</b>	875,506	<b>2,518,015</b>	(823,057)
<b>Net revenue</b>		<b>4,843,770</b>	<b>7,664,174</b>	<b>17,803,774</b>	<b>17,089,939</b>
<b>Expenses</b>					
Operating and transportation		<b>1,444,290</b>	1,889,862	<b>4,385,879</b>	5,312,525
Exploration and evaluation	6	<b>12,275</b>	15,441	<b>36,958</b>	52,929
Depletion and depreciation	7	<b>1,146,725</b>	1,645,527	<b>3,572,580</b>	4,159,831
General and administrative		<b>554,900</b>	483,070	<b>1,486,965</b>	1,191,170
Share-based payments	12(b)	-	-	<b>115,664</b>	117,079
Impairment of property and equipment	7	-	-	<b>3,859,110</b>	-
		<b>3,158,190</b>	<b>4,033,900</b>	<b>13,457,156</b>	<b>10,833,534</b>
<b>Results from operating activities</b>		<b>1,685,580</b>	<b>3,630,274</b>	<b>4,346,618</b>	<b>6,256,405</b>
Finance expense	10	<b>(847,058)</b>	(1,057,107)	<b>(2,998,923)</b>	(3,146,433)
Foreign exchange gain (loss)		<b>603,499</b>	281,488	<b>(965,753)</b>	1,668,000
Gain on disposition		-	-	<b>25,868</b>	-
<b>Net income and comprehensive income for the period</b>		<b>\$ 1,442,021</b>	<b>\$ 2,854,615</b>	<b>\$ 407,810</b>	<b>\$ 4,777,972</b>
Net income per share					
Basic and diluted	12(d)	<b>\$ 0.02</b>	<b>\$ 0.03</b>	<b>\$ 0.00</b>	<b>\$ 0.05</b>

*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
<b>Balance, December 31, 2018</b>		<b>89,793,302</b>	<b>\$ 54,724,441</b>	<b>\$ 649,775</b>	<b>\$ 1,043,136</b>	<b>\$ (40,911,337)</b>	<b>\$ 15,870,863</b>
Stock option exercise		90,000	7,200	-	-	-	7,200
Share-based payments	12(b)	-	-	71,918	-	-	71,918
Cancellation 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 year		-	-	-	-	2,234,430	2,234,430
<b>Balance, December 31, 2019</b>		<b>88,902,302</b>	<b>\$ 54,607,961</b>	<b>\$ 1,057,734</b>	<b>\$ 1,043,136</b>	<b>\$ (38,648,100)</b>	<b>\$ 18,060,731</b>
<b>Balance, December 31, 2019</b>		<b>88,902,302</b>	<b>\$ 54,607,961</b>	<b>\$ 1,057,734</b>	<b>\$ 1,043,136</b>	<b>\$ (38,648,100)</b>	<b>\$ 18,060,731</b>
Share-based payments	12(b)	-	-	150,866	-	-	150,866
Expiry of stock options	12(b)	-	-	(187,086)	-	187,086	-
Shares repurchased under NCIB	12(a)	(1,020,000)	(136,714)	-	-	-	(136,714)
Net income for the period		-	-	-	-	407,810	407,810
<b>Balance, September 30, 2020</b>		<b>87,882,302</b>	<b>\$ 54,471,247</b>	<b>\$ 1,021,514</b>	<b>\$ 1,043,136</b>	<b>\$ (38,053,204)</b>	<b>\$ 18,482,693</b>

Comparison with nine months ended September 30, 2019:

	Note	Number common shares	Share Capital	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
<b>Balance, December 31, 2018</b>		<b>89,793,302</b>	<b>\$ 54,724,441</b>	<b>\$ 1,014,623</b>	<b>\$ 1,043,136</b>	<b>\$ (40,911,337)</b>	<b>\$ 15,870,862</b>
Stock option exercise		90,000	7,200	-	-	-	7,200
Share-based payments		-	-	179,945	-	-	179,945
Cancellation of stock options		-	-	(28,807)	-	28,807	-
Shares repurchased under NCIB		(475,000)	(47,500)	-	-	-	(47,500)
Net income for the period		-	-	-	-	4,777,973	1,923,356
<b>Balance, September 30, 2019</b>		<b>89,408,302</b>	<b>\$ 54,684,141</b>	<b>\$ 1,165,761</b>	<b>\$ 1,043,136</b>	<b>\$ (36,104,557)</b>	<b>\$ 20,788,481</b>

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 September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
<b>Operating activities</b>				
Net income for the period	\$ 1,442,021	\$ 2,854,615	\$ 407,810	\$ 4,777,972
Items not affecting cash:				
Accretion of debt issuance costs	54,891	86,908	323,045	199,972
Accretion of decommissioning costs	32,256	37,233	96,768	111,699
Amortization of deferred charges	48,792	64,216	208,165	179,499
Lease interest	9,837	11,039	29,967	34,518
Depletion and depreciation	1,146,725	1,645,527	3,572,580	4,159,831
Exploration and evaluation expense	12,275	15,441	36,958	52,929
Gain on disposition	-	-	(25,868)	-
Share-based payments	-	-	115,664	117,079
Unrealized loss (gain) on financial instruments	1,319,060	(875,506)	(2,518,015)	823,057
Unrealized loss (gain) on foreign exchange	(649,407)	(280,800)	838,670	(1,703,000)
Impairment	-	-	3,859,110	-
Adjusted funds flow from operations	3,416,450	3,558,673	6,944,855	8,753,556
Decommissioning obligation expenditures	(1,704)	-	(113,270)	-
Changes in non-cash working capital	(316,959)	245,234	460,450	(1,786,742)
<b>Cash provided by operating activities</b>	<b>3,097,787</b>	<b>3,803,907</b>	<b>7,292,034</b>	<b>6,966,814</b>
<b>Investing activities</b>				
Property and equipment expenditures	(127,950)	(954,121)	(359,594)	(1,859,162)
Exploration and evaluation expenditures	(264,251)	(5,432,256)	(707,781)	(8,119,456)
Changes in non-cash working capital	121,404	1,917,121	(343,874)	2,514,405
<b>Cash used in investing activities</b>	<b>(270,797)</b>	<b>(4,469,255)</b>	<b>(1,411,249)</b>	<b>(7,464,213)</b>
<b>Financing activities</b>				
Shares issued for stock options	-	-	-	7,200
Shares repurchased under NCIB	(81,121)	(47,500)	(136,713)	(47,500)
Payment on term loan, including fees	(3,357,145)	(66,425)	(5,368,395)	(66,425)
Lease payments	(28,632)	(30,059)	(90,122)	(90,177)
<b>Cash provided by (used in) financing Activities</b>	<b>(3,466,898)</b>	<b>(143,984)</b>	<b>(5,595,230)</b>	<b>(196,902)</b>
Net change in cash	(639,908)	(809,331)	285,555	(694,300)
Cash, beginning of period	2,104,979	1,895,689	1,179,516	1,780,658
<b>Cash, end of period</b>	<b>\$ 1,465,071</b>	<b>\$ 1,086,358</b>	<b>\$ 1,465,071</b>	<b>\$ 1,086,358</b>

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 and nine months ended September 30, 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) 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(e) 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 November 18, 2020.

(b) Basis of presentation

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.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of these Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the

application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may materially differ from these estimates.

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

(e) New Accounting Standards

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.

Government Grants

Since commencement of the Canada Emergency Wage Subsidy ("CEWS") program on March 15, 2020, the Company has applied for a subsidy for its eligible employees. Government grants are recognized when there is reasonable assurance that the grant will be received, and all conditions associated with the grant are met. Claims under government grant programs related to income are deducted in reporting the related expense and are recorded in the period in which the eligible expenses were incurred.

(f) Global Economic Decline

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 Company, 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 Company'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 Company'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 Company 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:

	September 30, 2020	December 31, 2019
Accounts receivable		
Marketing receivables	\$ 1,569,705	\$ 2,773,405
Trade receivables	328,532	11,438
Receivables from joint ventures	5,383	6,809
Reclamation deposits	115,535	115,535
	<b>\$ 2,019,155</b>	<b>\$ 2,907,187</b>

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.

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 25<sup>th</sup> of each month.

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

At September 30, 2020, the Company had net debt (current assets less current liabilities excluding fair value of financial instruments and lease liabilities, and including the outstanding term loan) of \$27,363,336 (December 31, 2019 - \$31,982,764). The Company funds its operations through operating cash flows and the term loan. At September 30, 2020, the Company has an additional US\$3.5 million of borrowing base committed with its lender, which it can draw from for future capital programs, subject to the lender's approval.

(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 \$300,000 annual 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 point change in the foreign exchange rate would have a \$271,000 effect on the annual net income.

(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 agreements in place as further disclosed herein.

At September 30, 2020, the Company held derivative commodity contracts as follows:

Product	Type	Volume	Price	Index	Term	Sep. 30, 2020 Fair Value
Crude oil	Collar	120 bbl/d	US\$40.00-US\$68.25	WTI-NYMEX	January 1, 2020 – December 31, 2020	(45,036)
Crude oil	Collar	200 bbl/d	US\$40.00-US\$67.05	WTI-NYMEX	September 1, 2020 – December 31, 2020	(27,026)
Crude oil	Swap	425 bbl/d	US\$54.85	WTI-NYMEX	October 1, 2020 – December 31, 2020	(742,989)
Crude oil	Collar	275 bbl/d	US\$40.00-US\$65.50	WTI-NYMEX	January 1, 2021 – March 31, 2021	(107,894)
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	(197,382)
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	(268,145)
Total						(1,388,472)

At September 30, 2020 the commodity contracts were fair valued as an asset of \$1,388,472, an unrealized loss for the three month period of \$1,319,060 and an unrealized gain for the nine month period of \$2,518,015 respectively (September 30, 2019 – gain of \$875,506 and loss of \$823,057 respectively).

#### 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, or other financial or equity-based instruments, adjusting capital spending, or disposing of assets. The capital structure is reviewed on an ongoing basis. There were no changes to capital management during the period.

## 5. Revenue

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

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

The Company's production revenues were primarily generated in its core areas of the Manville oil play in the Atlee Buffalo and Jenner areas of southeastern Alberta. The Company's customers are oil and natural gas marketers and joint operations partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by management's policies and practices related to credit risk as discussed in note 3(a). As at September 30, 2020, production revenue sold to customers was comprised of three marketers which account for \$1,569,705 of the accounts receivable balance.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Oil	\$ 5,875,899	\$ 8,174,202	\$ 13,257,267	\$ 21,868,981
Natural gas	13,769	29,746	48,177	156,575
NGL	-	3,710	217	13,449
Total	\$ 5,889,668	\$ 8,207,658	\$ 13,305,661	\$ 22,039,005

## 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 nine months ended September 30, 2020, the Company had \$6,806 transfers (September 30, 2019 - \$7,578,229) to property and equipment, capitalized general and administrative expenses of \$507,215 (September 30, 2019 - \$264,243) to exploration and evaluation assets, and recognized exploration and evaluation expense of \$36,958 (September 30, 2019 - \$52,929).

<b>Cost</b>	
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	707,781
Exploration and evaluation expense	(36,958)
Transfer to property and equipment	(6,806)
<b>Balance, September 30, 2020</b>	<b>\$ 3,464,586</b>

## 7. Property and Equipment

<b>Cost</b>	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
Right-of-use assets	-	60,831	60,831
Additions	354,066	5,528	359,594
Capitalized share-based compensation	35,202	-	35,202
Transfers from exploration and evaluation assets	6,806	-	6,806
<b>Balance, September 30, 2020</b>	<b>\$ 103,490,380</b>	<b>\$ 657,458</b>	<b>\$ 104,147,838</b>
<b>Accumulated Depletion, Depreciation, Amortization and Impairment Losses</b>			
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
<b>Balance, December 31, 2019</b>	<b>\$ 49,576,738</b>	<b>\$ 208,044</b>	<b>\$ 49,784,782</b>
Depletion and depreciation for the period	3,487,177	85,403	3,572,580
Impairment loss	3,859,110	-	3,859,110
<b>September 30, 2020</b>	<b>\$ 56,923,025</b>	<b>\$ 293,447</b>	<b>\$ 57,216,472</b>
<b>Net Book Value</b>			
December 31, 2019	\$ 53,517,568	\$ 383,055	\$ 53,900,623
<b>September 30, 2020</b>	<b>\$ 46,567,355</b>	<b>\$ 364,011</b>	<b>\$ 46,931,366</b>

The Company's additions for property and equipment included capitalized general and administrative expenses of \$17,926 for the nine months ended September 30, 2020 (September 30, 2019 - \$190,351).

The calculation of depletion at September 30, 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 September 30, 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 not required.

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 to record the impairment in the first quarter of 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(C\$/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 September 30, 2020 is \$11,243,978 (September 30, 2019 - \$12,686,913). These payments are expected to be made over the next 47 years with the costs to be incurred between 2030 and 2057. The discount factor, being the risk-free rate related to the liability, is 1.76% (September 30, 2019 - 1.92%). Inflation of 1.35% (September 30, 2019 - 2.10%) has also been factored into the calculation of amounts in the table below. The Company also has \$115,535 (September 30, 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.

	Nine Months Ended September 30, 2020	Year Ended December 31, 2019
Decommissioning obligations, beginning of period	\$ 7,330,877	\$ 7,756,866
Increase in estimated future obligations	-	556,092
Change in estimate	-	(1,054,949)
Payment of decommissioning obligation	(113,270)	(76,064)
Accretion expense	96,767	148,932
Decommissioning obligations, end of period	\$ 7,314,373	\$ 7,330,877

## 9. 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. The discount rate used for the period ended September 30, 2020 was 10.92%. The following table summarizes lease liabilities at September 30, 2020:

	Nine Months Ended September 30, 2020
Balance, January 1, 2020	\$ 376,992
Lease additions	60,831
Interest expense	29,970
Lease payments	(115,992)
<b>Balance, September 30, 2020</b>	<b>\$ 351,801</b>
Current Portion	\$ 80,569
Long-term portion	271,232

## 10. Finance Income and Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Finance expense:				
Loan interest	\$ 701,282	\$ 857,710	\$ 2,340,978	\$ 2,620,745
Lease interest	9,837	11,039	29,967	34,518
Accretion of debt issuance costs	54,891	86,908	323,045	199,972
Amortization of deferred charges	48,792	64,216	208,165	179,499
Accretion of decommissioning liabilities	32,256	37,233	96,768	111,699
Total	\$ 847,058	\$ 1,057,107	\$ 2,998,923	\$ 3,146,433

## 11. 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 September 30, 2020 the Company had a term loan balance of US\$22.5 million (CAD\$29,967,750) at period close exchange rate) resulting from total draws of US\$26.5 million less total repayments of US\$4.0 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 effective interest rate is 10.92%.

The below tables summarize the Term Loan and Deferred Costs associated with the Term Loan, respectively, at September 30, 2020:

<b>Term Loan</b>	<b>Nine Months Ended September 30, 2020</b>	<b>Year Ended December 31, 2019</b>
Term Loan, beginning of period	\$ 32,755,677	\$ 33,323,584
Principal amount of Term Loan issued/(repayment)	(5,301,800)	661,000
Unrealized gain (loss) on foreign exchange	838,669	(1,569,655)
Transfer of debt issuance costs – cash	(66,595)	(66,425)
Accretion of debt issuance costs	323,045	407,173
<b>Balance, end of period</b>	<b>\$ 28,548,996</b>	<b>\$ 32,755,677</b>

  

<b>Deferred Costs</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Deferred costs, beginning of period	\$ (401,655)	\$ (546,062)
Amortization of deferred costs	208,165	144,407
<b>Deferred costs, end of period</b>	<b>\$ (193,490)</b>	<b>\$ (401,655)</b>

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 period ended September 30, 2020:

<b>Ratio</b>		<b>Required</b>	<b>Actual Sep. 30, 2020</b>
1.	Interest Coverage Ratio	Greater than 3.00	5.79
2.	Total Leverage Ratio	Less than 3.25	1.82
3.	Minimum Average Production Boe/d	Greater than 1,500	1,686
4.	Proved Developed Producing Coverage Ratio	Greater than 1.00	1.52
5.	Total Proved Reserves Coverage Ratio	Greater than 1.50	2.63

## 12. Share Capital

### (a) Authorized

Unlimited number of common shares without par value.

**Issued and outstanding**

As at September 30, 2020, the Company had 87,882,302 common shares issued and outstanding.

<b>Common Shares</b>		<b>Shares</b>		<b>Amount</b>
Balance, December 31, 2019	\$	88,902,302	\$	54,607,961
Shares repurchased and canceled (NCIB)		(1,020,000)		(136,714)
<b>Balance, end of period</b>	<b>\$</b>	<b>87,882,302</b>	<b>\$</b>	<b>54,471,247</b>

On June 27, 2019 the Company announced notice of a normal course issuer bid (NCIB) to purchase and cancel, from time to time, up to 8,016,731 common shares of the Company until July 1, 2020. The Company has since purchased and canceled 1,301,000 shares under this NCIB for \$179,273 as at June 30, 2020, for an average cost of \$0.14 per share. This includes 320,000 shares purchased and canceled in the first half of fiscal 2020 for \$55,593 at an average cost of \$0.17 per share.

Further, on June 29, 2020 the Company announced the renewal of the normal course issuer bid (NCIB) to purchase and cancel, from time to time, up to 7,869,931 common shares of the Company until July 1, 2021. During the three months ended September 30, 2020, the Company has purchased and canceled 700,000 shares under the NCIB for \$81,121 at an average cost of \$0.12 per share.

Subsequent to the quarter ended September 30, 2020, the Company has purchased and canceled an additional 944,000 shares under the NCIB for \$111,097 at an average cost of \$0.12 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 September 30, 2020 are as follows:

Exercise Price	Expiry Date	Balance Outstanding December 31, 2019	Changes in the Period			Balance Outstanding Sep. 30, 2020	Balance Exercisable Sep. 30, 2020
			Granted	Exercised	Expired/Cancelled		
\$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	4,914,000	-	-	-	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
\$0.12	17-Jun-25	-	1,500,000	-	-	1,500,000	1,500,000
		8,184,000	1,500,000	-	(1,100,000)	8,584,000	8,584,000
Weighted-average exercise price		\$0.21	\$0.12	-	\$0.25	\$0.19	\$0.19

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 and nine months ended September 30, 2020, the Company recorded total share-based payments of \$nil and \$115,664 respectively, compared to \$nil and \$117,079 for the same periods in 2019.

In June 2020 the Company granted 1,500,000 stock options to directors, employees and consultants of the Company at an exercise price of \$0.12 each, all of which vested immediately. The Company uses a Black-Scholes option pricing model to calculate the fair value of stock option grants and the factors used were; volatility 123%, risk free rate 0.33%, expected life 5 years and forfeiture rate of 5%.

The total valuation of the vested options from the June 2020 stock option grant was \$150,866, of which \$115,664 was expensed as stock-based compensation and \$35,202 was capitalized.

(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 11). 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 11. Further, a deferred tax amount of \$385,818 was recorded with regard to the warrants that was applied against the recorded warrant reserve and also recovered against the net loss.

As at September 30, 2020, the Company had 13,750,000 outstanding and exercisable share purchase warrants.

(d) Income per share

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Income for the period	\$ 1,442,021	\$ 2,854,615	\$ 407,810	\$ 4,777,972
Weighted average number of common shares outstanding, basic	88,124,095	89,843,523	88,446,525	89,843,523
Dilutive stock options	686,122	793,024	728,005	700,274
Weighted average number of common shares outstanding, diluted	88,810,217	90,567,902	89,174,530	90,520,664
Income per share, basic	\$ 0.02	\$ 0.03	\$ 0.00	\$ 0.05
Income per share, diluted	\$ 0.02	\$ 0.03	\$ 0.00	\$ 0.05

For the three and nine months ended September 30, 2020, the Company had dilutive stock options of 686,122 and 728,005 respectively. For the comparable periods in 2019 the Company had dilutive stock options of 793,024 and 700,274, respectively.

### 13. Commitments

	2020	2021	2022	2023	Total
Lease operating costs	\$ 19,659	78,636	78,636	32,765	209,626
Term loan	-	-	29,967,750	-	29,967,750
Term loan interest	636,815	2,547,259	1,910,444	-	5,094,518
	\$ 656,474	2,625,895	31,956,830	32,765	35,271,964

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

As at September 30, 2020, the gross balance of the Term Loan was \$29,967,750 (US\$22,500,000), exclusive of the debt issuance costs. The Term Loan matures on September 15, 2022.

### 14. Supplemental Cash Flow Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Provided by (used in):				
Accounts receivable	\$ 13,277	\$ (1,339,152)	\$ 888,032	\$ (3,082,036)
Prepaid expenses	(82,647)	9,667	5,901	10,184
Accounts payable and accrued liabilities	(126,184)	3,491,840	(777,355)	3,799,515
Total changes in non-cash working capital	\$ (195,554)	\$ 2,162,355	\$ 116,578	\$ 727,663
Provided by (used in):				
Operating activities	\$ (316,958)	\$ 245,234	\$ 460,451	\$ (1,786,742)
Investing activities	121,404	1,917,121	(343,874)	2,514,405
Total changes in non-cash working capital	\$ (195,554)	\$ 2,162,355	\$ 116,578	\$ 727,663

Cash interest paid on the Company's debts during the three and nine months ended September 30, 2020 was \$701,282 and \$2,340,978 respectively. For the three and nine months ended September 30, 2019, cash interest paid on the Company's debts was \$857,709 and \$2,620,744, respectively.

# Hemisphere

energy corporation

## OFFICERS

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

**Dorlyn Evancic, CPA, CGA**  
*Chief Financial Officer*

**Ian Duncan, P.Eng.**  
*Chief Operating Officer*

**Andrew Arthur, P.Geol.**  
*Vice President, Exploration*

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

## BANKER

**Alberta Treasury Branches**  
*Calgary, Alberta*

## AUDITOR

**KPMG LLP**  
*Calgary, Alberta*

## TRANSFER AGENT

**Computershare Investor Services Inc.**  
*Vancouver, British Columbia*

## BOARD OF DIRECTORS

**Charles O'Sullivan, B.Sc., Chairman<sup>(2)</sup>**

**Frank Borowicz, QC, CA (Hon)<sup>(1)(2)</sup>**

**Bruce McIntyre, P.Geol.<sup>(1)(3)</sup>**

**Don Simmons, P.Geol.<sup>(3)</sup>**

**Gregg Vernon, P.Eng.<sup>(2)</sup>**

**Richard Wyman, B.Sc., MBA<sup>(1)(3)</sup>**

*(1) Audit Committee*

*(2) Compensation & Corporate Governance Committee*

*(3) Reserves Committee*

## LEGAL COUNSEL

**Burnet, Duckworth & Palmer LLP**  
*Calgary, Alberta*

**Harper Grey LLP**  
*Vancouver, British Columbia*

## INDEPENDENT ENGINEER

**McDaniel Associates & Consultants Ltd.**  
*Calgary, Alberta*

## PRINCIPAL LENDER

**Cibolo Energy Partners**  
*Houston, Texas*

**Hemisphere Energy Corporation**

Suite 501, 905 West Pender Street, Vancouver, British Columbia V6C 1C6

[www.hemisphereenergy.ca](http://www.hemisphereenergy.ca)

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