Q3 2015

Hemisphere energy corporation

TSX-V: HME www.hemisphereenergy.ca

Q3 2015 HIGHLIGHTS

- Averaged 678 boe/d (75% oil and NGL) production during the quarter, a 6% decrease from the third quarter of 2014 as a result of converting two producing wells in Atlee Buffalo to water injectors, having downtime at the Jenner facilities to perform upgrades, and experiencing natural declines in the Company's oil production.
- Generated $0.7 million ($0.01/share) in funds flow from operations, a 46% decrease from the second quarter of 2015 due to lower realized oil prices and decreased production.
- Recognized a non-cash impairment charge to property, plant, and equipment of $3.0 million and a non-cash reduction in the Company's deferred tax asset of $1.2 million, both due to lower estimated future commodity prices.
- Generated a $17.54/boe operating netback, a 31% decrease from the second quarter of 2015 due to lower commodity prices.
- Reduced operating costs to $9.95/boe, a 12% and 14% decrease from the third quarter of 2014 and second quarter of 2015, respectively, primarily due to cost cutting measures and operational efficiencies in the field.
- Reduced transportation costs to $2.76/boe from $3.02/boe during the third quarter of 2014 as a result of the Company's voluntary shut-in of high water-cut wells requiring transportation to processing facilities.
- Reduced general and administrative expenses to $4.38/boe, a 42% decrease from the third quarter of 2014, despite lower production.
- Spent $1.4 million in capital expenditures during the quarter to implement three waterflood pilot projects in Atlee Buffalo.
- Commenced one of three waterflood pilots in Atlee Buffalo.
- Acquired an additional 4.5 sections of core land in southern Alberta through Crown landsales, including 2.0 sections in Jenner and 2.5 key sections in Atlee Buffalo that bring the Company's ownership to 100% in both the Upper Mannville F and G pools.
- Renewed existing $15.0 million credit facility in the Company's annual review.

SUBSEQUENT ACHIEVEMENTS

- Received regulatory approvals and commenced injection in remaining two waterfloods in Atlee Buffalo.
- Completed construction of a new pipeline in Jenner to increase water disposal capacity at an existing disposal well.

CORPORATE UPDATE

Hemisphere has remained focused on cost reductions in the third quarter of 2015, resulting in overall decreases to its general and administrative expenses by 42% to $4.38/boe, operating costs by 12% to $9.95/boe, and transportation costs by 9% to $2.76/boe since the third quarter of 2014. The Company will continue to reduce costs where possible in the fourth quarter and into 2016 to maximize operating netback and cash flow during the low pricing environment.

During the nine months ended September 30, 2015, Hemisphere reduced its net debt by $1.0 million and took a conservative approach to spending by strategically investing $2.3 million in capital projects. The majority of the development capital was spent during the third quarter on three waterfloods in the Upper Mannville F and G pools in Atlee Buffalo. These costs included the conversion of five wells into three injectors and two water source wells, as well as the construction of a water source pipeline for the F pool waterflood. The remaining development capital was spent in Jenner to complete a facility turnaround, optimize an injection pump for a 30% capacity increase, and internally coat one of its vessels to extend its life. The Company also spent approximately $75,000 during the third quarter of 2015 to purchase 4.5 sections of land in southern Alberta through Crown landsales.

Going forward Hemisphere will continue to evaluate all future capital investments based on project payouts, rates of return, and capital efficiency metrics. The Company strives to provide long-term stability to its shareholders through its reliable assets which hold significant oil in place, have substantial reserve and production upside through enhanced oil recovery, and include a large inventory of undrilled development locations which position Hemisphere for organic growth as the oil market recovers.

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding forward-looking information, non-IFRS measurements and oil and gas measurements.

Q3 2015 FINANCIAL AND OPERATING HIGHLIGHTS

(Expressed in Canadian dollars)

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
FINANCIAL				
Petroleum and natural gas revenue	**$ 2,043,781**	$ 4,703,496	**$ 8,256,065**	$ 12,066,993
Petroleum and natural gas netback	**1,094,625**	2,852,204	**4,876,857**	6,741,319
Funds flow from operations[(1)]	**711,203**	2,279,843	**3,274,418**	5,338,611
Per share, basic and diluted	**0.01**	0.03	**0.04**	0.08
Income (loss) before tax[(2)]	**(3,518,715)**	720,312	**(4,335,446)**	1,900,796
Net income (loss)	**(4,755,531)**	720,312	**(5,977,362)**	1,900,796
Per share, basic and diluted	**(0.06)**	0.01	**(0.08)**	0.03
Capital expenditures, including property acquisitions	**1,384,223**	6,502,651	**2,347,006**	14,385,158
Net debt[(3)]	**10,621,038**	6,049,362	**10,621,038**	6,049,362
Bank indebtedness	**$ 9,659,252**	$ 2,200,000	**$ 9,659,252**	$ 2,200,000
OPERATING				
Average daily production				
Oil (bbl/d)	**507**	624	**663**	522
Natural gas (Mcf/d)	**1,026**	594	**1,045**	551
NGL (bbl/d)	**1**	2	**2**	1
Combined (boe/d)	**678**	725	**840**	616
Oil and NGL weighting	**75%**	86%	**79%**	85%
Average sales prices				
Oil ($/bbl)	**$ 38.13**	$ 77.97	**$ 41.32**	$ 79.88
Natural gas ($/Mcf)	**2.81**	3.97	**2.67**	4.33
NGL ($/bbl)	**16.61**	59.86	**21.40**	63.61
Combined ($/boe)	**$ 32.74**	$ 70.52	**$ 36.02**	$ 71.81
Operating netback ($/boe)				
Petroleum and natural gas revenue	**$ 32.74**	$ 70.52	**$ 36.02**	$ 71.81
Royalties	**2.50**	13.39	**2.67**	13.23
Operating costs	**9.95**	11.31	**9.25**	15.28
Transportation costs	**2.76**	3.02	**2.83**	3.17
Operating netback[(4)]	**$ 17.54**	$ 42.79	**$ 21.28**	$ 40.13

Notes:

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

(2) The Company does not anticipate its deferred tax asset will be realized in the near future; as a result it has provided for it in the amount of $1,236,816 and $1,641,916 for the three and nine months ended September 30, 2015, respectively.

(3) Net debt is a non-IFRS measure calculated as current assets minus current liabilities including bank indebtedness and excluding flow-through share premium.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
SHARE CAPITAL				
Common shares outstanding	**75,803,498**	75,368,498	**75,803,498**	75,368,498
Warrants outstanding	-	2,053,775	-	2,053,775
Stock options outstanding	**6,370,000**	5,770,000	**6,370,000**	5,770,000
Weighted-average shares outstanding				
Basic	**75,803,498**	75,063,770	**75,743,828**	68,291,661
Diluted	**75,803,498**	76,474,286	**75,743,828**	69,817,443

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at November 26, 2015

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, 2015 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, 2015, and the audited annual financial statements and related notes for the year ended December 31, 2014. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.

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

This MD&A contains non-IFRS measures and forward-looking statements. Readers are cautioned that this document should be read in conjunction with Hemisphere's disclosure under "Non-IFRS Measures" and "Forward-Looking Statements" included at the end of this MD&A. All figures are in Canadian dollars unless otherwise noted. Tables may not add due to rounding. Certain prior period amounts may have been reclassified to conform to the current period's presentation.

Business Overview

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

Jenner, Alberta

Hemisphere has an average working interest of 92% in 24,338 net acres and has continued to build a land position in the Jenner area through Crown landsales and strategic acquisitions. The property is accessible year-round and is located east of Brooks in southeastern Alberta.

During the third quarter of 2015, the Company acquired two sections of land in Jenner through Crown landsales for approximately $12,000.

Atlee Buffalo, Alberta

The Company operates 100% of its wells in the Atlee Buffalo area. The property is accessible year-round and is located 30 kilometres east of the Company's Jenner property in southeastern Alberta. Hemisphere has a 100% working interest in 7,032 net acres and has been building a land position in Atlee Buffalo through Crown landsales and strategic acquisitions since 2013.

During the third quarter of 2015, the Company strategically acquired 2.5 sections of land in a Crown landsale for approximately $64,000. These acquired lands include key surrounding areas of the

Company's Atlee Buffalo Upper Mannville F and G pools and has brought the Company's land ownership to 100% over both pools.

Operating Results

The Company generated funds flow from operations of $711,205 ($0.01/share) during the third quarter of 2015 as compared to $2,279,843 ($0.03/share) during the third quarter of 2014. For the nine months ended September 30, 2015 and 2014, the Company generated funds flow from operations of $3,274,418 ($0.04/share) and $5,338,611 ($0.08/share), respectively. These changes in funds flow from operations are the result of lower commodity prices and the Company's decreased production.

For the third quarter of 2015, the Company reported a net loss of $4,755,531 ($0.06/share) compared to a net income of $720,312 ($0.01/share) for the third quarter of 2014. The Company reported a net loss of $5,977,362 ($0.08/share) for the nine months ended September 30, 2015 as compared to a net income of $1,900,796 ($0.03/share) for the same period in 2014. The net losses for the three and nine months ended September 30, 2015 include a deferred tax expense of $1,236,816 and $1,641,916, respectively, as well as an impairment charge of $3,012,561.

Production

	Three Months Ended September 30		Nine Months Ended September 30	
By product:	**2015**	2014	**2015**	2014
Oil (bbl/d)	**507**	624	**663**	522
Natural gas (Mcf/d)	**1,026**	594	**1,045**	551
NGL (bbl/d)	**1**	2	**2**	1
Total (boe/d)	**678**	725	**840**	616
Oil and NGL weighting	**75%**	86%	**79%**	85%

In the third quarter of 2015, the Company's average daily production was 678 boe/d (75% oil and NGL) which represents a 6% decrease from the third quarter of 2014 as a result of converting two producing wells in Atlee Buffalo to injectors, downtime at the Jenner facilities to perform upgrades, and natural declines in the Company's oil production. For the nine months ended September 30, 2015, the Company's average daily production increased by 36% over the comparable period in 2014. This increase in production can be attributed to the successful development of the Company's Atlee Buffalo and Jenner properties in 2014 and the optimization of production from existing wells during the first half of 2015.

During the third quarter of 2015, the Company converted two producing wells in Upper Mannville F pool in Atlee Buffalo to injectors as part of the Company's waterflood pilot project. Together, these wells were producing approximately 100 boe/d prior to the conversion, which will decrease the Company's production in the short-term until the waterflood scheme comes into effect in the pool. The Company also experienced production downtime in the third quarter of 2015 due to internally coating a vessel at one of the Company's facilities, resulting in a loss of approximately 20 boe/d during the quarter. Workovers were also performed on two wells which resulted in a combined production shortfall of approximately 10 boe/d of oil for the quarter. Lastly, the Company experienced some production downtime in Trutch as gas wells were shut-in for two months of the quarter as a result of a facility turnaround, resulting in lost production of approximately 10 boe/d.

Average Benchmark and Realized Prices

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
Benchmark prices				
WTI ($US/bbl)[(1)]	**$ 46.43**	$ 97.17	**$ 51.00**	$ 99.61
Exchange rate (1 $US/$C)	**1.3085**	1.0887	**1.2581**	1.0943
WTI ($C/bbl)	**60.75**	105.79	**64.17**	109.01
WCS ($C/bbl)[(2)]	**43.26**	83.78	**47.48**	85.85
AECO natural gas ($/Mcf)[(3)]	**2.86**	3.95	**2.73**	4.69
Average realized prices				
Crude oil ($/bbl)	**38.13**	77.97	**41.32**	79.88
Natural gas ($/Mcf)	**2.81**	3.97	**2.67**	4.33
NGL ($/bbl)	**16.61**	59.86	**21.40**	63.61
Combined ($/boe)	**$ 32.74**	$ 70.52	**$ 36.02**	$ 71.81

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

The Company's oil and natural gas sales may vary over periods as a result of changes in commodity prices and/or production volumes. The West Texas Intermediate pricing ("WTI") at Cushing, Oklahoma is the benchmark reference price for North American crude oil prices. Canadian oil prices, including the Company's crude oil, are based on the WTI price and adjusted for transportation, quality and the currency conversion rates from United States dollar ("USD") to Canadian dollar.

The Company's average realized oil price for the three and nine months ended September 30, 2015 decreased by 51% and 48%, respectively, from the comparable periods in 2014 which correlates to the declines in WTI. Although WTI recovered slightly in the second quarter of 2015, it dropped again in the third quarter of 2015 and has continued to be depressed into the fourth quarter of 2015. The exchange rate remained favourable in the third quarter of 2015 and is expected to continue to be favourable in the fourth quarter of 2015 due to the low Canadian dollar.

The Company's average realized natural gas price decreased for the three and nine months ended September 30, 2015 by 29% and 38%, respectively, from the comparable periods in 2014. These decreases are in line with the decline in AECO benchmark pricing for the three and nine months ended September 30, 2015.

The Company's combined average realized price decreased by 54% to $32.74/boe during the third quarter of 2015 from $70.52/boe during the third quarter of 2014. For the nine months ended September 30, 2015, the Company's combined average realized price decreased by 50% to $36.02/boe. These decreases are primarily the result of the decline in WTI which has extended throughout 2015, along with a wider differential in the third quarter of 2015. The decline and persistence of low oil prices in 2015 is primarily due to an oversupply of oil in the global market.

Revenue

	Three Months Ended September 30				Nine Months Ended September 30			
		2015		2014		**2015**		2014
Oil	**$**	**1,777,349**	$	4,473,787	**$**	**7,480,846**	$	11,390,831
Natural gas		**265,264**		216,562		**762,026**		650,862
NGL		**1,168**		13,147		**13,193**		25,300
Total	**$**	**2,043,781**	$	4,703,496	**$**	**8,256,065**	$	12,066,993

Revenue for the three and nine months ended September 30, 2015 decreased by 57% and 32%, respectively, from the comparable periods in 2014. These decreases in revenue can be attributed to the reduction in the Company's combined average realized price for the three and nine months ended September 30, 2015, by 54% and 50%, respectively, as well as the Company's lower production rates.

Operating Netback

	Three Months Ended September 30				Nine Months Ended September 30			
		2015		2014		**2015**		2014
Operating netback								
Revenue	**$**	**2,043,781**	$	4,703,496	**$**	**8,256,065**	$	12,066,993
Royalties		**156,201**		895,461		**612,233**		2,224,479
Operating costs		**620,903**		754,509		**2,119,330**		2,568,438
Transportation costs		**172,052**		201,321		**647,645**		532,757
Operating netback	**$**	**1,094,625**	$	2,852,204	**$**	**4,876,857**	$	6,741,319
Operating netback ($/boe)								
Revenue	**$**	**32.74**	$	70.52	**$**	**36.02**	$	71.81
Royalties		**2.50**		13.39		**2.67**		13.23
Operating costs		**9.95**		11.31		**9.25**		15.28
Transportation costs		**2.76**		3.02		**2.83**		3.17
Operating netback ($/boe)	**$**	**17.54**	$	42.79	**$**	**21.28**	$	40.13

Royalties for the third quarter of 2015 were $2.50/boe, representing an 81% decrease from the third quarter of 2014. For the nine months ended September 30, 2015, royalties decreased by 80% from the comparable period in 2014. These significant reductions are partially the result of 12 new horizontal wells drilled in 2014 which have lower associated royalty rates on initial production with an 18 month Crown royalty holiday. Of these 12 wells, three have since come off their royalty holiday at the end of the third quarter in 2015. Crown royalties have also decreased as a result of two retroactive Crown royalty rebates and lower individual well production in combination with a low Crown royalty par price. As Crown royalty par price is set based on commodity prices, the Company expects to see low Crown royalties in the fourth quarter of 2015 given the current commodity pricing environment.

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 decreased for the three and nine months ended September 30, 2015 by $1.36/boe and $6.03/boe, respectively, from the comparable periods in 2014. These decreases are the result of increased production levels in Atlee Buffalo which have lower operating costs per boe, as well as realized economies of scale as a result of production from new wells drilled in 2014. The Company has also shut-in a number of wells with high operating costs in order to maximize operating netback and cash flow for the period. Operating costs for the three months ended September 30, 2015 decreased by 14% from the second quarter of 2015 as a result of cost control measures and operational efficiencies despite lower production levels during the quarter. The Company has worked with its field operators to lower labour rates and material costs, and has optimized field operators by internally conducting routine field repairs and activities rather than externally contracting such services.

Transportation costs include all costs incurred to transport emulsion and oil and gas sales to processing and distribution facilities. Transportation costs decreased for the three and nine months ended September 30, 2015 by $0.26/boe and $0.34/boe, respectively, from the comparable periods in 2014. These decreases are the result of the Company's voluntary shut-in of higher water-cut wells that require trucking to facilities for processing. Transportation costs for the three months ended September 30, 2015 decreased by 6% from the second quarter of 2015 to $2.76/boe.

Operating netback for the three and nine months ended September 30, 2015 were $17.54/boe and $21.28/boe, respectively. The Company experienced decreases in operating netback in 2015 as a result of the significant decline in commodity prices, despite reductions in royalties and the Company's diligent efforts in cutting operating costs. In this challenging commodity pricing environment, the Company continues to focus on reducing field operating expenses through operational efficiencies, cutting costs, and optimizing economic wells in order to preserve operating netback and funds flow from operations.

Exploration and Evaluation

Exploration and evaluation expenses generally consist 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, 2015 and 2014 were $3,300 and $50,249, respectively. For the nine months ended September 30, 2015 and 2014, exploration and evaluation expenses were $17,599 and $91,915, respectively.

Depletion and Depreciation

	Three Months Ended September 30				Nine Months Ended September 30			
		2015		2014		**2015**		2014
Depletion expense	**$**	**1,223,477**	$	1,080,203	**$**	**4,312,810**	$	2,941,320
Depreciation expense		**3,364**		2,401		**10,091**		5,004
Total	**$**	**1,226,841**	$	1,082,604	**$**	**4,322,901**	$	2,946,324
$ per boe	**$**	**19.66**	$	16.23	**$**	**18.86**	$	17.53

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 expense for the third quarter of 2015 increased by $144,237 over the third quarter of 2014. For the nine months ended September 30, 2015, depletion and depreciation expense increased by $1,376,577 over the comparable period in 2014. These increases are mainly the result of a higher depletion rate in effect for the Atlee Buffalo area which represented 59% and 62% of the Company's total production for the three and nine months ended September 30, 2015, respectively.

The depletion rate was applied to the Company's depletable asset base which, for the nine months ended September 30, 2015, increased by 16% over the comparable period in 2014. The Company's depletable asset base consists of the capital expenditures spent in the area along with any FDC to develop and produce undeveloped and non-producing reserves. As the Company had reduced capital expenditures in 2015, the depletable asset base increased mainly as a result of the Company's 54% increase in FDC as compared to 2014.

Depletion expense for the comparative quarter has been revised in accordance with the Company's change in accounting for depleting its petroleum and natural gas properties from using the unit-of-production method based on production volumes in relation to estimated Proved reserves to total estimated Proved and Probable reserves. For further information, see Note 2(e) of the Company's unaudited interim condensed financial statements for the three and nine months September 30, 2015.

Capital Expenditures

The following table summarizes all capital expenditures, excluding non-cash items:

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
Land and lease	**$ 85,114**	$ 159,484	**$ 98,148**	$ 264,736
Geological and geophysical	**188,782**	479,608	**233,222**	666,923
Drilling and completions	**744,485**	3,776,201	**1,077,590**	9,331,095
Facilities and infrastructure	**365,842**	1,553,970	**667,046**	3,490,695
Development capital	**1,384,223**	5,969,264	**2,076,006**	13,753,449
Property acquisitions	**-**	510,000	**271,000**	634,739
Fixed assets	**-**	23,387	**-**	46,970
Disposition proceeds	**-**	-	**-**	(50,000)
Total capital expenditures[1]	**$ 1,384,223**	$ 6,502,651	**$ 2,347,006**	$ 14,385,158

Note:
(1) Total capital expenditures exclude decommissioning obligations.

The majority of the Company's development capital was spent in Atlee Buffalo during the third quarter of 2015, specifically on the three planned waterflood pilots in the Upper Mannville F and G pools. The development capital costs included the conversion of five wells into three injectors and two water source wells, as well as the construction of a water source pipeline as part of the F pool waterflood pilot. The Company commenced injection into the first waterflood pilot at the end of August 2015 and subsequently received the necessary approvals to commence injection into the remaining two waterflood pilots. The implementation of these projects were completed on-schedule and on-budget with injection having commenced earlier than anticipated. During the third quarter of 2015, the Company strategically acquired 2.5 sections of key land in a Crown landsale for approximately $64,000. This acquired land brings the Company's land ownership to 100% over both of the Atlee Buffalo Upper Mannville F and G pools.

The Company spent additional development capital in Jenner to complete a facility turnaround, optimize an injection pump for a 30% capacity increase, and internally coat one of its vessels to extend its life. As part of the Company's future capital program, some preliminary costs were also spent in the third quarter of 2015 on the construction of a new pipeline to increase water disposal capacity at an existing disposal well. Lastly, during the third quarter of 2015, the Company acquired two sections of land in Jenner in a Crown landsale for approximately $12,000.

Hemisphere has taken a conservative approach on capital spending and investment in 2015 as a result of the current commodity pricing environment. The Company will continue to limit expenditures to essential projects and carefully selected land acquisitions until oil prices improve.

The following table is a reconciliation of the Company's capital expenditures to the additions of property and equipment as shown in Note 6 of the Company's unaudited interim condensed financial statements for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
Total capital expenditures	**$ 1,384,223**	$ 6,502,651	**$ 2,347,006**	$ 14,385,158
Evaluation and exploration expenditures	**(1,218,144)**	1,071,415	**(1,460,649)**	(1,730,564)
Gain on disposition	**-**	-	**-**	2,942
Additions to property and equipment	**$ 166,079**	$ 7,574,065	**$ 886,357**	$ 12,657,536

General and Administrative Expenses ("G&A")

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
Gross G&A	**$ 491,898**	$ 591,937	**$ 1,528,133**	$ 1,500,226
Capitalized G&A and overhead recoveries	**(218,218)**	(87,660)	**(273,519)**	(343,629)
Total	**$ 273,680**	$ 504,277	**$ 1,254,614**	$ 1,156,597
$ per boe	**$ 4.38**	$ 7.56	**$ 5.47**	$ 6.88

Gross G&A for the third quarter of 2015 decreased 17% from the comparable quarter in 2014 due to the Company's decreased use of professional and consulting services, less investor relations and marketing activities, lower office overhead, and decreased travel expenditures. Gross G&A for the three months ended September 30, 2015 decreased by $73,435 or 13% from the second quarter of 2015.

The Company capitalizes certain G&A which can be attributed to costs incurred during the period relating to its development and exploration activities. For the third quarter of 2015, capitalized G&A increased by $130,558 from the comparable quarter in 2014. The Company recorded a retroactive adjustment of capitalized G&A in the third quarter of 2015 to record its direct G&A costs incurred in 2015 relating to its capital activities in accordance with IFRS. For the nine months ended September 30, 2015, capitalized G&A decreased by $70,110 from the comparable period in 2014.

For the three and nine months ended September 30, 2015, the Company realized decreases in total G&A by 42% or $3.18/boe and 20% or $1.41/boe, respectively, from the comparable periods in 2014. Total G&A for the third quarter of 2015 also decreased by $2.31/boe from the second quarter of 2015 due to a 13% reduction in gross G&A costs, as well as increased capitalized G&A.

Share-based Payments

Share-based payments are non-cash charges which reflect the estimated value of stock options issued to directors, employees and consultants of the Company. Share-based payments for the three months ended September 30, 2015 and 2014 were $(40,548) and $468,174, respectively. In the third quarter of 2015, the Company capitalized $41,097 in share-based payments which were directly related to the Company's development and exploration activities in the year.

The Company granted 25,000 incentive stock options in the first quarter of 2015 to an individual performing investor-related services which will vest quarterly over a twelve-month period. In the third quarter of 2015, 6,250 stock options vested resulting in the recognition of $549 in share-based payments. For the nine months ended September 30, 2015 and 2014, the Company recorded share-based payments of $181,204 and $468,174, respectively. All share-based payments are considered to be part of the Company's G&A.

Impairment of Property and Equipment

At each reporting date, the Company assesses its petroleum and natural gas properties and exploration and evaluation assets for possible impairment, to determine if there is any indication that the carrying amounts of the assets may not be recoverable. Impairment is recorded when the recoverable amount of an asset is less than the respective carrying amount. The recoverable amounts of the cash-generating units ("CGU") were determined with fair value less costs to sell based on expected future cash flows from Proved plus Probable reserve value, using discount rates specific to the underlying composition of assets residing in each CGU.

The prolonged reduction in crude oil and natural gas prices and deferred capital development plans were recognized by the Company as indicators of impairment at September 30, 2015. Lower commodity prices and the deferred development of properties have the effect of lowering the estimated future cash flows of CGUs and potentially the carrying value of CGUs. The Company performed an impairment test on its petroleum and natural gas assets and it was determined that the carrying amount of one CGU exceeded its recoverable amount. Accordingly, the Company recognized an impairment charge of $3,012,561 for the three and nine months ended September 30, 2015. As no indicators of impairment existed at September 30, 2014, $nil was recorded for impairment.

Finance Expense

		Three Months Ended September 30				Nine Months Ended September 30		
		2015		2014		**2015**		2014
Finance expense								
Interest expense	**$**	**106,441**	$	14,027	**$**	**330,226**	$	142,888
Part XII.6 tax		**-**		3,809		**-**		11,308
Accretion of provision		**31,066**		8,753		**93,197**		26,259
Total	**$**	**137,507**	$	26,589	**$**	**423,423**	$	180,455
$ per boe	**$**	**2.20**	$	0.40	**$**	**1.85**	$	1.07

Finance expense for the three and nine months ended September 30, 2015 increased by $110,918 and $242,968, respectively, over the comparable periods in 2014. These increases are the result of the increased accretion expense for the quarter, and the interest expense incurred on the utilization of the Company's credit facility which carried a higher balance in 2015.

Accretion expense represents the adjusted present value of the Company's decommissioning obligations which includes the abandonment and reclamation costs associated with wells and facilities. For the three and nine months ended September 30, 2015, accretion expense increased by $22,313 and $66,938, respectively, over the comparable periods in 2014 due to the additional decommissioning obligations associated with the new wells drilled in the first three quarters of 2014. The Company also changed its estimate of decommissioning obligations based on Directive 011 as set by the Alberta Energy Regulator, which increased the total decommissioning obligation estimate at December 31, 2014.

Tax Pools and Deferred Taxes

Hemisphere has approximately $46 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 income tax in 2015 or 2016. Taxes payable beyond 2016 will primarily be a function of commodity prices, capital expenditures, and production volumes.

The Company does not anticipate its deferred tax asset will be realized in the near future, as a result it has provided for a deferred tax expense of $1,236,816 and $1,641,916 for the three and nine months ended September 30, 2015, respectively.

Selected Annual Information

The following are highlights of the Company's financial data for the three most recently completed fiscal years:

	Year Ended December 31, 2014	Year Ended December 31, 2013	10 Months Ended December 31, 2012[5]
Average daily production (boe/d)	**683**	463	408
Petroleum and natural gas revenue	**$ 16,635,279**	$ 10,573,199	$ 7,875,723
Petroleum and natural gas netback	**9,275,653**	5,607,492	4,657,308
Funds flow from operations[1]	**6,673,033**	3,789,202	3,265,657
Per share, basic and diluted	**0.10**	0.07	0.06
Net loss[2]	**(1,667,807)**	(510,266)	(472,045)
Per share, basic and diluted	**(0.02)**	(0.01)	(0.01)
Average realized price ($/boe)	**66.68**	62.55	63.15
Operating netback ($/boe)[3]	**37.19**	33.17	37.33
Capital expenditures, including property acquisitions	**21,316,366**	9,969,174	11,888,398
Net debt[4]	**11,644,609**	6,330,906	3,927,595
Bank indebtedness	**7,184,147**	4,500,000	1,035,000
Total assets[2]	**48,951,632**	32,195,577	24,486,865

Notes:

(1) 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.

(2) Certain annual amounts were restated retrospectively due to a change in accounting policy as disclosed in Note 4 of the Company's audited annual financial statements for the year ended December 31, 2014.

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

(4) Net debt is a non-IFRS measure calculated as current assets minus current liabilities including bank indebtedness and excluding flow-through share premium.

(5) The Company changed its fiscal year-end from Febraury 28 to December 31, resulting in a ten-month period ended December 31, 2012.

Summary of Quarterly Results

	2015				2014			2013
	Sep. 30 Q3[(2)]	Jun. 30 Q2[(3)]	Mar. 31 Q1[(4)]	Dec. 31 Q4[(5)]	Sep. 30 Q3[(6)]	Jun. 30 Q2[(7)]	Mar. 31 Q1[(8)]	Dec. 31 Q4[(9)]
Average daily production (boe/d)	**678**	849	995	885	725	553	567	569
Petroleum and natural gas revenue	**2,043,781**	3,284,020	2,928,264	4,568,286	4,703,496	3,799,461	3,564,036	2,958,107
Petroleum and natural gas netback	**1,094,625**	1,954,246	1,827,986	2,534,334	2,852,204	2,011,113	1,878,003	1,246,355
Funds flow from operations	**711,203**	1,314,073	1,249,142	1,334,422	2,279,843	1,550,661	1,508,107	579,824
Per share, basic and diluted	**0.01**	0.02	0.02	0.02	0.03	0.02	0.02	0.01
Net income (loss)[(1)]	**(4,755,531)**	(575,484)	(646,345)	(3,568,603)	720,312	554,465	626,019	(1,202,692)
Basic and diluted income (loss) per share	**(0.06)**	(0.01)	(0.01)	(0.05)	0.01	0.01	0.01	(0.02)
Combined average realized price ($/boe)	**32.74**	42.49	32.71	56.10	70.52	75.47	69.89	56.55
Operating netback ($/boe)	**17.54**	25.28	20.42	31.14	42.79	39.98	36.83	23.83

Notes:

(1) Certain quarterly amounts were restated retrospectively due to a change in accounting policy as disclosed in Note 4 of the Company's audited annual financial statements for the year ended December 31, 2014.

(2) Funds flow from operations and petroleum and natural gas netbacks decreased in this quarter as a result of a 54% reduction in the Company's combined average realized price. The Company does not anticipate its deferred tax asset will be realized in the near future; as a result it has provided for it in the amount of $1,236,816 in the third quarter of 2015. A significant portion of the net loss in this quarter is the result of an impairment charge of $3,012,561 against the Company's petroleum and natural gas properties.

(3) Funds flow from operations and petroleum and natural gas netbacks have shown a slight improvement over the first quarter of 2015 due to a 30% increase in the Company's combined average realized price, but have remained low compared to 2014 as a result of the decline in commodity prices. Due to taxable income generated in excess of tax pools from lower capital expenditures, the Company utilized deferred tax assets resulting in a deferred tax expense of $405,100 for the second quarter of 2015.

(4) The decreases in net income, funds flow from operations and petroleum and natural gas netbacks can be attributed to the decrease in the Company's combined average realized price resulting from the decline in oil prices.

(5) A significant portion of the loss is due to the $2,702,925 recorded in property impairment and an increase in depletion expense as a result of a change in the Company's depletion accounting policy.

(6) Net income can be attributed to a combination of the increase in the Company's production from its summer drilling program and the improvement of netback resulting from decreased operating and transportation costs.

(7) The improvement in net income over certain prior quarters is primarily due to the Company's increase in the combined average realized price resulting in higher operating netback.

(8) The improvement in net income is primarily due to the Company's increased production levels from the drilling of three new wells and an increase in combined average realized price.

(9) A significant portion of the net loss is due to the increase in depletion expense as a result of the Company's increase in production.

Outstanding Share Capital

	November 26, 2015	**September 30, 2015**	December 31, 2014
Fully diluted share capital			
Common shares issued and outstanding	75,803,498	**75,803,498**	75,368,498
Stock options	6,370,000	**6,370,000**	5,970,000
Total fully diluted	82,173,498	**82,173,498**	81,338,498

Subsequent to September 30, 2015, there were no events that would have impacted the Company's share capital.

The Company has the following stock options outstanding and exercisable as at November 26, 2015:

Exercise Price	Expiry Date	Balance Outstanding November 26, 2015	Balance Exercisable November 26, 2015
$0.30	23-Dec-15	375,000	375,000
$0.30	27-Jan-16	200,000	200,000
$0.38	9-Feb-16	50,000	50,000
$0.40	26-May-16	475,000	475,000
$0.48	5-Jul-16	50,000	50,000
$0.70	8-Feb-17	1,500,000	1,500,000
$0.65	24-Apr-17	75,000	75,000
$0.61	5-Jul-17	425,000	425,000
$0.50	8-Mar-18	250,000	250,000
$0.55	6-Jan-19	660,000	660,000
$0.65	29-Sep-19	785,000	785,000
$0.61	7-Oct-19	200,000	200,000
$0.24	29-Jan-20	1,225,000	1,218,750
$0.39	1-Mar-20	100,000	100,000
		6,370,000	6,363,750
Weighted-average exercise price		$0.50	$0.51

Liquidity and Capital Management

The Company’s net debt decreased by $1,023,572 since December 31, 2014 to $10,621,038 as at September 30, 2015.

a) Financing

The Company’s cash provided by financing activities for the three months ended September 30, 2015 and 2014 were $nil and $85,050, respectively. For the nine months ended September 30, 2015 and 2014, cash provided by financing activities were $108,750 and $9,328,094, respectively. For the nine months ended September 30, 2015, the Company issued 435,000 common shares through the exercise of stock options at $0.25 each for gross proceeds of $108,750.

b) Capital Resources

	As at	
	September 30, 2015	December 31, 2014
Shareholders’ equity	**$ 25,045,926**	$ 30,692,235
Net debt	**(10,621,038)**	(11,644,609)
Total capital	**$ 14,424,888**	$ 19,047,626

The Company has a demand operating credit facility in the amount of $15.0 million with Alberta Treasury Branches ("ATB"), which was renewed in July 2015. Funds available under the credit facility are $14.0 million and access to the remaining $1.0 million is based on additional approval from ATB. The facility is secured by a general security agreement and a floating charge on all lands of the Company. The facility bears interest at the bank’s prime rate plus 1.75%, as well as a standby charge for any undrawn funds.

Pursuant to the terms of the credit facility, the Company has provided a financial covenant that at all times its working capital ratio shall not be less than 1.0. The working capital ratio is defined under the terms of the credit facilities as current assets including the undrawn portion of the revolving operating demand line credit facility, to current liabilities, excluding any current bank indebtedness.

At September 30, 2015, the Company has drawn a total of $9,659,252 from its credit facility (December 31, 2014 - $7,184,147) and had a working capital ratio of 3.1, which is in compliance with the above financial covenant. The Company is currently conducting its mid-year review with ATB, which it expects to have completed in December 2015.

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.

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 undrawn component of the Company's credit facilities. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing from the Company's credit facilities, 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 30, 2018. The following table shows the Company's rental commitment amounts for the next four fiscal years:

	2015	2016	2017	2018
Rental commitment	**$ 47,807**	$ 191,226	$ 191,226	$ 79,678

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.

Critical Accounting Estimates and Judgements

The Company's significant accounting estimates, judgements and policies are set out in Notes 2 and 3 of the audited annual financial statements for the year ended December 31, 2014 and have been consistently followed in the preparation of the unaudited interim condensed financial statements.

The preparation of the unaudited interim condensed 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 differ from these estimates. A discussion of specific estimates and judgements employed in the preparation of the Company's unaudited interim condensed financial statements is included in the Company's audited annual financial statements for the year ended December 31, 2014.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Newly Adopted Accounting Standards

Effective January 1, 2015, the Company has not adopted any new accounting standards. A full listing of future accounting pronouncements are disclosed in the Company's annual audited financial statements for the year ended December 31, 2014.

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, 2015, the Company's financial instruments include accounts receivable, reclamation deposits, bank indebtedness, accounts payable and accrued liabilities.

The fair values of accounts receivable, reclamation deposits, bank indebtedness, accounts payable, and accrued liabilities approximate their carrying values due to the short-term maturity of these financial instruments.

Risks

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

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

Business Risk

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

Credit risk

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

The maximum exposure to credit risk is as follows:

	As at	
	September 30, 2015	December 31, 2014
Accounts receivable		
Trade receivables	**$ 444,982**	$ 1,041,843
Receivables from joint venture	**88,612**	95,355
Reclamation deposits	**115,535**	105,535
Total	**$ 649,129**	$ 1,242,733

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. The Company historically 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 come due. The Company manages liquidity risk by anticipating operating, investing and financing activities and ensuring 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 expenditure budgets on a quarterly and annual basis which are regularly monitored and updated when necessary in order to review debt forecasts and working capital requirements.

At September 30, 2015, the Company had net debt of $10,621,038 (December 31, 2014 - $11,644,609), which includes bank indebtedness of $9,659,252 (December 31, 2014 - $7,184,147). The Company funds its operations through production revenue and a demand operating credit facility. All of the Company's financial liabilities have contractual maturities of less than 90 days.

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 credit facilities are subject to variable interest rates. A one percent change in interest rates would not have a material effect on net income (loss) and comprehensive income (loss).

Foreign currency risk

The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency; however, 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. The Company did not have any foreign exchange rate swaps or related contracts in place as at the date of this document.

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 funds flow from operations, and ability to raise capital. The Company has not entered into any commodity hedge contracts as at the date of this document.

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.

Non-IFRS Measures

This document contains the terms "funds flow from operations", "operating 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 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. Funds flow from operations is a 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. 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**	
	2015	2014	**2015**	2014
Cash provided by operating activities	**$ 1,395,834**	$ 2,266,111	**$ 3,142,662**	$ 5,112,694
Decommissioning obligation expenditures	**-**	-	**2,590**	-
Change in non-cash working capital	**(684,631)**	13,732	**129,166**	225,918
Funds flow from operations	**$ 711,205**	$ 2,279,843	**$ 3,274,418**	$ 5,338,611
Per share, basic and diluted	**$ 0.01**	$ 0.03	**$ 0.04**	$ 0.08

b) Operating netback is a benchmark used in the oil and natural gas industry and a key indicator of profitability relative to current commodity prices. Operating netback is calculated as oil and gas sales, less royalties, operating expenses and transportation costs on an absolute and per boe basis. These terms should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income or loss as determined in accordance with IFRS as an indicator of the Company's performance.

c) Net debt (working capital) is closely monitored by the Company to ensure that its capital structure is maintained by a strong balance sheet to fund its future growth. Net debt is used in this document in the context of liquidity and is calculated as the total of the Company's bank debt and current liabilities, less current assets. 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, 2015	December 31, 2014
Current assets	**$ 670,106**	$ 1,437,181
Current liabilities[1]	**(1,631,892)**	(5,897,643)
Bank indebtedness	**(9,659,252)**	(7,184,147)
Net debt	**$ (10,621,038)**	$ (11,644,609)

Note:
(1) Excluding bank indebtedness.

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. This conversion conforms with the Canadian Securities Regulators National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities.

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 constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular, but without limiting the foregoing, this document may contain forward-looking statements pertaining to the following: volumes and estimated value of Hemisphere's oil and natural gas reserves; the life of Hemisphere's reserves; the volume and product mix of Hemisphere's oil and natural gas production; future oil and natural gas prices; future operational activities; and future results from operations and operating metrics, including any future production growth and net debt. In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

With respect to forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things: future capital expenditure levels; future oil and natural gas prices and differentials between light, medium and heavy oil prices; results from operations including future oil and natural gas production levels; future exchange rates and interest rates; Hemisphere's ability to obtain equipment in a timely manner to carry out development activities; Hemisphere's ability to market its oil and natural gas successfully to current and new customers; the impact of increasing competition; Hemisphere's ability to obtain financing on acceptable terms; and Hemisphere's ability to add production and reserves through our development and exploitation activities.

Although Hemisphere believes that the expectations reflected in the forward-looking statements contained in this MD&A, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this MD&A, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause Hemisphere's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the following: volatility in market prices for oil and natural gas; general economic conditions in Canada, the U.S. and globally; and the *other factors described under "Risk Factors" in Hemisphere's most recently filed Annual Information Form available on the Company's website at www.hemisphereenergy.ca or on SEDAR at www.sedar.com. Readers are cautioned that this list of risk factors should not be construed as exhaustive.*

The forward-looking statements contained in this MD&A speak only as of the date of this document. Except as expressly required by applicable securities laws, Hemisphere does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

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

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

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

Vancouver, British Columbia
November 26, 2015

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

CONDENSED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)
(Unaudited)

	Note	September 30, 2015	December 31, 2014
Assets			
Current assets			
Accounts receivable		$ 565,789	$ 1,304,252
Prepaid expenses		104,317	132,929
		670,106	1,437,181
Non-current assets			
Reclamation deposits	7	115,535	105,535
Exploration and evaluation assets	5, 9	4,151,108	2,896,887
Property and equipment	6, 9	36,699,822	42,870,113
Deferred tax asset	13	-	1,641,916
Total assets		$ 41,636,570	$ 48,951,632
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 1,631,892	$ 5,897,643
Bank indebtedness	9	9,659,252	7,184,147
		11,291,144	13,081,790
Non-current liabilities			
Decommissioning obligations	7	5,299,500	5,177,607
		16,590,644	18,259,397
Shareholders' Equity			
Share capital	10	52,083,069	51,881,960
Contributed surplus	10(b)	2,540,209	2,513,122
Deficit		(29,577,353)	(23,702,847)
Total shareholders' equity		25,045,926	30,692,235
Total liabilities and shareholders' equity		$ 41,636,570	$ 48,951,632

Commitment (Note 11)

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

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Expressed in Canadian dollars)
(Unaudited)

	Note	Three Months Ended September 30 2015	Three Months Ended September 30 2014	Nine Months Ended September 30 2015	Nine Months Ended September 30 2014
Oil and natural gas revenue		**$ 2,043,781**	$ 4,703,496	**$ 8,256,065**	$ 12,066,993
Royalties		**(156,201)**	(895,461)	**(612,233)**	(2,224,479)
Net oil and natural gas revenue		**1,887,580**	3,808,035	**7,643,832**	9,842,514
Expenses					
Production and operating		**792,954**	955,830	**2,766,974**	3,101,195
Exploration and evaluation		**3,300**	50,249	**17,599**	91,915
Depletion and depreciation	2(e), 6	**1,226,841**	1,082,604	**4,322,901**	2,946,324
General and administrative		**273,680**	504,277	**1,254,614**	1,156,597
Share-based payments	10(b)	**(40,548)**	468,174	**181,204**	468,174
Impairment	6	**3,012,561**	-	**3,012,561**	-
		5,268,788	3,061,134	**11,555,855**	7,764,206
Results from operating activities		**(3,381,208)**	746,901	**(3,912,023)**	2,078,309
Finance expense	8	**(137,507)**	(26,589)	**(423,423)**	(180,455)
Gain on disposition		**-**	-	**-**	2,942
Income (loss) before income tax		**(3,518,715)**	720,312	**(4,335,446)**	1,900,796
Deferred tax expense	13	**(1,236,816)**	-	**(1,641,916)**	-
Net income (loss) and comprehensive income (loss) for the period	2(e)	**$ (4,755,531)**	$ 720,312	**$ (5,977,362)**	$ 1,900,796
Net income (loss) per share					
Basic and diluted	10(c)	**$ (0.06)**	$ 0.01	**$ (0.08)**	$ 0.03

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 of common shares		Capital stock		Contributed surplus		Warrant reserve		Deficit		Total Equity
Balance, December 31, 2013	2(e)	**61,307,498**	**$**	**42,127,674**	**$**	**2,574,789**	**$**	**204,479**	**$**	**(22,568,372)**	**$**	**22,338,570**
Non-flow-through share issuance		13,333,500		10,000,125		-		-		-		10,000,125
Share-based payments		-		-		452,780		-		-		452,780
Share issuance costs, net of tax		-		(680,408)		-		-		-		(680,408)
Exercise of stock options		690,000		404,944		(184,094)		-		-		220,850
Expiry of stock options		-		-		(1,159)		-		1,159		-
Exercise of warrants		37,500		29,625		-		(1,500)		-		28,125
Expiry of warrants		-		-		(329,194)		(202,979)		532,173		-
Net loss for the year		-		-		-		-		(1,667,807)		(1,667,807)
Balance, December 31, 2014		**75,368,498**	**$**	**51,881,960**	**$**	**2,513,122**	**$**	**-**	**$**	**(23,702,847)**	**$**	**30,692,235**
Balance, December 31, 2014		**75,368,498**	**$**	**51,881,960**	**$**	**2,513,122**	**$**	**-**	**$**	**(23,702,847)**	**$**	**30,692,235**
Exercise of stock options	10(b)	435,000		201,109		(92,359)		-		-		108,750
Expiry of stock options	10(b)	-		-		(102,855)		-		102,855		-
Share-based payments	10(b)	-		-		222,301		-		-		222,301
Net loss for the period		-		-		-		-		(5,977,362)		(5,977,362)
Balance, September 30, 2015		**75,803,498**	**$**	**52,083,069**	**$**	**2,540,209**	**$**	**-**	**$**	**(29,577,353)**	**$**	**25,045,926**

Comparison with nine months ended September 30, 2014:

	Note	Number of common shares		Capital stock		Contributed surplus		Warrant reserve		Deficit		Total Equity
Balance, December 31, 2013	2(e)	**61,307,498**	**$**	**42,127,674**	**$**	**2,574,789**	**$**	**204,479**	**$**	**(22,568,372)**	**$**	**22,338,570**
Non flow-through share issuance		13,333,500		10,000,125		-		-		-		10,000,125
Share issuance costs		-		(921,007)		-		-		-		(921,007)
Exercise of stock options		690,000		220,850		(111,100)		-		111,100		220,850
Exercise of warrants		37,500		28,125		-		-		-		28,125
Expiry of warrants		-		-		(329,194)		(120,828)		450,022		-
Share-based payments		-		-		468,174		-		-		468,174
Net income for the period	2(e)	-		-		-		-		1,900,796		1,900,796
Balance, September 30, 2014	2(e)	**75,368,498**	**$**	**51,455,766**	**$**	**2,529,675**	**$**	**83,651**	**$**	**(20,033,460)**	**$**	**34,035,632**

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

CONDENSED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)
(Unaudited)

	Note	Three Months Ended September 30 2015	Three Months Ended September 30 2014	Nine Months Ended September 30 2015	Nine Months Ended September 30 2014
Operating activities					
Net income (loss) for the period	2(e)	**$ (4,755,531)**	$ 720,312	**$ (5,977,362)**	$ 1,900,796
Items not affecting cash:					
Depletion, depreciation and accretion	2(e)	**1,257,907**	1,091,357	**4,416,098**	2,972,583
Gain on disposition		**-**	-	**-**	(2,942)
Share-based payments		**(40,548)**	468,174	**181,204**	468,174
Deferred tax expense		**1,236,816**	-	**1,641,916**	-
Impairment		**3,012,561**	-	**3,012,561**	-
Funds flow from operations		**711,203**	2,279,843	**3,274,418**	5,338,611
Decommissioning obligation expenditures		**-**	-	**(2,590)**	-
Changes in non-cash working capital	12	**684,631**	(13,732)	**(129,166)**	(225,918)
Cash provided by operating activities		**1,395,834**	2,266,111	**3,142,662**	5,112,694
Investing activities					
Property and equipment expenditures		**(166,079)**	(7,574,065)	**(886,357)**	(12,704,593)
Exploration and evaluation expenditures		**(1,218,144)**	1,071,415	**(1,460,648)**	(1,730,564)
Proceeds from disposition of equipment		**-**	-	**-**	(50,000)
Reclamation deposits		**(10,000)**	-	**(10,000)**	-
Changes in non-cash working capital	12	**(222,029)**	598,512	**(3,369,511)**	2,244,373
Cash used in investing activities		**(1,616,252)**	(5,904,137)	**(5,726,517)**	(12,140,783)
Financing activities					
Shares issued for cash, net of issue costs		**-**	-	**-**	9,107,244
Shares issued on exercise of stock options		**-**	85,050	**108,750**	220,850
Change in bank debt		**220,418**	2,200,000	**2,475,105**	(2,300,000)
Changes in non-cash working capital	12	**-**	-	**-**	-
Cash provided by financing activities		**220,418**	2,285,050	**2,583,855**	7,028,094
Net change in cash		**-**	(1,352,979)	**-**	-
Cash, beginning of period		**-**	1,352,979	**-**	-
Cash, end of period		**$ -**	$ -	**$ -**	$ -

Supplemental cash flow information (Note 12)

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, 2015 and 2014
(Expressed in Canadian dollars)

1. Nature of Business

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 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 2000, 1055 West Hastings Street, Vancouver, British Columbia, Canada V6E 2E9.

2. Basis of Presentation

(a) Statement of compliance

These unaudited interim condensed financial statements ("Financial Statements") have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. These Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2014.

These financial statements were authorized for issuance by the Board of Directors on November 26, 2015.

(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. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

(e) Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with IFRS and follow the same accounting policies as described in Note 3 of the Company's audited annual financial statements for the year ended December 31, 2014. There have been no changes to the Company's accounting policies since the Company's audited annual financial statements for the year ended December 31, 2014 were issued.

The Company changed its accounting for depleting its petroleum and natural gas properties during the year ended December 31, 2014. The Company changed from using the unit-of-production method based on production volumes in relation to total estimated Proved reserves to total estimated Proved and Probable reserves. The change in policy was applied retrospectively, and the comparative figures for the three and nine months ended September 30, 2014 have been adjusted to reflect this change.

3. 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, 2015, the Company's financial instruments include accounts receivable, reclamation deposits, bank indebtedness, and accounts payable and accrued liabilities.

The fair values of accounts receivable, reclamation deposits, accounts payable and accrued liabilities, and bank indebtedness approximate their carrying values due to the short-term maturity of these financial instruments.

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 Company and industry in general. The capital structure of the Company is composed of shareholders' equity and net debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing, utilization of the Company's credit facilities, 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.

The Company's capital structure as at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015	December 31, 2014
Shareholders' equity	**$ 25,045,926**	$ 30,692,235
Net debt	**10,621,038**	11,644,609
Total capital	**$ 35,666,964**	$ 42,336,844

As at September 30, 2015, the Company had total available credit facility of $15,000,000 (December 31, 2014 - $15,000,000) of which the Company had drawn $9,659,252 (December 31, 2014 - $7,184,147). The Company is subject to a financial covenant as described in Note 9.

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.

At September 30, 2015, the Company had net debt of $10,621,038 (December 31, 2014 - $11,644,609) which included bank indebtedness of $9,659,252 (December 31, 2014 - $7,184,147). The Company funds its operations through production revenue and a demand operating credit facility (Note 9). All of the Company's financial liabilities have contractual maturities of less than 90 days.

5. 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 and undeveloped lands. A transfer from exploration and evaluation assets to property and equipment is made when reserves are assigned or an exploration project has been completed. As at September 30, 2015, the Company transferred $206,427 (December 31, 2014 - $993,271) of exploration and evaluation costs to property and equipment. The Company also capitalized general and administrative expenses of $173,573 to exploration and evaluation assets for the nine months ended September 30, 2015.

Cost	
Balance, December 31, 2013	$ 2,000,613
Additions	1,889,545
Transfer to property and equipment	(993,271)
Balance, December 31, 2014	$ 2,896,887
Additions	1,460,648
Transfer to property and equipment	(206,427)
Balance, September 30, 2015	**$ 4,151,108**

6. Property and Equipment

Cost		Petroleum and Natural Gas		Other Equipment		Total
Balance, December 31, 2013	$	39,119,038	$	67,522	$	39,186,560
Additions		19,382,791		46,970		19,429,761
Increase in decommissioning obligations		3,099,549		-		3,099,549
Transfer from exploration and evaluation assets		993,271		-		993,271
Balance, December 31, 2014	$	62,594,650	$	114,492	$	62,709,142
Additions		886,358		-		886,358
Increase in decommissioning obligations		31,287		-		31,287
Capitalized share-based payments		41,097		-		41,097
Transfer from exploration and evaluation assets		206,427		-		206,427
Balance, September 30, 2015	**$**	**63,759,818**	**$**	**114,492**	**$**	**63,874,310**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance, December 31, 2013	$	11,720,611	$	54,504	$	11,775,115
Charge for the year		5,353,585		7,404		5,360,989
Impairment		2,702,925		-		2,702,925
Balance, December 31, 2014	**$**	**19,777,121**	**$**	**61,908**	**$**	**19,839,029**
Charge for the period		4,312,810		10,091		4,322,901
Impairment		3,012,561		-		3,012,561
Balance, September 30, 2015	**$**	**27,102,492**	**$**	**71,999**	**$**	**27,174,491**
Net Book Value						
December 31, 2014	$	42,817,529	$	52,584	$	42,870,113
September 30, 2015	**$**	**36,657,326**	**$**	**42,493**	**$**	**36,699,822**

The Company's additions for property and equipment included capitalized general and administrative expenses of $40,159 and $94,996 for the three and nine months ended September 30, 2015, respectively.

The calculation of depletion at September 30, 2015 includes estimated future development costs of $23,083,300 (December 31, 2014 - $23,083,300) associated with the development of the Company's Proved plus Probable reserves.

At September 30, 2015, the Company performed an assessment of potential impairment indicators, and management determined that with the prolonged reduction in commodity prices and the Company's deferred capital development plans that an impairment test on its petroleum and natural gas assets was required. The Company performed an impairment test on its petroleum and natural gas assets and it was determined that the carrying amount of one CGU exceeded its recoverable amount. Accordingly, the Company recognized an impairment charge of $3,012,561 as at September 30, 2015. No indicators of impairment existed at September 30, 2014.

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 and discount rates specific to the underlying composition of assets residing in each CGU. The pre-tax discount rates ranged from 10% to 15% depending on the nature of the reserves.

	As at September 30, 2015	
CGU	**Impairment**	**Recoverable Value**
Jenner, AB	3,012,561	18,076,984

The following table shows the future commodity price estimates used by the Company's independent reserves evaluator as at September 30, 2015:

2015	2016	2017	2018	2019	2020	2021	2022	2023	Thereafter
WTI (US$/bbl)	55.00	61.20	65.00	69.00	73.10	77.30	81.60	86.20	+2%/yr
WCS (C$/bbl)	56.60	61.70	65.60	68.00	72.20	76.50	81.00	85.70	+2%/yr
AECO(Cdn$/MMbtu)	3.35	3.65	3.85	4.00	4.25	4.45	4.70	5.00	+2%/yr

7. Decommissioning Obligation

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 amount of cash flows required to settle its decommissioning obligations as at September 30, 2015 is $5,957,751 (December 31, 2014 - $5,923,892). These payments are expected to be made over the next 38 years with the majority of costs to be incurred between 2022 and 2038. The discount factor, being the risk-free rate related to the liability, is 2.40% (December 31, 2014 - 2.40%). Inflation of 1.70% (December 31, 2014 - 1.70%) has also been factored into the calculation. The Company also has $115,535 (December 31, 2014 - $105,535) in various reclamation bonds for its properties held by the British Columbia Ministry of Energy, Mines and Petroleum Resources.

	September 30, 2015	December 31, 2014
Decommissioning obligation, beginning of period	**$ 5,177,607**	$ 2,011,282
Increase in estimated future obligations	**31,287**	3,099,549
Decommissioning obligation expenditures	**(2,591)**	-
Accretion expense	**93,197**	66,776
Decommissioning obligation, end of period	**$ 5,299,500**	$ 5,177,607

8. Finance Income and Expense

	Three Month Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
Finance expense:				
Interest expense	**$ 106,441**	$ 14,027	**$ 330,226**	$ 142,888
Part XII.6 tax	**-**	3,809	**-**	11,308
Accretion of decommissioning obligation	**31,066**	8,753	**93,197**	26,258
Total	**$ 137,507**	$ 26,589	**$ 423,423**	$ 180,454

9. Bank Indebtedness

The Company has a demand operating credit facility in the amount of $15.0 million with Alberta Treasury Branches ("ATB") which was renewed in July 2015. Funds available under the credit facility are $14.0 million and access to the remaining $1.0 million is based on additional approval from ATB. The facility is secured by a general security agreement and a floating charge on all lands of the Company. The facility bears interest at the bank's prime rate plus 1.75%, as well as a standby charge for any undrawn funds.

Pursuant to the terms of the credit facility, the Company has provided a financial covenant that at all times its working capital ratio shall not be less than 1.0. The working capital ratio is defined under the terms of the credit facilities as current assets including the undrawn portion of the revolving operating demand line credit facility, to current liabilities, excluding any current bank indebtedness.

At September 30, 2015, the Company has drawn a total of $9,659,252 on its credit facility (December 31, 2014 - $7,184,147) and had a working capital ratio of 3.1, which is in compliance with the above financial covenant. The Company is currently conducting its mid-year review with ATB, which it expects to have completed in December 2015.

10. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at September 30, 2015, the Company had 75,803,498 common shares issued and outstanding.

During the nine months ended September 30, 2015, the Company issued 435,000 common shares for the exercise of stock options at $0.25 each.

(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 may not be less than the last closing price of the Company's shares and not less than $0.10 per share.

During the nine months ended September 30, 2015, the Company received gross proceeds of $108,750 from the exercise of 435,000 stock options at $0.25 each.

Details of the Company's stock options as at September 30, 2015 are as follows:

			Changes in the Period				
Exercise Price	Expiry Date	Balance Outstanding December 31, 2014	Granted	Exercised	Expired	Balance Outstanding September 30, 2015	Balance Exercisable September 30, 2015
$0.25	8-Mar-15	435,000	-	(435,000)	-	-	-
$0.26	30-Sep-15	490,000	-	-	(490,000)	-	-
$0.30	23-Dec-15	375,000	-	-	-	375,000	375,000
$0.30	27-Jan-16	200,000	-	-	-	200,000	200,000
$0.38	9-Feb-16	50,000	-	-	-	50,000	50,000
$0.40	26-May-16	475,000	-	-	-	475,000	475,000
$0.48	5-Jul-16	50,000	-	-	-	50,000	50,000
$0.70	8-Feb-17	1,500,000	-	-	-	1,500,000	1,500,000
$0.65	24-Apr-17	75,000	-	-	-	75,000	75,000
$0.61	5-Jul-17	425,000	-	-	-	425,000	425,000
$0.50	8-Mar-18	250,000	-	-	-	250,000	250,000
$0.55	6-Jan-19	660,000	-	-	-	660,000	660,000
$0.65	29-Sep-19	785,000	-	-	-	785,000	785,000
$0.61	7-Oct-19	200,000	-	-	-	200,000	200,000
$0.24	29-Jan-20	-	1,225,000	-	-	1,225,000	1,212,500
$0.39	1-Mar-20	-	100,000	-	-	100,000	100,000
		5,970,000	1,325,000	(435,000)	(490,000)	6,370,000	6,357,500
Weighted-average exercise price		$0.52	$0.25	$0.25	$0.26	$0.50	$0.51

For the nine months ended September 30, 2015, the Company recognized $181,204 (September 30, 2014 - $468,174) in share-based payment expense from the granting of 1,325,000 incentive stock options (September 30, 2014 – 785,000) to directors, officers, employees and consultants of the Company, of which 1,300,000 vested immediately. The Company capitalized $41,097 in share-based payments, which were directly related to the Company's development and exploration activities in the year.

On January 29, 2015, 25,000 stock options at an exercise price of $0.24 each were granted to a company performing investor relations services and vest 25% at each three-month interval from the grant date. As at September 30, 2015, share-based payment expense of $549 was recognized for 6,250 stock options that vested in the period.

The fair value of the granted stock options was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	September 30, 2015	September 30, 2014
Expected life (years)	**5.00**	5.00
Interest rate	**0.79%**	1.12%
Volatility	**91.71%**	154.15%
Dividend yield	**0.00%**	0.00%
Fair value at grant date	**$0.17**	$0.47

The weighted-average exercise price for stock options granted during the nine months ended September 30, 2015 was $0.25 (September 30, 2014 - $nil). The forfeiture rate has been estimated at 5% (September 30, 2014 - nil).

During the nine months ended September 30, 2015, the Company transferred $195,214 (year ended December 31, 2014 - $184,094) from contributed surplus and recorded a corresponding amount in share capital for exercised stock options.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate

(c) Income (loss) per share

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
Income (loss) for the period	**$ (4,755,531)**	$ 720,312	**$ (5,977,362)**	$ 1,900,796
Weighted average number of common shares outstanding, basic	**75,803,498**	75,063,770	**75,743,828**	68,291,661
Dilutive stock options and share purchase warrants	**-**	1,410,516	**-**	1,525,782
Weighted average number of common shares outstanding, fully diluted	**75,803,498**	76,474,286	**75,743,828**	69,817,443
Income (loss) per share, basic and fully diluted	**$ (0.06)**	$ 0.01	**$ (0.08)**	$ 0.03

For the three and nine months ended September 30, 2015, the Company incurred a loss; therefore, dilutive stock options and share purchase warrants were nil. For the three and nine months ended September 30, 2014, the Company had dilutive options and share purchase warrants of 1,410,516 and 1,525,782, respectively.

11. Commitment

The Company has a commitment to make monthly rental payments pursuant to the office rental agreement at its current location until May 30, 2018. The following table shows the Company's rental commitment amounts for the next four fiscal years:

	2015	2016	2017	2018
Rental commitment	**$ 47,807**	$ 191,226	$ 191,226	$ 79,678

12. Supplemental Cash Flow Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	**2015**	2014
Provided by (used in):				
Accounts receivable	**$ 607,886**	$ (1,078,409)	**$ 738,463**	$ (1,168,773)
Prepaid expenses	**(14,621)**	(12,471)	**28,611**	2,550
Accounts payable and accrued liabilities	**(130,664)**	1,675,662	**(4,265,751)**	3,184,678
Total changes in non-cash working capital	**$ 462,601**	$ 584,782	**$ (3,498,677)**	$ 2,018,455
Provided by (used in):				
Operating activities	**$ 684,631**	$ (13,732)	**$ (129,166)**	$ (225,918)
Investing activities	**(222,029)**	598,512	**(3,369,511)**	2,244,373
Total changes in non-cash working capital	**$ 462,601**	$ 584,782	**$ (3,498,677)**	$ 2,018,455

Interest paid on the Company's bank indebtedness during the three months ended September 30, 2015 was $106,441 compared to $14,027 for the three months ended September 30, 2014. For the nine months ended September 30, 2015 and 2014 the interest paid on the Company's bank indebtedness were $330,226 and $142,888, respectively.

13. Income Tax

The significant drop in commodity prices during 2015 has reduced the probability that the Company will be able to realize on its deferred tax asset in the near future and, as a result, the Company provided for it in the amount of $1,236,816 as at September 30, 2015.

OFFICERS

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

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

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

BOARD OF DIRECTORS

Charles O'Sullivan, B.Sc., *Chairman*(2)(3)

Frank Borowicz, QC, CA (Hon)(1)(2)(3)

Bruce McIntyre, P.Geol.(1)(2)(4)

Don Simmons, P.Geol.(3)(4)

Gregg Vernon, P.Eng.(1)(4)

Richard Wyman, B.Sc., MBA(1)(4)

(1) Audit Committee
(2) Compensation/Nominating Committee
(3) Corporate Governance Committee
(4) Reserves Committee

BANKER

Alberta Treasury Branches
Calgary, Alberta

AUDITOR

KPMG LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services Inc.
Vancouver, British Columbia

LEGAL COUNSEL

Fasken Martineau DeMoulin LLP
Vancouver, British Columbia

INDEPENDENT ENGINEER

McDaniel Associates & Consultants Ltd.
Calgary, Alberta

INVESTOR RELATIONS

Scott Koyich, Brisco Capital
Calgary, Alberta

Hemisphere Energy Corporation
Suite 2000, 1055 West Hastings Street, Vancouver, British Columbia V6E 2E9
www.hemisphereenergy.ca TSX-V: HME