



Q3 2017 HIGHLIGHTS

- Achieved quarterly average production of 681 boe/d (95% oil), a 31% increase over the third quarter of 2016 and 15% increase over the second quarter of 2017.
- Increased revenue by 68% to \$2.7 million compared to \$1.6 million for the third quarter of 2016.
- Increased operating netbacks, including realized gains on commodity contracts, to \$19.28/boe, an 18% increase from the third quarter of 2016.
- Generated funds flow from operations of \$657,840 (\$0.01/share), an increase of 91% over the third quarter of 2016.
- Decreased operating costs over the second quarter by 21% to \$12.78/boe.
- Executed a strategic debt refinancing for a term loan of up to USD\$35.0 million over five years.
- Initiated a six-well drill program in Atlee Buffalo at the end of the quarter.
- Commenced the expansion of the Company's F pool facility and the construction of the G pool facility in Atlee Buffalo.
- Achieved a Corporate Liability Management Ratio ("LMR") with the Alberta Energy Regulator of 5.07 at the end of the third quarter 2017, within the top 12% of all Companies assessed.

CORPORATE UPDATE

During the third quarter, Hemisphere entered into a strategic and transformational term loan facility for up to a maximum of USD\$35.0 million to accelerate the development of its oil assets in southern Alberta. The initial commitment of USD\$15.0 million drawn is a 50% increase to the Company's former credit facility which was subsequently repaid and terminated.

The Company immediately began its drilling program in Atlee Buffalo which included six development wells consisting of three into the Upper Mannville F pool and three into the Upper Mannville G pool to expand the successful waterflood projects in each pool. Results of these wells will be disclosed as stabilized rates become available. During the quarter, the Company also commenced the expansion of its Upper Mannville F pool facility to enhance water separation and increase oil production, as well as the construction of a new water separation and re-injection facility in the Upper Mannville G pool.

The third quarter of 2017 marked a new chapter for Hemisphere as it gained access to capital in order to move forward the full development of its Atlee Buffalo oil assets which have undergone very effective pilot waterflood programs during the past few years. The Company has positioned itself to grow significantly through 2018 and is already preparing its 2018 drilling programs.

Q3 2017 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Financial				
Petroleum and natural gas revenue	\$ 2,733,656	\$ 1,630,105	\$ 7,446,068	\$ 4,014,662
Operating netback ⁽¹⁾	1,208,106	779,966	3,262,794	1,486,898
Funds flow from operations ⁽²⁾	657,840	345,007	1,761,249	257,387
Per share, basic and diluted	0.01	0.00	0.02	0.00
Net loss	(142,254)	(413,340)	(487,655)	(2,060,620)
Per share, basic and diluted	(0.00)	(0.00)	(0.01)	(0.03)
Capital expenditures	3,107,979	1,457,530	4,025,800	2,006,613
Net debt ⁽³⁾	14,426,091	11,384,586	14,426,091	11,384,586
Bank indebtedness	-	10,670,689	-	10,670,689
Term loan	\$ 11,589,132	\$ -	\$ 11,589,132	\$ -
Operating				
Average daily production				
Oil (bbl/d)	644	450	574	422
Natural gas (Mcf/d)	217	400	274	493
NGL (bbl/d)	1	2	2	2
Combined (boe/d)	681	518	622	506
Oil and NGL weighting	95%	87%	93%	84%
Average sales prices				
Oil (\$/bbl)	\$ 45.58	\$ 37.28	\$ 46.20	\$ 32.58
Natural gas (\$/Mcf)	1.48	2.24	2.42	1.72
NGL (\$/bbl)	42.62	32.88	45.41	26.05
Combined (\$/boe)	\$ 43.62	\$ 34.19	\$ 43.87	\$ 28.94
Operating netback (\$/boe)				
Petroleum and natural gas revenue	\$ 43.62	\$ 34.19	\$ 43.87	\$ 28.94
Royalties	9.36	4.64	7.53	3.15
Operating costs	12.78	7.92	15.31	10.47
Transportation costs	2.71	5.27	2.85	4.60
Operating field netback ⁽⁴⁾	18.77	16.36	18.18	10.72
Realized commodity hedging gain	0.51	-	1.05	-
Operating netback ⁽¹⁾	\$ 19.28	\$ 16.36	\$ 19.22	\$ 10.72

Notes:

- (1) Operating netback is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) per barrel of oil equivalent. Operating netback per boe is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) per barrel of oil equivalent per barrel of oil equivalent.
- (2) 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.
- (3) Net debt is a non-IFRS measure calculated as current assets minus current liabilities including term loan or bank indebtedness and excluding fair value of financial instruments and any flow-through share premium.
- (4) 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 per barrel of oil equivalent.

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Share Capital				
Common shares outstanding	89,793,302	85,745,102	89,793,302	85,745,102
Stock options outstanding	8,019,000	4,460,000	8,019,000	4,460,000
Warrants outstanding	13,750,000	-	13,750,000	-
Fully diluted shares outstanding	111,562,302	90,205,102	111,562,302	90,205,102
Weighted-average shares outstanding - basic and diluted	86,977,163	85,082,447	87,480,045	78,968,665

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at November 23, 2017

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, 2017 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, 2017, and the audited annual financial statements and related notes for the year ended December 31, 2016. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.

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

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

Business Overview

Hemisphere produces oil and natural gas from its 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".

Jenner, Alberta

Hemisphere has a 100% working interest in 23,810 net acres and has continued to build a land position in the Jenner area through Crown land sales and strategic acquisitions. The property is accessible year-round and is located east of Brooks in southeastern Alberta.

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 7,040 net acres and has been building a land position in Atlee Buffalo through Crown land sales and strategic acquisitions since 2013.

Operating Results

The Company generated funds flow from operations of \$657,840 (\$0.01/share) during the third quarter of 2017, as compared to \$345,007 (\$0.00/share) during the third quarter of 2016. Funds flow for the nine months ended September 30, 2017 increased to \$1,761,249 (\$0.02/share) from \$257,387

(\$0.00/share) for the same period in 2016. These improvements are due to the Company's increased revenues, increased production and commodity prices, and realized commodity hedging gains.

For the three and nine months ended September 30, 2017, the Company reported net losses of \$142,254 (\$0.00/share) and \$487,655 (\$0.01/share), respectively, compared to net losses of \$413,340 (\$0.00/share) and \$2,060,620 (\$0.03/share) for the three and nine months ended September 30, 2016, respectively.

Production

By product:	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Oil (bbl/d)	644	450	574	422
Natural gas (Mcf/d)	217	400	274	493
NGL (bbl/d)	1	2	2	2
Total (boe/d)	681	518	622	506
Oil and NGL weighting	95%	87%	93%	84%

In the third quarter of 2017, the Company's average daily production was 681 boe/d (95% oil and NGL) representing a 31% increase over the comparable quarter in 2016 despite a loss in volumes due to downtime from facility work during the quarter. For the nine months ended September 30, 2017, the Company's average daily production was 622 boe/d (93% oil and NGL), representing a 23% increase from 506 boe/d (84% oil and NGL) for the same period in 2016. These production increases are attributed to the Company's continued success of its waterfloods in the Upper Mannville F and G pools in Atlee Buffalo with the addition of one new well in the Upper Mannville G pool in 2016, and stable production at Jenner.

Average Benchmark and Realized Prices

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Benchmark prices				
WTI (\$USD/bbl) ⁽¹⁾	\$ 48.20	\$ 44.94	\$ 49.46	\$ 41.33
Exchange rate (1 \$USD/\$C)	1.2529	1.3041	1.3056	1.3206
WTI (\$C/bbl)	60.39	58.61	64.57	54.58
WCS (\$C/bbl) ⁽²⁾	47.93	41.00	49.10	36.30
AECO natural gas (\$/Mcf) ⁽³⁾	1.61	2.36	2.36	1.87
Average realized prices				
Crude oil (\$/bbl)	45.58	37.28	46.20	32.58
Natural gas (\$/Mcf)	1.48	2.24	2.42	1.72
NGL (\$/bbl)	42.62	32.88	45.41	26.05
Combined (\$/boe)	\$ 43.62	\$ 34.19	\$ 43.87	\$ 28.94

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 increased by 28% from \$34.19/boe during the three months ended September 30, 2016 to \$43.62/boe during the three months ended September 30, 2017. The Company's combined average realized price increased by 52% from \$28.94/boe during the nine months ended September 30, 2016 to \$43.87/boe during the nine months ended September 30, 2017. These increases are the result of higher oil prices during the three and nine months ended September 30, 2017 which are reflected in the respective \$8.30/bbl and \$13.62/bbl increases from the Company's average realized crude oil price during the same periods in 2016.

The Company's average realized natural gas price decreased by \$0.76/Mcf in the three months ended September 30, 2017 and increased by \$0.70/Mcf in the nine months ended September 30, 2017 from the comparable periods in 2016.

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

Product	Type	Volume	Price	Index	Term
Crude oil	Swap	300 bbl/d	USD\$50.67	WTI-NYMEX	September 1, 2017 – December 31, 2017
Crude oil	Swap ⁽¹⁾	150 bbl/d	USD\$54.65	WTI-NYMEX	November 1, 2017 – June 30, 2018
Crude oil	Option ⁽¹⁾	150 bbl/d	USD\$54.65	WTI-NYMEX	July 1, 2018 – February 28, 2019
Crude oil	Swap	300 bbl/d	USD\$50.67	WTI-NYMEX	January 1, 2018 – December 31, 2018
Crude oil	Swap	250 bbl/d	USD\$50.67	WTI-NYMEX	January 1, 2019 – December 31, 2019
Crude oil	Swap	200 bbl/d	USD\$50.67	WTI-NYMEX	January 1, 2020 – August 1, 2020

Note:

(1) The counter-party to this contract holds a one-time option no later than June 30, 2018 to extend a swap on 150 bbl/d of crude oil at USD\$54.65 for the term indicated.

At September 30, 2017, the commodity contracts were fair valued as an asset of \$221,129 recorded on the balance sheet, and unrealized gains of \$190,999 and \$221,129 were recorded for the three and nine months ended September 30, 2017, respectively.

Revenue

		Three Months Ended September 30			Nine Months Ended September 30	
		2017	2016		2017	2016
Oil	\$	2,698,497	\$ 1,541,839	\$	7,245,314	\$ 3,767,387
Natural gas		29,473	82,577		180,948	232,098
NGL		5,686	5,689		19,806	15,177
Total	\$	2,733,656	\$ 1,630,105	\$	7,446,068	\$ 4,014,662

Revenue for the three and nine months ended September 30, 2017 increased by 68% and 85%, respectively, from the comparable periods in 2016. These increases are attributed to the \$9.43/boe and \$14.93/boe increases in the Company's combined average realized prices, and increases in production by 31% and 23% during the respective periods.

Operating Netback

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Operating netback				
Revenue	\$ 2,733,656	\$ 1,630,105	\$ 7,446,068	\$ 4,014,662
Royalties	586,468	221,303	1,278,205	437,181
Operating costs	801,017	377,468	2,598,837	1,452,713
Transportation costs	169,968	251,369	484,317	637,870
Operating field netback ⁽¹⁾	\$ 1,176,204	\$ 779,966	\$ 3,084,709	\$ 1,486,898
Realized commodity hedging gain (loss)	31,902	-	178,085	-
Operating netback ⁽²⁾	\$ 1,208,106	\$ 779,966	\$ 3,262,794	\$ 1,486,898
Operating netback (\$/boe)				
Revenue	\$ 43.62	\$ 34.19	\$ 43.87	\$ 28.94
Royalties	9.36	4.64	7.53	3.15
Operating costs	\$ 12.78	\$ 7.92	\$ 15.31	\$ 10.47
Transportation costs	2.71	5.27	2.85	4.60
Operating field netback ⁽¹⁾	\$ 18.77	\$ 16.36	\$ 18.18	\$ 10.72
Realized commodity hedging gain (loss)	0.51	-	1.05	-
Operating netback ⁽²⁾	\$ 19.28	\$ 16.36	\$ 19.22	\$ 10.72

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 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) per barrel of oil equivalent.

Royalties for the three months ended September 30, 2017 were \$9.36/boe, representing a 102% increase from the three months ended September 30, 2016. Royalties for the nine months ended September 30, 2017 were \$7.53/boe, representing a 139% increase from the same period in 2016. These increases are a result of higher oil prices, increased oil production rates from the Company's waterflood projects in the Atlee Buffalo F pool, the expiration of the royalty holiday period for some of the Company's wells, and a gross overriding royalty adjustment allocated through December 31, 2017.

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 and nine months ended September 30, 2017 increased by \$4.86/boe and \$4.84/boe, respectively, over the same periods in 2016. The increases are the result of facility maintenance and well workovers.

Transportation costs include all costs incurred to transport emulsion and oil and gas sales to processing and distribution facilities. Transportation costs were \$2.71/boe during the third quarter of 2017, which is a 49% decrease from the comparable quarter in 2016. Transportation costs were \$2.85/boe for the nine months ended September 30, 2017, which is a 38% decrease from the same period in 2016. These decreases are attributable to reduced trucking rates, closer sales points, and the result of eliminating trucking of water to a third-party from the Atlee Buffalo F pool with the construction of a facility to separate and re-inject water in the fourth quarter of 2016.

Operating netback for the three and nine months ended September 30, 2017 were higher than the comparable periods in 2016 at \$19.28/boe and \$19.22/boe, respectively. These increases are mainly due to the 28% and 52% increases in the Company's combined average realized prices and higher production rates for the respective periods as discussed above. In addition, the Company held derivative commodity

contracts during the three and nine months ended September 30, 2017 which resulted in realized hedging gains of \$0.51/boe and \$1.05/boe, respectively, and are included in the operating netback.

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, 2017 and 2016 were \$9,295 and \$12,023, respectively. For the nine months ended September 30, 2017 and 2016, exploration and evaluation expenses were \$33,385 and \$36,950, respectively.

Depletion and Depreciation

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Depletion expense	\$ 851,854	\$ 706,951	\$ 2,247,860	\$ 2,077,641
Depreciation expense	1,845	2,489	5,533	7,465
Total	\$ 853,699	\$ 709,440	\$ 2,253,393	\$ 2,085,106
\$ per boe	\$ 15.64	\$ 14.88	\$ 13.28	\$ 15.03

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, 2017 increased to \$15.64/boe from \$14.88/boe for the same period in 2016. For the nine months ended September 30, 2017, depletion and depreciation expenses decreased to \$13.28/boe from \$15.03/boe for the same period in 2016. The increase in the quarter ended September 30, 2017 over the comparable quarter in 2016 is due primarily to the increased production over the comparable quarter. The overall decrease in depletion expenses for the nine months ended September 30, 2017 as compared to the same period in 2016 is due to amortization of production over a larger reserve volume base from the Company's December 31, 2016 independent engineers evaluation report as prepared by McDaniel and Associates Consultants Ltd.

Capital Expenditures

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Land and lease	\$ 12,096	\$ 12,096	\$ 24,800	\$ 21,672
Geological and geophysical	12,229	53,305	165,878	173,326
Drilling and completions	2,294,155	701,986	2,453,732	1,027,416
Facilities and infrastructure	789,498	690,144	1,381,389	784,199
Total capital expenditures ⁽¹⁾	\$ 3,107,979	\$ 1,457,530	\$ 4,025,800	\$ 2,006,613

Note:

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

The development capital spent during the nine months ended September 30, 2017 included capital associated with the start of a six well drilling program, expansion of the Upper Mannville F pool battery, construction of the Upper Mannville G pool battery, installation of a larger downhole pump in a producing well, installation of a transfer pump to further reduce operating costs, wellsite electrification work, and addition of a new tank and burner system.

General and Administrative

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Gross general and administrative	\$ 456,723	\$ 379,855	\$ 1,281,345	\$ 1,030,958
Capitalized general and administrative	(89,649)	(81,011)	(249,052)	(196,781)
Total	\$ 367,074	\$ 298,844	\$ 1,032,293	\$ 834,177
\$ per boe	\$ 5.86	\$ 6.27	\$ 6.08	\$ 6.01

Gross general and administrative expenses for the three and nine months ended September 30, 2017 increased by 20% and 24%, respectively, over the same periods in 2016 due to increased activity resulting in increased consulting fees and salaries.

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, 2017, capitalized general and administrative expenses increased by \$8,638 and \$52,271, respectively, from the comparable periods in 2016.

For the three months ended June 30, 2017, the Company realized a decrease of \$0.41/boe in general and administrative costs from the same period in 2016 as a result of increased production which offset the increase gross general and administrative expenses for the quarter. Over the nine months ended September 30, 2017, the Company had a slight increase of \$0.07/boe to general and administrative costs from the comparable period in 2016.

Share-based Payments

During the third quarter of 2017, the Company granted 5,034,000 stock options to directors, officers, employees and consultants at an exercise price of \$0.25 each, of which 1,678,000 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 the grant was \$309,057, of which \$214,387 was expensed as stock-based compensation and \$94,670 was capitalized.

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Share-based payments	\$ 214,387	\$ 1,094	\$ 215,480	\$ 88,577
Capitalized costs	94,670	-	94,670	26,892
Total share-based payments	\$ 309,057	\$ 1,094	\$ 310,150	\$ 115,469

Finance Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Cash interest expense	\$ 165,368	\$ 136,115	\$ 451,429	\$ 395,334
Amortization of deferred charges	13,800	-	13,800	-
Accretion of debt issuance costs	2,285	-	2,285	-
Accretion of decommissioning liabilities	26,932	35,791	80,795	107,374
Total	\$ 208,386	\$ 171,907	\$ 548,310	\$ 502,708
\$ per boe	\$ 3.33	\$ 3.61	\$ 3.23	\$ 3.62

Finance expense for the three and nine months ended September 30, 2017 increased by 21% and 9%, respectively, from the comparable periods in 2016. This is due primarily to a higher average debt balance, including the replacement of the credit facility with a higher term loan balance and interest rate in September 2017 which includes the amortization and accretion of debt issuance costs.

Accretion of decommissioning liabilities represents the adjusted present value of the Company's decommissioning obligations which include the abandonment and reclamation costs associated with wells and facilities. In the three and nine months ended September 30, 2017, accretion of decommissioning liabilities decreased by 25% for both periods from the comparable periods in 2016 due to a decrease in the total estimated costs of abandonment and reclamation obligations year-over-year.

Tax Pools

As at December 31, 2016, the Company had approximately \$48 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 2017. Taxes payable beyond 2017 will primarily be a function of commodity prices, capital expenditures, and production volumes.

	Deduction Rate	December 31, 2016	December 31, 2015
Canadian exploration expense (CEE)	100%	\$ 3,336,823	\$ 3,336,823
Canadian development expense (CDE)	30%	14,879,326	19,220,505
Canadian oil and gas property expense (COGPE)	10%	6,765,679	7,517,421
Non-capital losses carry forwards (NCL)	100%	21,122,443	13,734,893
Undepreciated capital cost (UCC)	20-55%	1,571,468	2,171,731
Share issuance costs and other	Various	581,463	797,356
Total		\$ 48,257,202	\$ 46,778,729

Summary of Quarterly Results

	2017				2016			
	Sep. 30 Q3 ⁽¹⁾	Jun. 30 Q2 ⁽¹⁾	Mar. 31 Q1 ⁽²⁾	Dec. 31 Q4 ⁽³⁾	Sep. 30 Q3 ⁽⁴⁾	Jun. 30 Q2 ⁽⁵⁾	Mar. 31 Q1 ⁽⁶⁾	Sep. 30 Q3 ⁽⁷⁾
Average daily production (boe/d)	681	600	583	590	518	492	508	678
Petroleum and natural gas revenue	2,733,656	2,419,666	2,292,746	2,206,835	1,630,105	1,448,722	935,834	2,043,781
Petroleum and natural gas netback (excluding hedging)	1,176,204	989,681	918,824	860,849	779,966	580,876	126,056	1,094,625
Funds flow from/used in operations	657,840	598,078	505,331	273,181	345,007	159,894	(247,514)	714,505
Per share, basic and diluted	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.01
Net income (loss)	(142,254)	(206,724)	(138,678)	(620,027)	(413,340)	(580,725)	(1,066,556)	(4,755,531)
Per share, basic and diluted	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)	(0.06)
Combined average realized price (\$/boe)	43.62	44.34	43.68	40.63	34.19	32.34	20.24	32.74
Operating netback (\$/boe)	19.28	20.09	18.26	15.85	16.36	12.97	2.73	17.54

Notes:

- (1) The increases in revenue, netbacks and funds flow from operations are due to increases in production rates and commodity prices, as well as the realized commodity hedging gains.
- (2) The increases in revenue and netbacks are due to an 8% increase in the Company's combined average realized price and 31% lower general and administrative costs from the previous quarter.
- (3) Revenues in this quarter increased as a result of a 14% increase in the Company's production and a 19% increase in the combined average realized price from the third quarter of 2016.
- (4) The increase in revenue and netbacks, and the resulting reduced loss in this quarter over the previous quarter is due primarily to a reduction in operating costs as well as an increase in production and a slight improvement in commodity prices.

- (5) The increases in revenue and netbacks, and the resulting reduced loss in this quarter over the previous quarter is due primarily to an improvement in commodity prices.
- (6) The decreases in net income, funds flow from operations and petroleum and natural gas netbacks for this quarter can be attributed to the decrease in the Company's combined average realized price resulting from the decline in commodity prices, and lower production volumes.
- (7) A significant portion of the loss in this quarter 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.

Outstanding Share Capital

	November 23, 2017	September 30, 2017	December 31, 2016
Fully diluted share capital			
Common shares issued and outstanding	89,793,302	89,793,302	85,745,102
Stock options	8,169,000	8,019,000	4,385,000
Warrants	13,750,000	13,750,000	-
Total fully diluted shares	111,562,302	111,562,302	90,130,102

On April 27, 2017, the Company closed a non-brokered private placement offering and issued 4,048,200 flow-through shares at a price of \$0.28/share, which were issued on a Canadian Development Expense flow-through basis pursuant to the provisions of the *Income Tax Act* (Canada) for gross proceeds of Company of \$1,133,496.

The Company has the following stock options that are outstanding and exercisable as at November 23, 2017:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding November 23, 2017	Balance Exercisable November 23, 2017
\$0.24	January 29, 2015	January 29, 2020	1,075,000	1,075,000
\$0.39	March 1, 2015	March 1, 2020	100,000	100,000
\$0.08	February 11, 2016	February 11, 2021	1,685,000	1,685,000
\$0.08	February 12, 2016	February 12, 2021	125,000	125,000
\$0.25	September 21, 2017	September 21, 2022	5,034,000	1,678,000
\$0.28	October 2, 2017	October 2, 2022	150,000	50,000
			8,169,000	4,713,000
Weighted-average exercise price			\$0.21	\$0.18

Stock options granted on September 21, 2017 and October 2, 2017 are subject to a vesting schedule whereby one-third vested immediately, one-third vests on the first anniversary, and one-third vests on the second anniversary of the grant date.

Subsequent to the end of the third quarter, on October 2, 2017, the Company granted an employee 150,000 stock options at an exercise price of \$0.28 per share of which one-third vested immediately, one-third vests on the first anniversary, and one-third vests on the second anniversary of the grant date.

On September 15, 2017, the Company issued 13,750,000 warrants to a third-party lender in conjunction with its Term Loan. Each warrant entitles the holder to purchase one common share of Hemisphere at an exercise price of \$0.28 per share prior to September 15, 2022. The exercise price of the warrants represents 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/share. The warrants are non-transferable and are subject to a four-month hold period from the date of issuance.

Liquidity and Capital Management

The Company's net debt as at September 30, 2017 and December 31, 2016 were \$14,426,091 and \$11,827,170, respectively, representing an 22% increase in net debt since year-end 2016.

a) Financing

The Company's cash provided by financing activities during the nine months ended September 30, 2017 and 2016 were \$888,093 and \$1,653,398, respectively. This includes the proceeds of \$11,087,883, net of debt issuance costs, which the Company received from the initial draw on the new term loan on September 15, 2017 (as further disclosed in Note 10 of the Company's interim condensed financial statements for the three and nine months ended September 30, 2017). This initial draw was primarily used to payout the balance of the Company's bank credit facility in full.

On April 27, 2017, 4,048,200 flow-through shares were issued at a price of \$0.28/share through a non-brokered private placement offering for a gross proceeds of \$1,133,496.

b) Credit Facility

Effective September 15, 2017, the Company repaid and terminated its \$12.5 million credit facility with Alberta Treasury Branches.

c) 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 USD\$35.0 million. An initial commitment amount of USD\$15.0 million (the "Term Loan") was granted at inception, of which USD\$10.0 million was drawn at September 30, 2017. The Company's ability to access additional commitments in excess of USD\$15.0 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 financial covenants commencing in the second quarter ended June 30, 2018:

1. Interest coverage ratio for the quarter ended June 30, 2018 shall not be less than 2.00 to 1.00; quarter ended September 30, 2018 shall not be less than 2.25 to 1.00; quarter ended December 31, 2018 shall not be less than 2.50 to 1.00; quarter ended March 31, 2019 and each quarter thereafter shall not be less than 3.00 to 1.00.

Interest coverage ratio, as defined in the Credit Agreement, means the ratio as of the last day of any fiscal quarter of (a) Consolidated Adjusted EBITDAX as defined below for the applicable fiscal quarter to (b) Consolidated Interest Expense for such fiscal quarter.

2. Total leverage ratio for the quarter ended June 30, 2018 shall not be more than 5.25 to 1.00; quarter ended September 30, 2018 shall not be more than 4.75 to 1.00; quarter ended December 31, 2018 shall not be more than 4.25 to 1.00; quarters ended March 31, 2019 and June 30, 2019 shall not be more than 3.50 to 1.00; quarter ended September 30, 2019 and each quarter thereafter shall not be more than 3.25 to 1.00.

Total leverage ratio, as defined in the Credit Agreement, means the ratio as of the last day of any fiscal quarter of (a) Consolidated Total Debt as of such date to (b) Consolidated Adjusted EBITDAX for the fiscal quarter ending on such date calculated on an annualized basis.

3. Minimum average production for the quarter ended June 30, 2018 will not be less than 750 boe/d; quarters ended September 30, 2018 and December 31, 2018 will not be less than 1,100 boe/d; quarters ended March 31, 2019 and June 30, 2019 will not be less than 1,300 boe/d; quarter ended September 30, 2019 and each quarter thereafter will not be less than 1,500 boe/d.
4. Proved developed producing coverage ratio for the quarter ended June 30, 2018 and each quarter thereafter shall not be less than 1.00 to 1.00.

Proved developed producing coverage ratio, as defined in the Credit Agreement, means as of any date of determination, the ratio of (a) PV10 of proved developed producing reserves to (b) the sum of (i) Consolidated Total Debt and (ii) without duplication of clause (a) above, all obligations (after giving effect to any netting requirements) under any swap agreement that such person would be required to pay if the swap agreement was terminated at such time, in each case, as of such date. Notwithstanding anything to the contrary contained herein, after giving effect to the netting contemplated by clause (ii) above, in no event shall amounts owing to the Company under any swap agreement result in a reduction of the obligations referred to in clause (b).

5. Total proved reserves coverage ratio for the quarter ended June 30, 2018 and each quarter thereafter shall not be less than 1.50 to 1.00.

Total proved reserves coverage ratio, as defined in the Credit Agreement, means as of any date of determination, the ratio of (a) the Total Proved PV10 Value to (b) the sum of (i) Consolidated Total Debt and (ii) without duplication of clause (a) above, all obligations (after giving effect to any netting requirements) under any swap agreement that such person would be required to pay if the swap agreement were terminated at such time, in each case, as of such date. Notwithstanding anything to the contrary contained herein, after giving effect to the netting contemplated by clause (ii) above, in no event shall amounts owing to the Company under any swap agreement result in a reduction of the obligations referred to in clause (b).

Consolidated Adjusted EBITDAX, as defined in the Credit Agreement, means for any period, an amount determined for the Company on a consolidated basis equal to:

the amounts for such period of Consolidated Net Income,

plus

the sum, without duplication, of the amounts for such period of the following expenses (or charges) to the extent deducted from Consolidated Net Income during such period:

- (i) Consolidated Interest Expense, plus
- (ii) Provisions for taxes based on income (including margin or gross receipts taxes), plus
- (iii) Total depreciation and amortization expense, plus
- (iv) Impairment or asset write-down expense, plus
- (v) Accretion of asset retirement obligation and debt issuance costs, plus
- (vi) Share-based compensation expense, plus
- (vii) Non-cash losses resulting from the mark-to-market exposure of outstanding swaps and unrealized foreign exchange exposure, plus
- (viii) Other non-Cash items reducing Consolidated Net Income (excluding any such non-cash item to the extent that it represents an accrual or reserve for potential Cash items in any future period or amortization of a prepaid Cash item that was paid in a prior period),

minus

the sum, without duplication of the amounts for such period of the following items to the extent increasing Consolidated Net Income during such period:

- i) Other non-Cash items increasing Consolidated Net Income for such period (excluding any such non-Cash item to the extent it represents the reversal of an accrual or reserve for potential Cash item in any prior period), plus
- ii) Interest income, plus
- iii) Non-cash gains resulting from the mark-to-market exposure of outstanding swaps and unrealized foreign exchange exposure.

The Company also has a financial covenant for its General and Administrative costs ("G&A costs") that it shall not exceed 105% of the G&A costs cap of \$2.0 million per annum as at December 31, 2017, and escalating to \$2.5 million per annum in 2018 for each year thereafter.

There are no financial covenants in effect for the period ended September 30, 2017.

d) 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.

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

Commitments

The Company has a commitment to make monthly rental payments pursuant to the office rental agreement at its current location until May 30, 2018.

On April 27, 2017, the Company issued 4,048,200 Canadian Development Expense flow-through shares at \$0.28 per share for gross proceeds of \$1,133,496 which has a commitment to be expended, pursuant to the provisions of the *Income Tax Act* (Canada), by December 31, 2017. As at September 30, 2017, the Company has fully expended its commitment.

As at September 30, 2017, the gross balance of the Term Loan was \$12,470,000 (USD\$10,000,000), exclusive of the debt issuance costs. The Term Loan matures on September 15, 2022.

	2017	2018	2019	2020	2021	Thereafter	Total
Office Rental	\$ 48,365	\$ 80,609	\$ -	\$ -	\$ -	\$ -	\$ 128,974
Term Loan	-	-	-	-	-	12,470,000	12,470,000
	\$ 48,365	\$ 80,609	\$ -	\$ -	\$ -	\$ 12,470,000	\$ 12,598,974

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, 2016 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, 2016.

An additional significant area of estimation, uncertainty and critical judgment in applying accounting policies that has a significant effect on the amount recognized in the financial statements is foreign exchange. Estimates of foreign exchange conversion to value US dollar dominated amounts into Canadian currency include the Term Loan, cash balances and hedging contracts.

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

At the date of these financial statements the standards and interpretations listed below were issued but not yet effective. The adoption of these standards may result in future changes to existing accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on results of operations and financial position.

- a) In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales contracts with customers to determine the extent of the impact, if any, that this standard will have on the consolidated financial statements.
- b) In July 2014, the IASB finalized the remaining elements of IFRS 9 – Financial Instruments, which includes new requirements for the classification and measurement of financial assets, amends the impairment model and outlines a new general hedge accounting standard. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the consolidated financial statements and does not anticipate material changes to the valuation of its financial assets.

- c) In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The Company is currently identifying contracts that will be identified as leases and evaluating the impact of the standard on the consolidated financial statements.

There are no other standards and interpretations in issue but not yet adopted that are expected to have a material effect on the reported earnings or net assets of the Company.

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, 2017, the Company's financial instruments include accounts receivable, reclamation deposits, Term Loan, 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 90 days or impaired.

The maximum exposure to credit risk is as follows:

	As at	
	September 30, 2017	December 31, 2016
Accounts receivable		
Trade receivables	\$ 830,772	\$ 863,115
Receivables from joint venture	22,859	45,088
Reclamation deposits	115,535	115,535
Total	\$ 969,166	\$ 1,023,738

The Company sells its oil production to two oil marketers and, therefore, is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. The Company historically has never experienced any collection issues with its oil marketers.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they 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, 2017, the Company had net debt of \$14,426,091 (December 31, 2016 - \$11,827,170), which includes its Term Loan of \$12,470,000 (December 31, 2016 - \$11,247,537 bank indebtedness). Effective September 15, 2017, the Company repaid and terminated its \$12.5 million credit facility with with Alberta Treasury Branches. The Company funds its operations through production revenue and its Term Loan.

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 \$150,000 annual 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; 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. The Company does have foreign exchange rate swaps in place as further disclosed within this MD&A and the interim condensed financial statements for the three and nine months ended September 30, 2017; 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 100 basis points change in the foreign exchange rate would have a \$100,000 effect on net loss and comprehensive loss.

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 derivative commodity contracts in place as further disclosed within this MD&A and the interim condensed financial statements for the three and nine months ended September 30, 2017.

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 (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 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 (used in) operations to cash provided by (used in) operating activities is presented as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Cash provided by operating activities	\$ 955,786	\$ 244,550	\$ 1,748,849	\$ (168,637)
Less: Change in non-cash working capital	297,947	(100,457)	(12,399)	(426,024)
Funds flow from operations	\$ 657,840	\$ 345,007	\$ 1,761,249	\$ 257,387
Per share, basic and diluted	\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.00

- b) Operating field netback is a benchmark used in the oil and natural gas industry and a key indicator of profitability relative to current commodity prices. Operating field netback is calculated as oil and gas sales, less royalties, operating expenses and transportation costs on an absolute and per 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.

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

- 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 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 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, 2017	December 31, 2016
Current assets ⁽¹⁾	\$ 1,602,550	\$ 1,078,020
Current liabilities ⁽²⁾	(3,558,641)	(1,657,652)
Bank indebtedness	-	(11,247,537)
Term Loan ⁽³⁾	(12,470,000)	-
Net debt	\$ (14,426,091)	\$ (11,827,170)

Notes:

(1) Excluding fair value of financial instruments.

(2) Excluding bank indebtedness.

(3) Gross loan amount.

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 ("NI 51-101").

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 23, 2017

(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, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		\$ 654,665	\$ -
Accounts receivable		853,631	908,203
Prepaid expenses		94,254	169,817
Fair value of financial instruments	3(c)	221,129	-
		1,823,679	1,078,020
Non-current assets			
Reclamation deposits	7	115,535	115,535
Exploration and evaluation assets	5	6,178,455	3,260,407
Property and equipment	6	34,157,488	35,242,044
Deferred charges	10	1,657,605	-
Total assets		\$ 43,932,762	\$ 39,696,006
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 3,558,641	\$ 1,657,652
Bank indebtedness	9	-	11,247,537
		3,558,641	12,905,189
Non-current liabilities			
Term loan	10	11,589,132	-
Decommissioning obligations	7	4,977,476	4,896,681
		20,125,249	17,801,870
Shareholders' Equity			
Share capital	11	54,886,369	53,838,621
Contributed surplus		627,256	1,192,106
Warrant reserve	11(c)	1,043,136	-
Deficit		(32,749,248)	(33,136,591)
Total shareholders' equity		23,807,513	21,894,136
Total liabilities and shareholders' equity		\$ 43,932,762	\$ 39,696,006

Commitments (Note 12)

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

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

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2017	2016	2017	2016
Revenue					
Oil and natural gas revenue		\$ 2,733,656	\$ 1,630,105	\$ 7,446,068	\$ 4,014,662
Royalties		(586,468)	(221,303)	(1,278,205)	(437,181)
		2,147,188	1,408,801	6,167,863	3,577,481
Realized gain on financial instruments		31,902	-	178,085	-
Unrealized gain on financial instruments	3(c)	190,999	-	221,129	-
Net revenue		2,370,089	1,408,802	6,567,077	3,577,481
Expenses					
Production and operating		970,984	628,836	3,083,153	2,090,583
Exploration and evaluation	5	9,295	12,023	33,585	36,950
Depletion and depreciation	6	853,699	709,440	2,253,393	2,085,106
General and administrative		367,074	298,844	1,032,293	834,177
Share-based payments	11(b)	214,387	1,093	215,480	88,577
		2,415,439	1,650,236	6,617,904	5,135,393
Results from operating activities		(45,350)	(241,433)	(50,827)	(1,557,912)
Finance expense	8	(208,386)	(171,907)	(548,310)	(502,708)
Foreign exchange gain (loss)		(274,336)	-	(274,336)	-
Net loss before tax		(528,072)	(413,341)	(873,473)	(2,060,621)
Deferred tax recovery	11(c)	385,818	-	385,818	-
Net loss and comprehensive loss for the period		\$ (142,254)	\$ (413,340)	\$ (487,655)	\$ (2,060,620)
Net loss per share					
Basic and diluted	11(d)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (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 common shares	Capital stock	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
Balance, December 31, 2015		75,803,498	\$ 52,083,070	\$ 2,461,870	\$ -	\$ (31,832,108)	\$ 22,712,832
Non-flow-through share issue		6,496,604	1,234,355	-	-	-	1,234,355
Flow-through share issuance		3,270,000	686,700	-	-	-	686,700
Share issuance costs		-	(124,306)	-	-	-	(124,306)
Flow-through share premium		-	(65,400)	-	-	-	(65,400)
Exercise of stock options		175,000	24,203	(10,203)	-	-	14,000
Share-based payments		-	-	116,604	-	-	116,604
Expiry of stock options		-	-	(1,376,165)	-	1,376,165	-
Net loss for the year		-	-	-	-	(2,680,648)	(2,680,648)
Balance, December 31, 2016		85,745,102	\$ 53,838,621	\$ 1,192,106	\$ -	\$ (33,136,591)	\$ 21,894,136
Balance, December 31, 2016		85,745,102	\$ 53,838,621	\$ 1,192,106	\$ -	\$ (33,136,591)	\$ 21,894,136
Flow-through share issuance		4,048,200	1,133,496	-	-	-	1,133,496
Share issuance costs		-	(85,748)	-	-	-	(85,748)
Share-based payments	11(b)	-	-	310,150	-	-	310,150
Expiry of stock options		-	-	(875,000)	-	875,000	-
Warrants issued (net of tax)	11(c)	-	-	-	1,043,136	-	1,043,136
Net loss for the period		-	-	-	-	(487,655)	(487,655)
Balance, September 30, 2017		89,793,302	\$ 54,886,369	\$ 627,256	\$ 1,043,136	\$ (32,749,248)	\$ 23,807,513

Comparison with nine months ended September 30, 2016:

	Note	Number common shares	Capital stock	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
Balance, December 31, 2015		75,803,498	\$ 52,083,070	\$ 2,461,870	\$ -	\$ (31,832,108)	\$ 22,712,832
Non-flow-through share issue		6,496,604	1,234,355	-	-	-	1,234,355
Flow-through share issuance		3,270,000	686,700	-	-	-	686,700
Share issuance costs		-	(124,306)	-	-	-	(124,306)
Flow-through share premium		-	-	-	-	-	-
Exercise of stock options		175,000	24,203	(10,203)	-	-	14,000
Share-based payments		-	-	115,470	-	-	115,470
Expiry of stock options		-	-	(1,364,195)	-	1,364,195	-
Net loss for the period		-	-	-	-	(2,060,620)	(2,060,620)
Balance, September 30, 2016		85,745,102	\$ 53,904,021	\$ 1,202,941	\$ -	\$ (32,528,531)	\$ 22,578,431

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	
	2017	2016	2017	2016
Operating activities				
Net loss for the period	\$ (142,254)	\$ (413,340)	\$ (487,655)	\$ (2,060,620)
Items not affecting cash:				
Accretion of debt issuance costs	2,285	-	2,285	-
Accretion of decommissioning costs	26,932	35,791	80,795	107,374
Amortization of deferred charges	13,800	-	13,800	-
Deferred tax (recovery)	(385,818)	-	(385,818)	-
Depletion and depreciation	853,699	709,440	2,253,393	2,085,106
Exploration and evaluation expense	9,295	12,023	33,585	36,950
Share-based payments	214,387	1,093	215,480	88,577
Unrealized (gain) on financial instruments	(190,999)	-	(221,129)	-
Unrealized loss on foreign exchange	256,512	-	256,512	-
Funds flow from operations	657,840	345,007	1,761,249	257,387
Changes in non-cash working capital	297,947	(100,457)	(12,399)	(426,024)
Cash provided by (used in) investing activities	955,786	244,550	1,748,849	(168,637)
Investing activities				
Property and equipment expenditures	(317,967)	(780,019)	(1,074,168)	(1,195,058)
Exploration and evaluation expenditures	(2,790,014)	(677,511)	(2,951,633)	(811,553)
Changes in non-cash working capital	2,171,163	735,151	2,043,523	521,853
Cash used in investing activities	(936,817)	(722,380)	(1,982,277)	(1,484,759)
Financing activities				
Shares issued for cash, net of issue costs	11,760	784,838	1,047,747	1,796,749
Shares issued for stock options	-	6,000	-	14,000
Change in bank indebtedness	(10,463,948)	-	(11,247,537)	-
Proceeds from term loan (net issue costs)	11,087,883	-	11,087,883	-
Changes in non-cash working capital	-	(313,007)	-	(157,351)
Cash provided by financing activities	635,695	477,831	888,093	1,653,398
Net change in cash	654,665	-	654,665	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ 654,665	\$ -	\$ 654,665	\$ -

Supplemental cash flow information (Note 13)

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, 2017 and 2016

(Expressed in Canadian Dollars)

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 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 ("IAS") 34 – Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). 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, 2016.

These financial statements were authorized for issuance by the Board of Directors on November 23, 2017.

(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, unless otherwise stated.

(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.

An additional significant area of estimation, uncertainty and critical judgment in applying accounting policies that has a significant effect on the amount recognized in the financial statements is foreign exchange. Estimates of foreign exchange conversion to value US dollar dominated amounts into Canadian currency include the Term Loan, cash balances and hedging contracts.

(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, 2016. 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, 2016 were issued.

(f) Future Accounting Pronouncements

At the date of these financial statements the standards and interpretations listed below were issued but not yet effective. The adoption of these standards may result in future changes to existing accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on results of operations and financial position.

- i) In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales and other contracts with customers to determine the extent of the impact, if any, that this standard will have on the financial statements.
- ii) In July 2014, the IASB finalized the remaining elements of IFRS 9 – Financial Instruments, which includes new requirements for the classification and measurement of financial assets, amends the impairment model and outlines a new general hedge accounting standard. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the financial statements and does not anticipate material changes to the valuation of its financial assets.
- iii) In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The Company is currently identifying contracts that

will be identified as leases and evaluating the impact of the standard on the financial statements.

There are no other standards and interpretations in issue but not yet adopted that are expected to have a material effect on the reported earnings or net assets of the Company.

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 past due past 90 days or impaired.

The maximum exposure to credit risk is as follows:

	September 30, 2017	December 31, 2016
Accounts receivable		
Trade receivables	\$ 830,772	\$ 863,115
Receivables from joint ventures	22,859	45,088
Reclamation deposits	115,535	115,535
	\$ 969,166	\$ 1,023,738

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.

(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.

At September 30, 2017, the Company had net debt (current assets less current liabilities and outstanding Term Loan) of \$14,426,091 (December 31, 2016 - \$11,827,170), which includes term loan (Note 10) of \$12,470,000 (December 31, 2016 - \$11,247,537). Effective September 15, 2017, the Company repaid and terminated its \$12.5 million credit facility with with Alberta Treasury Branches (Note 9). The Company funds its operations through production revenue and the Term Loan (Note 10).

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under the Company's Term Loan are subject to variable interest rates. A one percent change in interest rates would have a \$150,000 effect on net loss and comprehensive 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. The Company does have foreign exchange rate swaps contracts in place as as further disclosed within this document and the financial statements. ii) the Company's Term Loan is denominated in USD , and as result the amount that the Company will be obligated to repay at the term of the loan will be affected by fluctuations in the exchange rate between the USD and the Canadian dollar at that time. A 100 basis points change in the foreign exchange rate would have a \$100,000 effect on net loss and comprehensive loss.

(iii) Commodity price risk

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

At September 30, 2017, the Company held derivative commodity contracts as follows:

Product	Type	Volume	Price	Index	Term
Crude oil	Swap	300 bbl/d	US\$50.67	WTI-NYMEX	September 1, 2017 – December 31, 2017
Crude oil	Swap	300 bbl/d	US\$50.67	WTI-NYMEX	January 1, 2018 – December 31, 2018
Crude oil	Swap	250 bbl/d	US\$50.67	WTI-NYMEX	January 1, 2019 – December 31, 2019
Crude oil	Swap	200 bbl/d	US\$50.67	WTI-NYMEX	January 1, 2020 – August 1, 2020

At September 30, 2017, the commodity contracts were fair valued as an asset of \$221,129 recorded on the balance sheet, and an unrealized gain of \$190,999 and \$221,129 recorded as revenue for the three and nine months ended September 30, 2017.

(iv) Other price risk

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

4. Capital Management

The Company manages its capital with the following objectives:

- (a) To ensure sufficient financial flexibility to achieve the Company's ongoing business objectives including the replacement of production, funding of future growth opportunities and pursuit of accretive acquisitions; and
- (b) To maximize shareholder return through enhancing the Company's share value.

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

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. 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, 2017, the Company had \$nil transfers (December 31, 2016 - \$99,012) to property and equipment, capitalized general and administrative expenses of \$126,480 (December 31, 2016 - \$206,160) to exploration and evaluation assets, and recognized exploration and evaluation expense of \$33,585 (December 31, 2016 - \$135,308).

Cost	
Balance, December 31, 2015	\$ 3,100,937
Additions	504,877
Exploration and evaluation expense	(246,393)
Transfer to property and equipment	(99,012)
Balance, December 31, 2016	\$ 3,260,407
Additions	2,951,632
Exploration and evaluation expense	(33,585)
Transfer to property and equipment	-
Balance, September 30, 2017	\$ 6,178,455

6. Property and Equipment

Cost	Petroleum and			Total
	Natural Gas	Other Equipment		
Balance, December 31, 2015	\$ 66,010,862	\$ 114,492	\$	66,125,354
Additions	2,217,499	-		2,217,499
Increase in decommissioning obligations	(1,211,718)	-		(1,211,718)
Capitalized share-based payments	26,893	-		26,893
Transfer from exploration and evaluation assets	99,012	-		99,012
Balance, December 31, 2016	\$ 67,142,548	\$ 114,492	\$	67,257,040
Additions	1,074,168	-		1,074,168
Capitalized share-based compensation	94,670	-		94,670
Balance, September 30, 2017	\$ 68,311,386	\$ 114,492	\$	68,425,878
Accumulated Depletion, Depreciation, Amortization and Impairment Losses				
Balance, December 31, 2015	29,142,289	75,362		29,217,651
Depletion and depreciation for the year	2,787,391	9,954		2,797,345
Impairment	-	-		-
Balance, December 31, 2016	\$ 31,929,680	\$ 85,316	\$	32,014,996
Depletion and depreciation for the period	2,247,860	5,534		2,253,393
September 30, 2017	\$ 34,177,541	\$ 90,849	\$	34,268,390
Net Book Value				
December 31, 2016	\$ 35,212,868	\$ 29,176	\$	35,242,044
September 30, 2017	\$ 34,133,845	\$ 23,643	\$	34,157,488

The Company's additions for property and equipment included capitalized general and administrative expenses of \$122,572 for the nine-month period ended September 30, 2017.

The calculation of depletion at September 30, 2017 includes estimated future development costs of \$22,049,600 (December 31, 2016 - \$22,049,600) associated with the development of the Company's Proved plus Probable reserves.

7. 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, 2017 is \$5,818,088 (December 31, 2016 - \$5,818,088). These payments are expected to be made over the next 47 years with the majority of costs to be incurred between 2025 and 2054. The discount factor, being the risk-free rate related to the liability, is 2.20% (December 31, 2016 - 2.20%). Inflation of 1.40% (December 31, 2016 - 1.40%) has also been factored into the calculation. The Company also has \$115,535 (December 31, 2016 - \$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.

	September 30, 2017	December 31, 2016
Decommissioning obligations, beginning of period	\$ 4,896,681	\$ 5,965,233
Increase in estimated future obligations	-	66,998
Change in estimate	-	(1,278,716)
Accretion expense	80,795	143,166
Decommissioning obligations, end of period	\$ 4,977,476	\$ 4,896,681

8. Finance Income and Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Finance expense:				
Cash Interest expense	\$ 165,368	\$ 136,115	\$ 451,429	\$ 395,334
Amortization of deferred debt issuance costs	13,800	-	13,800	-
Accretion of debt issuance costs	2,285	-	2,285	-
Accretion of decommissioning liabilities	26,932	35,791	80,795	107,374
Total	\$ 208,386	\$ 171,907	\$ 548,310	\$ 502,708

9. Bank Indebtedness

Effective September 15, 2017, the Company repaid and terminated its \$12.5 million credit facility with Alberta Treasury Branches.

10. Term Loan

On September 15, 2017, the Company entered into a first lien senior secured credit agreement (the "Credit Agreement") with a third-party lender (the "Lender") providing for a multi-draw, non-revolving term loan facility of a maximum aggregate principal amount of up to USD\$35.0 million. An initial commitment amount of USD\$15.0 million (the "Term Loan") was granted at inception, of which USD\$10.0 million was drawn at September 30, 2017. The Company's ability to access additional commitments in excess of USD\$15.0 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 10.46%.

	Term Loan	Deferred Charges	Total
Principal amount of Term Loan issued	\$ 12,194,000	\$ -	\$ 12,194,000
Foreign exchange adjustment	256,512	-	256,512
Debt issuance costs	(455,393)	(650,723)	(1,106,117)
Value allocated to warrants	(408,273)	(1,020,681)	(1,428,954)
Amortization of deferred charges	-	13,800	13,800
Accretion of debt issuance costs	2,285	-	2,285
Balance, end of period – liability (asset)	\$ 11,589,132	\$ (1,657,605)	\$ 9,971,527

The Company has recognized a portion of the debt issuance costs and value allocated to the warrants 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 financial covenants commencing in the second quarter ended June 30, 2018:

1. Interest coverage ratio for the quarter ended June 30, 2018 shall not be less than 2.00 to 1.00; quarter ended September 30, 2018 shall not be less than 2.25 to 1.00; quarter ended December 31, 2018 shall not be less than 2.50 to 1.00; quarter ended March 31, 2019 and each quarter thereafter shall not be less than 3.00 to 1.00.

Interest coverage ratio, as defined in the Credit Agreement, means the ratio as of the last day of any fiscal quarter of (a) Consolidated Adjusted EBITDAX as defined below for the applicable fiscal quarter to (b) Consolidated Interest Expense for such fiscal quarter.

2. Total leverage ratio for the quarter ended June 30, 2018 shall not be more than 5.25 to 1.00; quarter ended September 30, 2018 shall not be more than 4.75 to 1.00; quarter ended December 31, 2018 shall not be more than 4.25 to 1.00; quarters ended March 31, 2019 and June 30, 2019 shall not be more than 3.50 to 1.00; quarter ended September 30, 2019 and each quarter thereafter shall not be more than 3.25 to 1.00.

Total leverage ratio, as defined in the Credit Agreement, means the ratio as of the last day of any fiscal quarter of (a) Consolidated Total Debt as of such date to (b) Consolidated Adjusted EBITDAX for the fiscal quarter ending on such date calculated on an annualized basis.

3. Minimum average production for the quarter ended June 30, 2018 will not be less than 750 boe/d; quarters ended September 30, 2018 and December 31, 2018 will not be less than 1,100 boe/d; quarters ended March 31, 2019 and June 30, 2019 will not be less than 1,300 boe/d; quarter ended September 30, 2019 and each quarter thereafter will not be less than 1,500 boe/d.
4. Proved developed producing coverage ratio for the quarter ended June 30, 2018 and each quarter thereafter shall not be less than 1.00 to 1.00.

Proved developed producing coverage ratio, as defined in the Credit Agreement, means as of any date of determination, the ratio of (a) PV10 of proved developed producing reserves to (b) the sum of (i) Consolidated Total Debt and (ii) without duplication of clause (a) above, all obligations (after giving effect to any netting requirements) under any swap agreement that such person would be required to pay if the swap agreement was terminated at such time, in each case, as of such date. Notwithstanding anything to the contrary contained herein, after giving effect to the netting contemplated by clause (ii) above, in no event shall amounts owing to the Company under any swap agreement result in a reduction of the obligations referred to in clause (b).

5. Total proved reserves coverage ratio for the quarter ended June 30, 2018 and each quarter thereafter shall not be less than 1.50 to 1.00.

Total proved reserves coverage ratio, as defined in the Credit Agreement, means as of any date of determination, the ratio of (a) the Total Proved PV10 Value to (b) the sum of (i) Consolidated Total Debt and (ii) without duplication of clause (a) above, all obligations (after giving effect to any netting requirements) under any swap agreement that such person would be required to pay if the swap agreement were terminated at such time, in each case, as of such date. Notwithstanding anything to the contrary contained herein, after giving effect to the netting contemplated by clause (ii) above, in no event shall amounts owing to the Company under any swap agreement result in a reduction of the obligations referred to in clause (b).

Consolidated Adjusted EBITDAX, as defined in the Credit Agreement, means for any period, an amount determined for the Company on a consolidated basis equal to:

the amounts for such period of Consolidated Net Income,

plus

the sum, without duplication, of the amounts for such period of the following expenses (or charges) to the extent deducted from Consolidated Net Income during such period:

- (i) Consolidated Interest Expense, plus
- (ii) Provisions for taxes based on income (including margin or gross receipts taxes), plus
- (iii) Total depreciation and amortization expense, plus
- (iv) Impairment or asset write-down expense, plus
- (v) Accretion of asset retirement obligation and debt issuance costs, plus
- (vi) Share-based compensation expense, plus
- (vii) Non-cash losses resulting from the mark-to-market exposure of outstanding swaps and unrealized foreign exchange exposure, plus
- (viii) Other non-Cash items reducing Consolidated Net Income (excluding any such non-cash item to the extent that it represents an accrual or reserve for potential Cash items in any future period or amortization for a prepaid Cash item that was paid in a prior period),

minus

the sum, without duplication of the amounts for such period of the following items to the extent increasing Consolidated Net Income during such period:

- i) Other non-Cash items increasing Consolidated Net Income for such period (excluding any such non-Cash item to the extent it represents the reversal of an accrual or reserve for potential Cash item in any prior period), plus
- ii) Interest income, plus
- iii) Non-cash gains resulting from the mark-to-market exposure of outstanding swaps and unrealized foreign exchange exposure.

The Company also has a financial covenant for its General and Administrative costs ("G&A costs") that it shall not exceed 105% of the G&A costs cap of \$2.0 million per annum as at December 31, 2017, and escalating to \$2.5 million per annum in 2018 for each year thereafter.

There are no financial covenants in effect for the period ended September 30, 2017.

11. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at September 30, 2017, the Company had 89,793,302 common shares issued and outstanding.

(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. Stock options granted on September 21, 2017, and on a go-forward basis, are subject to a vesting schedule whereby one-third vests immediately, one-third vests on the first anniversary, and one-third vests on the second anniversary of the grant date. Stock options granted prior to all had immediate vesting with the exception of those granted to investor relations which were subject to a vesting schedule of one-quarter of the total grant each three-month period.

Details of the Company's stock options as at September 30, 2017 are as follows:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2016	Changes in the Period			Balance Outstanding Sept. 30, 2017	Balance Exercisable Sept. 30, 2017
				Granted	Exercised	Expired/ Cancelled		
\$0.24	29-Jan-15	29-Jan-20	1,075,000	-	-	-	1,075,000	1,075,000
\$0.39	1-Mar-15	1-Mar-20	100,000	-	-	-	100,000	100,000
\$0.08	11-Feb-16	11-Feb-21	1,685,000	-	-	-	1,685,000	1,685,000
\$0.08	12-Feb-16	12-Feb-21	125,000	-	-	-	125,000	125,000
\$0.25	21-Sep-17	21-Sep-22	-	5,034,000	-	-	5,034,000	1,678,000
			2,985,000	5,034,000	-	-	8,019,000	4,663,000
Weighted-average exercise price			\$0.15	-	-	-	\$0.21	\$0.18

For the nine months ended September 30, 2017, the Company recognized \$309,057 (September 30, 2016 - \$115,470) in share-based payments of which \$214,387 was expensed as stock-based compensation and \$94,670 was capitalized to property, plant and equipment. (September 30, 2016 - \$41,097 was capitalized to property, plant and equipment assets). These share-based payments were from the granting of 5,034,000 incentive stock options during the third quarter (September 30, 2016 - 1,985,000) to directors, officers, employees and consultants of the Company at an exercise price of \$0.25 each, of which 1,678,000 vested immediately.

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

	Nine Months Ended September 30	
	2017	2016
Expected life (years)	5.00	5.00
Interest rate	1.81%	0.82%
Volatility	97.53%	97.18%
Fair value at grant date	\$0.18	\$0.06

The weighted-average exercise price for stock options granted during the nine months ended September 30, 2017 was \$0.25 (September 30, 2016 - \$0.32). The forfeiture rate has been estimated at 5% (September 30, 2016 - 5%).

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) Warrants

On September 15, 2017, the Company issued 13,750,000 warrants to a third-party lender in conjunction with its Term Loan (Note 10). Each warrant entitles the holder to purchase one common share of Hemisphere at an exercise price of \$0.28 per share prior to September 15, 2022. The exercise price of the warrants represents 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 and are subject to a four-month hold period from the date of issuance. The Company ascribed a value to the warrants of \$1,428,954 by comparing the fair value of the Term Loan both with and without the warrant feature determining the difference in value to be related to the warrants. The effective rates have been disclosed in Note 10. Further, a deferred tax liability of \$385,818 was incurred with regard to the warrants that is applied against the recorded warrant reserve and also recovered against the net loss.

As at September 30, 2017, the Company had 13,750,000 outstanding and exercisable share purchase warrants.

(d) Loss per share

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Loss for the period	\$ (142,254)	\$ (413,340)	\$ (487,655)	\$ (2,060,620)
Weighted average number of common shares outstanding, basic	86,977,163	85,082,447	87,480,045	78,968,665
Dilutive stock options and warrants	-	-	-	-
Weighted average number of common shares outstanding, diluted	82,928,963	85,082,447	87,480,045	78,968,665
Loss per share, basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.03)

For the three and nine months ended September 30, 2017, the Company incurred a loss; therefore, dilutive stock options and warrants were nil (three and nine months ended September 30, 2016 – nil).

12. Commitments

	2017	2018	2019	2020	2021	Thereafter	Total
Office Rental	\$ 48,365	\$ 80,609	\$ -	\$ -	\$ -	\$ -	\$ 128,974
Term Loan	-	-	-	-	-	12,470,000	12,470,000
	\$ 48,365	\$ 80,609	\$ -	\$ -	\$ -	\$ 12,470,000	\$ 12,598,974

The Company has a commitment to make monthly rental payments pursuant to the office rental agreement at its current location until May 30, 2018.

On April 27, 2017, the Company issued 4,048,200 Canadian Development Expense flow-through shares at \$0.28 per share for gross proceeds of \$1,133,496 which has a commitment to be expended pursuant to the provisions of the *Income Tax Act* (Canada) by December 31, 2017. As at September 30, 2017, the Company has expended its commitment.

As at September 30, 2017, the gross balance of the Term Loan was \$12,470,000 (USD\$10,000,000), exclusive of the debt issuance costs. The Term Loan matures on September 15, 2022.

13. Supplemental Cash Flow Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Provided by (used in):				
Accounts receivable	\$ (41,670)	\$ 58,588	\$ 54,572	\$ (471,014)
Prepaid expenses	13,674	6,165	75,562	53,087
Accounts payable and accrued liabilities	2,497,105	569,941	1,900,989	513,756
Total changes in non-cash working capital	\$ 2,469,110	\$ 634,694	\$ 2,031,124	\$ 95,828
Provided by (used in):				
Operating activities	\$ 297,947	\$ (100,457)	\$ (12,399)	\$ (426,024)
Investing activities	2,171,163	735,151	2,043,523	521,853
Total changes in non-cash working capital	\$ 2,469,110	\$ 634,693	\$ 2,031,124	\$ 95,828

Cash interest paid on the Company's debts during the three months ended September 30, 2017 was \$165,368 compared to \$136,116 for the three months ended September 30, 2016. For the nine months ended September 30, 2017 and 2016, interest paid on the Company's debts were \$451,429 and \$395,334, respectively.

14. Subsequent Events

- a) On October 2, 2017, the Company granted an employee 150,000 stock options at an exercise price of \$0.28 per share of which one-third vested immediately, one-third vests on the first anniversary, and one-third vests on the second anniversary of the grant date.
- b) On November 6, 2017, the Company entered into the following commodity contract:

Product	Type	Volume	Price	Index	Term
Crude oil	Swap ⁽¹⁾	150 bbl/d	USD\$54.65	WTI-NYMEX	November 1, 2017 – June 30, 2018
Crude oil	Option ⁽¹⁾	150 bbl/d	USD\$54.65	WTI-NYMEX	July 1, 2018 – February 28, 2019

Note:

(1) The counter-party to this contract holds a one-time option no later than June 30, 2018 to extend a swap on 150 bbl/d of crude oil at USD\$54.65 for the term indicated.



OFFICERS

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Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

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

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Frank Borowicz, QC, CA (Hon)⁽¹⁾⁽²⁾⁽³⁾

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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

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