

**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
<b>Assets</b>			
<b>Current assets</b>			
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	-
		<b>1,823,679</b>	<b>1,078,020</b>
<b>Non-current assets</b>			
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	-
<b>Total assets</b>		<b>\$ 43,932,762</b>	<b>\$ 39,696,006</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 3,558,641	\$ 1,657,652
Bank indebtedness	9	-	11,247,537
		<b>3,558,641</b>	<b>12,905,189</b>
<b>Non-current liabilities</b>			
Term loan	10	11,589,132	-
Decommissioning obligations	7	4,977,476	4,896,681
		<b>20,125,249</b>	<b>17,801,870</b>
<b>Shareholders' Equity</b>			
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		<b>23,807,513</b>	<b>21,894,136</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 43,932,762</b>	<b>\$ 39,696,006</b>

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
<b>Revenue</b>					
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)
		<b>2,147,188</b>	1,408,801	<b>6,167,863</b>	3,577,481
Realized gain on financial instruments		31,902	-	178,085	-
Unrealized gain on financial instruments	3(c)	190,999	-	221,129	-
<b>Net revenue</b>		<b>2,370,089</b>	1,408,802	<b>6,567,077</b>	3,577,481
<b>Expenses</b>					
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
		<b>2,415,439</b>	1,650,236	<b>6,617,904</b>	5,135,393
<b>Results from operating activities</b>		<b>(45,350)</b>	(241,433)	<b>(50,827)</b>	(1,557,912)
Finance expense	8	(208,386)	(171,907)	(548,310)	(502,708)
Foreign exchange gain (loss)		(274,336)	-	(274,336)	-
<b>Net loss before tax</b>		<b>(528,072)</b>	(413,341)	<b>(873,473)</b>	(2,060,621)
Deferred tax recovery	11(c)	385,818	-	385,818	-
<b>Net loss and comprehensive loss for the period</b>		<b>\$ (142,254)</b>	\$ (413,340)	<b>\$ (487,655)</b>	\$ (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
<b>Balance, December 31, 2015</b>		<b>75,803,498</b>	<b>\$ 52,083,070</b>	<b>\$ 2,461,870</b>	<b>\$ -</b>	<b>\$ (31,832,108)</b>	<b>\$ 22,712,832</b>
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)
<b>Balance, December 31, 2016</b>		<b>85,745,102</b>	<b>\$ 53,838,621</b>	<b>\$ 1,192,106</b>	<b>\$ -</b>	<b>\$ (33,136,591)</b>	<b>\$ 21,894,136</b>
<b>Balance, December 31, 2016</b>		<b>85,745,102</b>	<b>\$ 53,838,621</b>	<b>\$ 1,192,106</b>	<b>\$ -</b>	<b>\$ (33,136,591)</b>	<b>\$ 21,894,136</b>
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)
<b>Balance, September 30, 2017</b>		<b>89,793,302</b>	<b>\$ 54,886,369</b>	<b>\$ 627,256</b>	<b>\$ 1,043,136</b>	<b>\$ (32,749,248)</b>	<b>\$ 23,807,513</b>

*Comparison with nine months ended September 30, 2016:*

	Note	Number common shares	Capital stock	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
<b>Balance, December 31, 2015</b>		<b>75,803,498</b>	<b>\$ 52,083,070</b>	<b>\$ 2,461,870</b>	<b>\$ -</b>	<b>\$ (31,832,108)</b>	<b>\$ 22,712,832</b>
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)
<b>Balance, September 30, 2016</b>		<b>85,745,102</b>	<b>\$ 53,904,021</b>	<b>\$ 1,202,941</b>	<b>\$ -</b>	<b>\$ (32,528,531)</b>	<b>\$ 22,578,431</b>

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

## CONDENSED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
<b>Operating activities</b>				
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	-
<b>Funds flow from operations</b>	<b>657,840</b>	<b>345,007</b>	<b>1,761,249</b>	<b>257,387</b>
Changes in non-cash working capital	297,947	(100,457)	(12,399)	(426,024)
<b>Cash provided by (used in) investing activities</b>	<b>955,786</b>	<b>244,550</b>	<b>1,748,849</b>	<b>(168,637)</b>
<b>Investing activities</b>				
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
<b>Cash used in investing activities</b>	<b>(936,817)</b>	<b>(722,380)</b>	<b>(1,982,277)</b>	<b>(1,484,759)</b>
<b>Financing activities</b>				
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)
<b>Cash provided by financing activities</b>	<b>635,695</b>	<b>477,831</b>	<b>888,093</b>	<b>1,653,398</b>
Net change in cash	654,665	-	654,665	-
Cash, beginning of period	-	-	-	-
<b>Cash, end of period</b>	<b>\$ 654,665</b>	<b>\$ -</b>	<b>\$ 654,665</b>	<b>\$ -</b>

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
	<u>\$ 969,166</u>	<u>\$ 1,023,738</u>

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).

<b>Cost</b>	
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	-
<b>Balance, September 30, 2017</b>	<b>\$ 6,178,455</b>

## 6. Property and Equipment

<b>Cost</b>	Petroleum and		<b>Total</b>
	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
<b>Balance, September 30, 2017</b>	<b>\$ 68,311,386</b>	<b>\$ 114,492</b>	<b>\$ 68,425,878</b>
<b>Accumulated Depletion, Depreciation, Amortization and Impairment Losses</b>			
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	-	-	-
<b>Balance, December 31, 2016</b>	<b>\$ 31,929,680</b>	<b>\$ 85,316</b>	<b>\$ 32,014,996</b>
Depletion and depreciation for the period	2,247,860	5,534	2,253,393
<b>September 30, 2017</b>	<b>\$ 34,177,541</b>	<b>\$ 90,849</b>	<b>\$ 34,268,390</b>
<b>Net Book Value</b>			
December 31, 2016	\$ 35,212,868	\$ 29,176	\$ 35,242,044
<b>September 30, 2017</b>	<b>\$ 34,133,845</b>	<b>\$ 23,643</b>	<b>\$ 34,157,488</b>

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
<b>Balance, end of period – liability (asset)</b>	<b>\$ 11,589,132</b>	<b>\$ (1,657,605)</b>	<b>\$ 9,971,527</b>

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 <sup>(1)</sup>	150 bbl/d	USD\$54.65	WTI-NYMEX	November 1, 2017 – June 30, 2018
Crude oil	Option <sup>(1)</sup>	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.