

## MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

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

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

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

Vancouver, British Columbia  
November 18, 2020

(signed) "Don Simmons"

Don Simmons, President & CEO

(signed) "Dorlyn Evancic"

Dorlyn Evancic, Chief Financial Officer

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

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

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

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

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

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

## CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*(Expressed in Canadian dollars)**(Unaudited)*

	Note	Number common shares	Share Capital	Contributed Surplus	Warrant Reserve	Deficit	Total Equity
<b>Balance, December 31, 2018</b>		<b>89,793,302</b>	<b>\$ 54,724,441</b>	<b>\$ 649,775</b>	<b>\$ 1,043,136</b>	<b>\$ (40,911,337)</b>	<b>\$ 15,870,863</b>
Stock option exercise		90,000	7,200	-	-	-	7,200
Share-based payments	12(b)	-	-	71,918	-	-	71,918
Cancellation of stock options	12(b)	-	-	(28,807)	-	28,807	-
Shares repurchased under NCIB	12(a)	(981,000)	(123,680)	-	-	-	(123,680)
Net income for the year		-	-	-	-	2,234,430	2,234,430
<b>Balance, December 31, 2019</b>		<b>88,902,302</b>	<b>\$ 54,607,961</b>	<b>\$ 1,057,734</b>	<b>\$ 1,043,136</b>	<b>\$ (38,648,100)</b>	<b>\$ 18,060,731</b>
<b>Balance, December 31, 2019</b>		<b>88,902,302</b>	<b>\$ 54,607,961</b>	<b>\$ 1,057,734</b>	<b>\$ 1,043,136</b>	<b>\$ (38,648,100)</b>	<b>\$ 18,060,731</b>
Share-based payments	12(b)	-	-	150,866	-	-	150,866
Expiry of stock options	12(b)	-	-	(187,086)	-	187,086	-
Shares repurchased under NCIB	12(a)	(1,020,000)	(136,714)	-	-	-	(136,714)
Net income for the period		-	-	-	-	407,810	407,810
<b>Balance, September 30, 2020</b>		<b>87,882,302</b>	<b>\$ 54,471,247</b>	<b>\$ 1,021,514</b>	<b>\$ 1,043,136</b>	<b>\$ (38,053,204)</b>	<b>\$ 18,482,693</b>

*Comparison with nine months ended September 30, 2019:*

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

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

**CONDENSED STATEMENTS OF CASH FLOWS***(Expressed in Canadian dollars)**(Unaudited)*

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

Supplemental cash flow information (Note 14)

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

*(Expressed in Canadian Dollars)*

*(Unaudited)*

### 1. Nature and Continuance of Operations

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

### 2. Basis of Presentation

(a) Statement of compliance

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

These interim condensed financial statements have been prepared following the same accounting policies and methods of computation as the audited annual financial statements of the Company for the year ended December 31, 2019 except as detailed in note 2(e) below. These interim condensed financial statements should be read in conjunction with the financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2019.

These financial statements were authorized for issuance by the Board of Directors on November 18, 2020.

(b) Basis of presentation

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

(e) New Accounting Standards

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

Government Grants

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

(f) Global Economic Decline

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

- material declines in revenue and cash flows due to reduced commodity prices,
- declines in future revenue, which could result in increased impairment charges on long-term assets,
- increased risk of non-performance by the Company's customers which could materially increase collection risk of accounts receivable and customer defaults on contracts, and

- prolonged demand destruction, which could negatively impact the Company's ability to maintain liquidity.

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

### 3. Financial Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of these risks. Management sets controls to manage such risks and monitors them on an ongoing basis pertaining to market conditions and the Company's activities.

#### (a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its payment obligations. This risk arises principally from the Company's receivables from joint operators and oil and natural gas marketers, and reclamation deposits. The credit risk associated with reclamation deposits is minimized substantially by ensuring this financial asset is placed with major financial institutions with strong investment-grade ratings by a primary ratings agency. The credit risk associated with accounts receivable is mitigated as the Company monitors monthly balances to limit the risk associated with collections. The Company does not anticipate any default. There are no balances over 90 days past due or impaired.

The maximum exposure to credit risk is as follows:

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

The Company sells the majority of its oil production through one marketer and, therefore, is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. The Company's key marketers are global companies with solid reputations, which the Company considers low risk of a collection concern.

#### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure, as far as

possible, that it will have sufficient liquidity to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company.

The Company also prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company will also attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25<sup>th</sup> of each month.

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

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

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under the Company's Term Loan are subject to variable interest rates. A one percent change in interest rates would have a \$300,000 annual effect on net loss.

(ii) Foreign currency risk

The Company's functional and reporting currency is the Canadian dollar. The Company does not sell or transact in any foreign currency; except; i) the Company's commodity prices are largely denominated in United States dollars ("USD"), and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales. ii) the Company's Term Loan is denominated in USD, and

as result the amount that the Company will be obligated to repay at the term of the loan will be affected by fluctuations in the exchange rate between the USD and the Canadian dollar at that time. A 100 basis point change in the foreign exchange rate would have a \$271,000 effect on the annual net income.

(iii) Commodity price risk

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

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

Product	Type	Volume	Price	Index	Term	Sep. 30, 2020 Fair Value
Crude oil	Collar	120 bbl/d	US\$40.00-US\$68.25	WTI-NYMEX	January 1, 2020 – December 31, 2020	(45,036)
Crude oil	Collar	200 bbl/d	US\$40.00-US\$67.05	WTI-NYMEX	September 1, 2020 – December 31, 2020	(27,026)
Crude oil	Swap	425 bbl/d	US\$54.85	WTI-NYMEX	October 1, 2020 – December 31, 2020	(742,989)
Crude oil	Collar	275 bbl/d	US\$40.00-US\$65.50	WTI-NYMEX	January 1, 2021 – March 31, 2021	(107,894)
Crude oil	3-Way	350 bbl/d	US\$40.00(put)/US\$48.60(put)/US\$60(call)	WTI-NYMEX	January 1, 2021 – March 31, 2021	(197,382)
Crude oil	3-Way	625 bbl/d	US\$40.00(put)/US\$48.00(put)/US\$60(call)	WTI-NYMEX	April 1, 2021 – June 31, 2021	(268,145)
Total						(1,388,472)

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

#### 4. Capital Management

The Company manages its capital with the following objectives:

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is composed of shareholders' equity and the Term Loan. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing from the Company's term loan, issuing new debt instruments, or other financial or equity-based instruments, adjusting capital spending, or disposing of assets. The capital structure is reviewed on an ongoing basis. There were no changes to capital management during the period.

## 5. Revenue

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

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

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

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

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

## 6. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of Proved and Probable reserves. A transfer from exploration and evaluation assets to property and equipment is made when reserves are assigned or the exploration project has been completed. For the nine months ended September 30, 2020, the Company had \$6,806 transfers (September 30, 2019 - \$7,578,229) to property and equipment, capitalized general and administrative expenses of \$507,215 (September 30, 2019 - \$264,243) to exploration and evaluation assets, and recognized exploration and evaluation expense of \$36,958 (September 30, 2019 - \$52,929).

<b>Cost</b>	
Balance, December 31, 2018	\$ 3,195,215
Additions	8,763,465
Exploration and evaluation expense	(1,047,447)
Transfer to property and equipment	(8,110,664)
Balance, December 31, 2019	\$ 2,800,569
Additions	707,781
Exploration and evaluation expense	(36,958)
Transfer to property and equipment	(6,806)
<b>Balance, September 30, 2020</b>	<b>\$ 3,464,586</b>

## 7. Property and Equipment

<b>Cost</b>	Petroleum and Natural Gas	Right of Use and Other Assets	Total
Balance, December 31, 2018	\$ 93,260,225	\$ 114,492	\$ 93,374,716
Right-of-use assets	-	452,152	452,152
Additions	2,159,409	24,455	2,183,864
Increase in decommissioning obligations	(498,857)	-	(498,857)
Capitalized share-based payments	62,865	-	62,865
Transfer from exploration and evaluation assets	8,110,664	-	8,110,664
Balance, December 31, 2019	\$ 103,094,306	\$ 591,099	\$ 103,685,405
Right-of-use assets	-	60,831	60,831
Additions	354,066	5,528	359,594
Capitalized share-based compensation	35,202	-	35,202
Transfers from exploration and evaluation assets	6,806	-	6,806
<b>Balance, September 30, 2020</b>	<b>\$ 103,490,380</b>	<b>\$ 657,458</b>	<b>\$ 104,147,838</b>
<b>Accumulated Depletion, Depreciation, Amortization and Impairment Losses</b>			
Balance, December 31, 2018	\$ 41,050,434	\$ 98,173	\$ 41,148,607
Depletion and depreciation for the year	5,617,663	109,871	5,727,534
Impairment Loss	2,908,641	-	2,908,641
<b>Balance, December 31, 2019</b>	<b>\$ 49,576,738</b>	<b>\$ 208,044</b>	<b>\$ 49,784,782</b>
Depletion and depreciation for the period	3,487,177	85,403	3,572,580
Impairment loss	3,859,110	-	3,859,110
<b>September 30, 2020</b>	<b>\$ 56,923,025</b>	<b>\$ 293,447</b>	<b>\$ 57,216,472</b>
<b>Net Book Value</b>			
December 31, 2019	\$ 53,517,568	\$ 383,055	\$ 53,900,623
<b>September 30, 2020</b>	<b>\$ 46,567,355</b>	<b>\$ 364,011</b>	<b>\$ 46,931,366</b>

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

The calculation of depletion at September 30, 2020 includes estimated future development costs of \$38,751,500 (December 31, 2019 - \$38,751,500) associated with the development of the Company's Proved plus Probable reserves.

At September 30, 2020 the Company performed an assessment of potential impairment indicators on each of its Cash Generating Units (CGUs), and management determined that an impairment test on its petroleum and natural gas assets was not required.

At March 31, 2020 the Company performed an assessment of potential impairment indicators on each of its Cash Generating Units (CGUs), and management determined that an impairment test on its petroleum and natural gas assets was required due to volatile and low commodity prices. It was

determined that the carrying amount of Jenner exceeded its recoverable amount of \$3,615,333 for the quarter ended March 31, 2020 (year ended December 31, 2019 - \$7,705,533). Accordingly, the Company recognized an impairment charge of \$3,859,110 as at March 31, 2020 (December 31, 2019 - \$2,908,641). No impairment was recognized for Atlee Buffalo as its recoverable value exceeded the carrying amount.

The recoverable amounts were determined with fair value less costs to sell using a discounted cash flow method and categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices, loss factors and discount rates specific to the underlying composition of assets residing in each CGU. The pre-tax discount rates ranged from 12% to 30% depending on the nature of the reserves. The following tables show the future commodity price estimates used by the Company's independent reserves evaluator to record the impairment in the first quarter of 2020:

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

## 8. Decommissioning Obligations

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

The Company estimates the total undiscounted and inflated amount of cash flows required to settle its decommissioning obligations as at September 30, 2020 is \$11,243,978 (September 30, 2019 - \$12,686,913). These payments are expected to be made over the next 47 years with the costs to be incurred between 2030 and 2057. The discount factor, being the risk-free rate related to the liability, is 1.76% (September 30, 2019 - 1.92%). Inflation of 1.35% (September 30, 2019 - 2.10%) has also been factored into the calculation of amounts in the table below. The Company also has \$115,535 (September 30, 2019 - \$115,535) in various reclamation bonds for its properties held by the Alberta Energy Regulator and British Columbia Ministry of Energy, Mines and Petroleum Resources.

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

## 9. Lease Liabilities

The Company has lease liabilities for contracts related to financing facilities, surface leases, vehicles and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of

different terms and conditions. The discount rate used for the period ended September 30, 2020 was 10.92%. The following table summarizes lease liabilities at September 30, 2020:

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

## 10. Finance Income and Expense

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

## 11. Term Loan

On September 15, 2017, the Company entered into a first lien senior secured credit agreement (the "Credit Agreement") with a third-party lender (the "Lender") providing for a multi-draw, non-revolving term loan facility of a maximum aggregate principal amount of up to US\$35.0 million. Security granted by the Company under the Credit Agreement included a demand debenture for US\$75.0 million which provides for a first ranking security interest and floating and fixed charges over all of the real and personal property present and after acquired of the Company.

An initial commitment amount of US\$15.0 million (the "Term Loan") was granted at inception and on January 23, 2018 and June 1, 2018 the Company amended its credit agreement with its Lender to increase the commitment amount by US\$5.0 million and US\$10.0 million respectively. This brings the Company's aggregate amount committed by the Lender under the Term Loan to US\$30.0 million.

As at September 30, 2020 the Company had a term loan balance of US\$22.5 million (CAD\$29,967,750) at period close exchange rate) resulting from total draws of US\$26.5 million less total repayments of US\$4.0 million. The Company's ability to access additional commitments in excess of US\$30.0 million is subject to approval of the Lender based on review and approval of the Company's future development plans.

The interest rate for the Term Loan is the three-month United States dollar London Interbank Offered Rate ("LIBOR") with a LIBOR floor of 1%, plus 7.50% payable quarterly, for a five-year term with a maturity date of September 15, 2022. In conjunction, the Company issued 13,750,000 warrants entitling the Lender to purchase one common share of Hemisphere at an exercise price of \$0.28/share prior to September 15, 2022. The effective interest rate is 10.92%.

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

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

  

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

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

The Term Loan is subject to certain quarterly financial and performance covenants from the quarter ended March 31, 2020 to the maturity date of the loan on September 15, 2022:

1. Interest coverage ratio shall not be less than 3.00 to 1.00.
2. Total leverage ratio shall not be more than 3.25 to 1.00.
3. Minimum average production shall not be less than 1,500 boe/d.
4. Proved developed producing coverage ratio, based on reserve reports internally prepared by Hemisphere, shall not be less than 1.00 to 1.00.
5. Total proved reserves coverage, based on reserve reports internally prepared by Hemisphere, shall not be less than 1.50 to 1.00.

Covenants table for the period ended September 30, 2020:

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

## 12. Share Capital

### (a) Authorized

Unlimited number of common shares without par value.

**Issued and outstanding**

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

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

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

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

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

**(b) Stock options**

The Company has a stock option plan in place and is authorized to grant stock options to officers, directors, employees and consultants whereby the aggregate number of shares reserved for issuance may not exceed 10% of the issued shares at the time of grant and 5% of the issued shares to each optionee. Stock options are non-transferable and have a maximum term of five years. Stock options terminate no later than 90 days (30 days for investor-related services) upon termination of employment or employment contract and one year in the case of retirement, death or disability. The grant price is determined using the closing price of the Company's shares from the day prior to the grant.

Details of the Company's stock options as at September 30, 2020 are as follows:

Exercise Price	Expiry Date	Balance Outstanding December 31, 2019	Changes in the Period			Balance Outstanding Sep. 30, 2020	Balance Exercisable Sep. 30, 2020
			Granted	Exercised	Expired/Cancelled		
\$0.24	29-Jan-20	1,000,000	-	-	(1,000,000)	-	-
\$0.39	1-Mar-20	100,000	-	-	(100,000)	-	-
\$0.08	11-Feb-21	1,595,000	-	-	-	1,595,000	1,595,000
\$0.08	12-Feb-21	125,000	-	-	-	125,000	125,000
\$0.25	21-Sep-22	4,914,000	-	-	-	4,914,000	4,914,000
\$0.28	2-Oct-22	150,000	-	-	-	150,000	150,000
\$0.25	1-Jan-23	250,000	-	-	-	250,000	250,000
\$0.12	1-Mar-24	50,000	-	-	-	50,000	50,000
\$0.12	17-Jun-25	-	1,500,000	-	-	1,500,000	1,500,000
		8,184,000	1,500,000	-	(1,100,000)	8,584,000	8,584,000
Weighted-average exercise price		\$0.21	\$0.12	-	\$0.25	\$0.19	\$0.19

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees and consultants of the Company. For the three and nine months ended September 30, 2020, the Company recorded total share-based payments of \$nil and \$115,664 respectively, compared to \$nil and \$117,079 for the same periods in 2019.

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

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

(c) Share purchase warrants

On September 15, 2017, the Company issued 13,750,000 warrants to a third-party lender in conjunction with its Term Loan (Note 11). Each warrant entitles the holder to purchase one common share of Hemisphere at an exercise price of \$0.28 per share prior to September 15, 2022. The exercise price of the warrants represented a 40% premium to the 30-day volume weighted average price ("VWAP") of Hemisphere's common shares at market close on September 14, 2017. The warrants are subject to a forced exercise clause which applies upon a 30-day VWAP equaling or exceeding \$1.40 per share. The warrants are non-transferable.

The Company ascribed a value to the warrants of \$1,428,954 by comparing the fair value of the Term Loan both with and without the warrant feature determining the difference in value to be related to the warrants. The effective rates have been disclosed in Note 11. Further, a deferred tax amount of \$385,818 was recorded with regard to the warrants that was applied against the recorded warrant reserve and also recovered against the net loss.

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

(d) Income per share

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

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

### 13. Commitments

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

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

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

### 14. Supplemental Cash Flow Information

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

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

# Hemisphere

energy corporation

## OFFICERS

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

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

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

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

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

## BANKER

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

## AUDITOR

**KPMG LLP**  
*Calgary, Alberta*

## TRANSFER AGENT

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

## BOARD OF DIRECTORS

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

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

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

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

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

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

*(1) Audit Committee*

*(2) Compensation & Corporate Governance  
Committee*

*(3) Reserves Committee*

## LEGAL COUNSEL

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

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

## INDEPENDENT ENGINEER

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

## PRINCIPAL LENDER

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

**Hemisphere Energy Corporation**

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

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

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