

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 condensed interim 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 18, 2021

(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, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents		\$ 43,776	\$ 435,350
Accounts receivable	4(a)	3,018,796	1,932,663
Prepaid expenses		760,441	633,598
Fair value of financial instruments	4(c)	-	193,688
		3,823,013	3,195,299
Non-current assets			
Reclamation deposits	9	115,535	115,535
Exploration and evaluation assets	7	1,090,422	458,199
Property and equipment	8	50,990,746	48,445,138
Deferred charges	12	-	264,878
Total assets		\$ 56,019,716	\$ 52,479,049
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 5,820,862	\$ 1,334,300
Current portion of lease liabilities	14	105,993	82,773
Warrant liability	3, 13	5,529,992	993,817
Fair value of financial instruments	4(c)	2,770,828	-
		14,227,675	2,410,890
Non-current liabilities			
Bank debt	11	16,233,591	-
Term loan	12	-	24,979,567
Lease liabilities	14	165,239	249,761
Decommissioning obligations	9	8,569,962	8,530,687
		39,196,467	36,170,905
Shareholders' Equity			
Share capital	15	54,375,168	54,342,488
Contributed surplus		1,208,600	1,208,600
Deficit		(38,760,519)	(39,242,944)
Total shareholders' equity		16,823,249	16,308,144
Total liabilities and shareholders' equity		\$ 56,019,716	\$ 52,479,049

Commitments Note 16
Subsequent events Note 13, 16, 18

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

Approved by the Board of Directors

(signed) "Bruce McIntyre"
Bruce McIntyre, Director

(signed) "Don Simmons"
Don Simmons, Director

CONDENSED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Expressed in Canadian dollars)

(Unaudited)

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2021	2020	2021	2020
			Recasted (Note 3)		Recasted (Note 3)
Revenue					
Oil and natural gas revenue	6	\$ 10,431,678	\$ 5,889,668	\$ 28,407,919	\$ 13,305,661
Royalties		(2,100,349)	(582,409)	(4,772,742)	(1,106,149)
		8,331,329	5,307,259	23,635,177	12,199,512
Realized gain (loss) on financial instruments		(938,489)	855,571	(1,834,687)	3,086,247
Unrealized gain (loss) on financial instruments	4(c)	301,896	(1,319,060)	(2,964,516)	2,518,015
Net revenue		7,694,736	4,843,770	18,835,974	17,803,774
Expenses					
Production and operating		2,298,595	1,444,290	5,829,623	4,385,879
Exploration and evaluation	7	12,686	12,275	42,457	36,958
Depletion and depreciation	8	1,032,019	1,146,725	3,055,805	3,572,580
General and administrative		717,923	554,900	2,183,542	1,486,965
Share-based payments	15(b)	-	-	-	115,664
Impairment of property and equipment	8	-	-	-	3,859,110
		4,061,223	3,158,190	11,111,427	13,457,156
Results from operating activities		3,633,513	1,685,580	7,724,547	4,346,618
Finance expense	10	(714,953)	(815,507)	(7,233,575)	(3,676,286)
Foreign exchange gain (loss)		(609,722)	603,499	(8,547)	(965,753)
Gain on disposition		-	-	-	25,868
Net income (loss) and comprehensive income (loss) for the period		\$ 2,308,838	\$ 1,473,572	\$ 482,425	\$ (269,553)
Net income (loss) per share, basic	15(c)	\$ 0.03	\$ 0.02	\$ 0.01	\$ (0.00)
Net income (loss) per share, diluted	15(c)	\$ 0.02	\$ 0.02	\$ 0.01	\$ (0.00)

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

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY*(Expressed in Canadian dollars)**(Unaudited)*

	Note	Number common shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance, December 31, 2020		86,782,302	\$ 54,342,488	\$ 1,208,600	\$ (39,242,944)	\$ 16,308,144
Stock option exercise	15(b)	1,985,000	196,750	-	-	196,750
Shares repurchased under NCIB	15(a)	(537,500)	(164,070)	-	-	(164,070)
Net income for the period		-	-	-	482,425	482,425
Balance, September 30, 2021		88,229,802	\$ 54,375,168	\$ 1,208,600	\$ (38,760,519)	\$ 16,823,249

Comparison with nine months ended September 30, 2020:

	Note	Number common shares	Share Capital	Contributed Surplus	Recasted (Note 3) Deficit	Recasted (Note 3) Total Equity
Balance, December 31, 2019		88,902,302	\$ 54,607,961	\$ 1,057,734	\$ (38,827,036)	\$ 16,838,659
Share-based payments	15(b)	-	-	150,866	-	150,866
Expiry of stock options	15(b)	-	-	(187,086)	187,086	-
Shares repurchased under NCIB	15(a)	(1,020,000)	(136,714)	-	-	(136,714)
Net loss for the period		-	-	-	(269,553)	(269,553)
Balance, September 30, 2020		87,882,302	\$ 54,471,247	\$ 1,021,514	\$ (38,909,503)	\$ 16,583,258

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	Recasted (Note 3)		Recasted (Note 3)	
	2021	2020	2021	2020
Operating activities				
Net income (loss) for the period	\$ 2,308,838	\$ 1,473,572	\$ 482,425	\$ (269,553)
Items not affecting cash:				
Accretion of debt issuance costs	18,297	54,891	128,079	323,045
Accretion of decommissioning costs	25,592	32,256	76,776	96,768
Amortization of deferred charges	167,293	48,792	264,875	208,165
Depletion and depreciation	1,032,017	1,146,725	3,055,805	3,572,580
Exploration and evaluation expense	12,686	12,275	42,457	36,958
Gain on disposition	-	-	-	(25,868)
Term Loan Settlement Costs	768,680	-	768,680	-
Share-based payments	-	-	-	115,664
Unrealized loss (gain) on financial instruments	(301,892)	1,319,060	2,964,519	(2,518,015)
Unrealized loss (gain) on foreign exchange	661,080	(649,407)	-	838,670
Change in fair value of warrant liability	(644,786)	(31,551)	4,536,175	677,363
Impairment of property and equipment	-	-	-	3,859,110
Funds flow from operations	4,047,805	3,406,613	12,319,791	6,914,887
Decommissioning obligation expenditures	-	(1,704)	(37,501)	(113,270)
Changes in non-cash working capital	1,425,113	(316,958)	1,134,847	460,451
Cash provided by operating activities	5,472,918	3,087,951	13,417,137	7,262,068
Investing activities				
Property and equipment expenditures	(2,789,778)	(127,950)	(5,601,414)	(359,594)
Exploration and evaluation expenditures	(530,705)	(264,251)	(674,680)	(707,781)
Changes in non-cash working capital	2,034,340	121,402	2,138,738	(343,874)
Cash used in investing activities	(1,286,144)	(270,799)	(4,137,356)	(1,411,249)
Financing activities				
Shares issued for stock options	63,154	-	196,751	-
Shares repurchased under NCIB	-	(81,121)	(164,070)	(136,713)
Change in bank indebtedness	16,233,591	-	16,233,591	-
Repayment of term loan	(22,471,500)	(3,357,145)	(25,876,325)	(5,368,395)
Payment of lease liabilities	(20,949)	(18,798)	(61,302)	(60,156)
Cash used in financing activities	(6,195,705)	(3,457,064)	(9,671,355)	(5,565,264)
Net change in cash	(2,008,931)	(639,910)	(391,574)	285,555
Cash, beginning of period	2,052,707	2,104,981	435,350	1,179,516
Cash, end of period	\$ 43,776	\$ 1,465,071	\$ 43,776	\$ 1,465,071
Supplemental cash flow information	(Note 17)			

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

(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" and on the OTCQX Best Market under the symbol "HMENF." 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 condensed interim financial statements ("Financial Statements") have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" of International Financial Reporting Standards ("IFRS").

These condensed interim 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, 2020. These condensed interim 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, 2020.

These Financial Statements were authorized for issuance by the Board of Directors on November 18, 2021.

(b) Basis of valuation

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.

(e) COVID-19 Risk

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures enforced to limit the spread of the pandemic contributed to volatility in financial markets. The pandemic has adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil and natural gas. Global oil demand has since improved steadily in the latter half of 2020 and first half of 2021 as economies began to reopen and governments approved the rollout of COVID-19 vaccines. The West Texas Intermediate ("WTI") benchmark price increased in the third quarter of 2021, averaging 7 percent higher than the second quarter of 2021, and 64 percent higher than the comparative nine months of 2020. Although government authorities have eased COVID-19 restrictions and global economies are improving, there is no certainty when demand levels will return to pre-COVID levels and therefore the situation remains dynamic. The ultimate duration and magnitude of the impact on the economy and financial effect on the Company is not known at this time; however, Hemisphere is optimistic that the worst is behind us and economic conditions will continue to improve.

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.

3. Recast of Comparative Amounts

During the year ended December 31, 2020, the Company identified a prior period error relating to the recognition of the warrants underlying the term loan (Note 12).

The value of the warrants was previously recorded as a warrant reserve in shareholder's equity upon issuance. The warrants contain a cashless exercise provision at the option of the holder and are now classified as a liability that is revalued every reporting period with the change in fair value recognized in earnings.

The following table outlines the impact of the adjustments on the comparative periods for the nine months ended September 30, 2020:

	As Previously Reported	Adjustment	As Recast
Statement of income (loss) and comprehensive income (loss) for the nine months ended September 30, 2020			
Finance expense	\$ (2,998,923)	\$ (677,363)	\$ (3,676,286)
Net loss and comprehensive loss	407,810	(677,363)	(269,553)
Net loss per share, basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.00)
Statement of cash flows as at September 30, 2020			
Net loss and comprehensive loss	\$ 407,810	\$ (677,363)	\$ (269,533)
Change in fair value of warrant liability	-	677,363	677,363

4. 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, 2021	December 31, 2020
Accounts receivable		
Marketing receivables	\$ 2,851,856	\$ 1,767,578
Trade receivables	131,701	159,776
Receivables from joint ventures	35,239	5,309
Reclamation deposits	115,535	115,535
	\$ 3,134,331	\$ 2,048,198

The Company sells the majority of its heavy crude oil production through two 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'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 25th of each month.

In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging. The economic climate may

lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's liquidity and ability to generate profits in the future.

At September 30, 2021, the Company had net debt (a non-IFRS measure calculated as current assets, less current liabilities excluding fair value of financial instruments, warrant and lease liabilities, and including the gross term loan and bank debt of \$18,231,440 (December 31, 2020 - \$24,429,190). The Company funds its operations through operating cash flows and a committed \$35MM two year renewable term credit facility at ATB Financial.

(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 bank debt are subject to variable interest rates. A one percent change in interest rates would have a \$160,000 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 was denominated in USD, and as result, the amount that the Company was obligated to repay when the company agreed to terminate the term was 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 \$294,000 effect on derivative contracts and the annual net 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 adjusted funds flow from operations and ability to raise capital.

At September 30, 2021, the Company held derivative commodity price contracts as follows:

Product	Type	Volume	Price	Index	Term	Sep. 30, 2021 Fair Value
Crude oil	Swap	800 bbl/d	US\$58.45	WTI-NYMEX	Oct. 1, 2021 – Dec. 31, 2021	1,440,939
Crude oil	Swap	100 bbl/d	US\$12.50	WCS Differential	Oct. 1, 2021 – Dec. 31, 2021	7,226
Crude oil	Swap	100 bbl/d	US\$12.00	WCS Differential	Oct. 1, 2021 – Dec. 31, 2021	1,394
Crude oil	Swap	100 bbl/d	US\$14.10	WCS Differential	Oct. 1, 2021 – Dec. 31, 2021	(25,965)
Crude oil	Swap	100 bbl/d	US\$13.25	WCS Differential	Oct. 1, 2021 – Dec. 31, 2021	(16,053)
Crude oil	Swap	100 bbl/d	US\$13.10	WCS Differential	Oct. 1, 2021 – Dec. 31, 2021	(14,304)
Crude oil	Swap	100 bbl/d	US\$12.60	WCS Differential	Oct. 1, 2021 – Dec. 31, 2021	(8,473)
Crude oil	Swap	800 bbl/d	US\$57.03	WTI-NYMEX	Jan. 1, 2022 – Mar. 31, 2022	1,495,877
Crude oil	Swap	200 bbl/d	US\$12.10	WCS Differential	Jan. 1, 2022 – Jun. 30, 2022	(12,787)
Crude oil	3-Way	100 bbl/d	US\$40.00(put)/US\$50.00(put)/US\$79(call)	WTI-NYMEX	Apr. 1, 2022 – Jun. 30, 2022	(34,319)
Crude oil	Put Spread	725 bbl/d	US\$30.00(put sell)/US\$40.00(put buy), net cost US\$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	164,637
Crude oil	Sold Call	200 bbl/d	US\$78.25(call sell), net premium US\$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	(104,393)
Crude oil	Sold Call	100 bbl/d	US\$78.70(call sell), net premium US\$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	(49,329)
Crude oil	Sold Call	200 bbl/d	US\$82.10(call sell), net premium US\$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	(61,017)
Crude oil	Sold Call	100 bbl/d	US\$86.50(call sell), net premium US\$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022	(12,605)
Total						\$2,770,828

At September 30, 2021 the commodity contracts were fair valued as a liability of \$2,770,828 recorded on the balance sheet, and an unrealized gain for the three month period of \$301,896 and an unrealized loss for the nine month period of \$2,964,516, respectively (September 30, 2020 – loss of \$1,319,060 and gain of \$2,518,015 respectively).

(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.

5. 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 comprised of shareholders' equity and the Term Loan. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, and issuing new debt instruments (see note 11), 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.

6. 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 4(a). As at September 30, 2021, production revenue sold to customers was comprised of three marketers which account for \$2,851,856 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	
	2021	2020	2021	2020
Oil	\$ 10,396,478	\$ 5,875,899	\$ 28,304,024	\$ 13,257,267
Natural gas	35,200	13,769	103,895	48,177
NGL	-	-	-	217
Total	\$ 10,431,678	\$ 5,889,668	\$ 28,407,919	\$ 13,305,661

7. 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, 2021, the Company had \$nil transfers (September 30, 2020 - \$6,806) to property and equipment, capitalized general and administrative expenses of \$nil (September 30, 2020 - \$525,142) to exploration and evaluation assets, and recognized exploration and evaluation expense of \$42,457 (September 30, 2020 - \$36,958).

Cost	
Balance, December 31, 2019	\$ 2,800,569
Additions	885,568
Exploration and evaluation expense	(258,269)
Transfer to property and equipment	(2,969,669)
Balance, December 31, 2020	\$ 458,199
Additions	674,680
Exploration and evaluation expense	(42,457)
Balance, September 30, 2021	\$ 1,090,422

8. Property and Equipment

Cost	Petroleum and Natural Gas	Right of Use and Other Assets	Total
Balance, December 31, 2019	\$ 103,094,306	\$ 591,099	\$ 103,685,405
Right-of-use assets	-	60,830	60,830
Additions	776,150	23,704	799,854
Increase in decommissioning obligations	1,189,358	-	1,189,358
Capitalized share-based payments	35,202	-	35,202
Transfer from exploration and evaluation assets	2,969,669	-	2,969,669
Balance, December 31, 2020	\$ 108,064,685	\$ 675,633	\$ 108,740,318
Additions	5,595,983	5,430	5,601,413
Balance, September 30, 2021	\$ 113,660,668	\$ 681,063	\$ 114,341,731
Accumulated Depletion, Depreciation, Amortization and Impairment Losses			
Balance, December 31, 2019	\$ 49,576,738	\$ 208,044	\$ 49,784,782
Depletion and depreciation for the year	4,378,402	111,409	4,489,811
Impairment Loss	6,020,587	-	6,020,587
Balance, December 31, 2020	\$ 59,975,727	\$ 319,453	\$ 60,295,180
Depletion and depreciation for the period	2,976,208	79,597	3,055,805
Balance, September 30, 2021	\$ 62,951,935	\$ 399,050	\$ 63,350,985
Net Book Value			
December 31, 2020	\$ 48,088,958	\$ 356,180	\$ 48,445,138
September 30, 2021	\$ 50,708,733	\$ 282,013	\$ 50,990,746

The Company's additions for property and equipment included capitalized general and administrative expenses of \$417,009 for the nine months ended September 30, 2021 (September 30, 2020 - \$17,926).

The calculation of depletion at September 30, 2021 includes estimated future development costs of \$42,421,400 (December 31, 2020 - \$42,421,400) associated with the development of the Company's Proved plus Probable reserves.

At September 30, 2021, the Company performed an assessment of potential impairment indicators on each of its Cash Generating Units (CGUs), and management determined that no impairment test on its petroleum and natural gas assets was required.

At December 31, 2020, the Company determined that an impairment test on its petroleum and natural gas assets was required due to a significant reduction in one CGU's reserve value. It was determined that the carrying amount of its Jenner CGU exceeded its recoverable value of \$1,211,160 as at December 31, 2020. Accordingly, the Company recognized an impairment charge of \$2,161,477 as at December 31, 2020. Previously, on March 31, 2020 the Company determined that the carrying amount of Jenner exceeded its recoverable amount of \$3,615,333 as at March 31, 2020 due to volatile and low commodity

prices. Accordingly, the Company recognized an impairment charge of \$3,859,110 as at March 31, 2020. No impairment was recognized for Atlee Buffalo as its recoverable value exceeded the carrying amount.

9. 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 uninflated amount of cash flows required to settle its decommissioning obligations as at September 30, 2021 at \$8.0 million and \$11.2 million with inflation. These payments are expected to be made over the next 37 years with the majority of costs to be incurred between 2030 and 2057.

The discount factor, being the risk-free rate related to the liability, is 1.20% (September 30, 2020 – 1.76%). Inflation of 1.50% (September 30, 2020 – 1.35%) has also been factored into the calculation of amounts in the table below. The Company also has \$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, 2021	Year Ended December 31, 2020
Decommissioning obligations, beginning of period	\$ 8,530,687	\$ 7,330,876
Change in estimate	-	1,189,358
Payment towards decommissioning obligations	(37,501)	(118,570)
Accretion expense	76,776	129,023
Decommissioning obligations, end of period	\$ 8,569,962	\$ 8,530,687

10. Finance Expenses

	Three Months Ended September 30		Six Months Ended September 30	
	2021	2020	2021	2020
Finance expense:				
Loan interest	\$ 372,189	\$ 701,282	\$ 1,434,395	\$ 2,340,978
Lease interest	7,688	9,837	24,592	29,967
Change in value of warrant liability	(644,786)	(31,551)	4,536,175	677,363
Term loan settlement costs	768,680	-	768,680	-
Accretion of debt issuance costs	18,297	54,891	128,079	323,045
Amortization of deferred charges	167,293	48,792	264,875	208,165
Accretion of decommissioning liabilities	25,592	32,256	76,776	96,768
Total	\$ 714,953	\$ 815,506	\$ 7,233,572	\$ 3,676,287

11. Bank Debt

On July 28, 2021, the Company entered into a two year committed and extendible term facility with a Canadian Bank (the "Lender") providing for borrowings of up to \$35,000,000 (the "Credit Facility"). As part of entering into the Credit Facility, the Company has fully repaid and terminated its former term loan with a third-party lender (see Note 12).

The Credit Facility has an initial term date of May 31, 2022 (the "Term Date"), which is extendible at that time and on an annual basis for an additional 365 days upon request of the Company. The Credit Facility

has a maturity date of May 31, 2023. If the term it is not extended on May 31, 2022, additional advances would not be permitted and any outstanding advances would become repayable at May 31, 2023. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At September 30, 2021 the Company had drawn \$16.2 million on the Credit Facility. There are standard reporting covenants under the Credit Facility and a financial covenant for the Company to maintain working capital above a ratio of 1.00 to 1.00. Working capital for the covenant is defined as current assets, less current liabilities, excluding fair value of financial instruments and warrant liability, plus the undrawn amount available under the credit facility. The Company was in compliance with these standard reporting covenants and the financial covenant with a working capital ratio of 6.55 to 1.00 as at September 30, 2021.

Under the Credit Facility, advances can be drawn as prime rate loans and bear interest at the bank's prime lending rate plus interest rates between 2.50% and 3.50%. Advances may also be drawn as guaranteed notes/banker's acceptances and letters of credit, subject to Canadian interest benchmark rates plus margins ranging from 3.50% to 4.50%. Standby fees are charged on the undrawn portion of the Credit Facility at rates ranging from 0.875% to 1.125%. These interest rates, fees and margins vary based on adjusted debt to earnings metrics determined at each quarter end for the preceding 12 months.

The semi-annual renewal of the available lending limit of the Credit Facility is scheduled for November 30, 2021 and is based on the Lenders' interpretation of the Company's reserves and future commodity prices. There can be no assurance that the amount or terms of the Credit Facility will not be adjusted at the next semi-annual review. In the event that the lender reduces the Credit Facility's borrowing base below the amount drawn at the time of the redetermination, the Company would have 45 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the redetermined borrowing base. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

12. 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.

On July 28, 2021, the Company terminated this term loan with repayment of the full gross balance outstanding in the amount of US\$17.75 million (CAD\$22,471,500) from proceeds of the bank loan (see Note 11).

13. Warrant Liability

On September 15, 2017, the Company issued 13,750,000 warrants to the Lender in conjunction with its Term Loan (Note 12). 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 warrants are non-transferrable and

are subject to a forced exercise clause which applies upon a 30-day VWAP equaling or exceeding \$1.40 per share. The warrants were fully vested upon issuance, and have been classified as a current liability. The warrants issued are classified as a financial liability as a result of a cashless exercise provision.

The fair value of the warrants on September 30, 2021 increased by \$4,536,175 to \$5,529,992 as determined using the Black- Scholes pricing model with the following inputs:

	September 30, 2021	December 31, 2020
Share Price	\$ 0.84	\$ 0.20
Risk-free interest rate	1.11%	0.39%
Expected life (years)	0.96	1.70
Expected volatility	78%	112%

Subsequently, the warrant holder has exercised 25% of the warrants on a cashless basis on October 25, 2021. This resulted in issuance of 2,299,851 shares for the exercise cost of 3,437,500 warrants at the 30 day volume weighted average price of \$0.846 per share. After the 25% exercise, the warrant holder has 10,312,500 warrants outstanding.

14. 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 following table summarizes lease liabilities at September 30, 2021:

Balance, December 31, 2019	\$	376,992
Lease additions		60,830
Lease adjustments		(25,868)
Interest expense		39,331
Lease payments		(118,751)
Balance, December 31, 2020	\$	332,534
Interest expense		24,592
Lease payments		(85,894)
Balance, September 30, 2021	\$	271,232
Current Portion	\$	105,993
Long-term portion	\$	165,239

15. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at September 30, 2021 and December 31, 2020, the Company had the following common shares issued and outstanding:

Common Shares	Shares	Value
Balance, December 31, 2019	88,902,302	\$ 54,607,961
Shares repurchased and cancelled (NCIB)	(2,120,000)	(265,473)
Balance, December 31, 2020	86,782,302	54,342,488
Shares issued for stock option exercises	1,985,000	196,750
Shares repurchased and cancelled (NCIB)	(537,500)	(164,070)
Balance, September 30, 2021	88,229,802	\$ 54,375,168

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 subsequently purchased and cancelled 1,301,000 shares under this NCIB for \$179,273 through June 30, 2020, for an average cost of \$0.14 per share. This included 320,000 shares purchased and cancelled in the first half of fiscal 2020 for \$55,597 at an average cost of \$0.17 per share.

On June 29, 2020 the Company announced the renewal of the 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 six months ended December 31, 2020, the Company purchased and cancelled 1,800,000 shares under the NCIB for \$209,876 at an average cost of \$0.12 per share. Through June 30, 2021, the Company had purchased and cancelled 537,500 shares under the NCIB for \$164,070 at an average cost of \$0.31 per share.

Further, on July 14, 2021 the Company announced the renewal of the NCIB to purchase and cancel, from time to time, up to 7,687,830 common shares of the Company until July 13, 2022. During the three months ended September 30, 2021, the Company has not repurchased any shares under the NCIB.

During the nine months ended September 30, 2021, the Company issued 1,985,000 shares for stock options exercised through the Employee Stock Option Plan, at an average exercise price of \$0.10 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, 2021 and 2020 are as follows:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding December 31, 2020	Changes in the Period			Balance Outstanding September 30, 2021	Balance Exercisable September 30, 2021
				Granted	Exercised	Expired/Cancelled		
\$0.08	11-Feb-16	11-Feb-21	1,595,000	-	(1,595,000)	-	-	-
\$0.08	12-Feb-16	12-Feb-21	75,000	-	(75,000)	-	-	-
\$0.25	21-Sep-17	21-Sep-22	4,809,000	-	(195,000)	-	4,614,000	4,614,000
\$0.28	2-Oct-17	2-Oct-22	150,000	-	-	-	150,000	150,000
\$0.25	01-Jan-18	1-Jan-23	250,000	-	-	-	250,000	250,000
\$0.12	01-Mar-19	1-Mar-24	50,000	-	-	-	50,000	50,000
\$0.12	17-Jun-20	17-Jun-25	1,500,000	-	(120,000)	-	1,380,000	1,380,000
			8,429,000	-	(1,985,000)	-	6,444,000	6,444,000
Weighted-average exercise price			\$0.19	-	\$0.08	-	\$0.22	\$0.22

Exercise Price	Grant Date	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-15	29-Jan-20	1,000,000	-	-	(1,000,000)	-	-
\$0.39	1-Mar-15	1-Mar-20	100,000	-	-	(100,000)	-	-
\$0.08	11-Feb-16	11-Feb-21	1,595,000	-	-	-	1,595,000	1,595,000
\$0.08	12-Feb-16	12-Feb-21	125,000	-	-	(50,000)	75,000	75,000
\$0.25	21-Sep-17	21-Sep-22	4,914,000	-	-	(105,000)	4,809,000	4,809,000
\$0.28	2-Oct-17	2-Oct-22	150,000	-	-	-	150,000	150,000
\$0.25	01-Jan-18	1-Jan-23	250,000	-	-	-	250,000	250,000
\$0.12	01-Mar-19	1-Mar-24	50,000	-	-	-	50,000	50,000
\$0.12	17-Jun-20	17-Jun-25	-	1,500,000	-	-	1,500,000	1,500,000
			8,184,000	1,500,000	-	(1,255,000)	8,429,000	8,429,000
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, 2021, the Company recorded total share-based payments of \$nil and \$nil respectively, compared to \$nil and \$115,664 for the same periods in 2020.

In the quarter ended September 30, 2021 the Company did not grant any stock options and all granted options had fully vested prior to December 31, 2020.

(c) Loss per share

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Income/(Loss) for the period	\$ 2,308,838	\$ 1,473,572	\$ 482,425	\$ (269,553)
Weighted average number of common shares outstanding, basic	88,214,476	88,124,095	87,892,439	88,446,525
Dilutive stock options	5,157,932	-	5,157,932	-
Weighted average number of common shares outstanding, diluted	93,372,408	88,124,095	93,050,371	88,446,525
Loss per share, basic	\$ 0.03	\$ 0.02	\$ 0.01	\$ (0.00)
Loss per share, diluted	\$ 0.02	\$ 0.02	\$ 0.01	\$ (0.00)

For the three and nine months ended September 30, 2021, the Company had dilutive stock options of 5,157,932 and 5,157,932, respectively. For the comparable periods in 2020 the Company had dilutive stock options of nil and nil, respectively.

16. Commitments

	2021	2022	2023	2024	2025	2026	2027	2028	Total
Office lease	\$ 16,575	66,300	27,625	-	-	-	-	-	110,500
Other leases	12,056	57,533	21,376	19,466	19,466	19,466	19,466	18,216	187,045
Equipment lease	58,674	352,043	352,043	352,043	352,043	352,043	352,043	293,369	2,464,301
	\$ 87,305	475,876	401,044	371,509	371,509	371,509	371,509	311,585	2,761,846

The above table includes future lease payments for polymer equipment based on the planned commencement date with the lessor for November 2021.

17. Supplemental Cash Flow Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Provided by (used in):				
Accounts receivable	\$ (86,540)	\$ 13,277	\$ (1,086,133)	\$ 888,032
Prepaid expenses	(255,059)	(82,648)	(126,844)	5,901
Accounts payable and accrued liabilities	3,801,052	(126,185)	4,486,561	(777,355)
Total changes in non-cash working capital	\$ 3,459,453	\$ (195,556)	\$ 3,273,585	\$ 116,578
Provided by (used in):				
Operating activities	\$ 1,425,113	\$ (316,958)	\$ 1,134,847	\$ 460,451
Investing activities	2,034,340	121,402	2,138,738	(343,874)
Total changes in non-cash working capital	\$ 3,459,453	\$ (195,556)	\$ 3,273,585	\$ 116,578

Cash interest paid on the Company's debts during the three and nine months ended September 30, 2021 were \$372,189 and \$1,434,395 respectively. For the three and nine months ended September 30, 2020, cash interest paid on the Company's debts were \$775,852 and \$1,639,697 respectively.

18. Subsequent Events

- a) Subsequent to the period end, the Company entered into the following commodity price contracts:

Product	Type	Volume	Price	Index	Term
Crude oil	Swap	400 bbl/d	US\$19.50	WCS Differential	Jan. 1, 2022
Crude oil	Swap	200 bbl/d	US\$19.00	WCS Differential	Jan. 1, 2022 – Mar. 31, 2022
Crude oil	Sold Call	125 bbl/d	US\$88.40(call sell), net premium US\$1.65/bbl	WTI-NYMEX	Apr. 1, 2022 – Aug. 31, 2022



Hemisphere ENERGY

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Dorlyn Evancic, CPA, CGA
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Ian Duncan, P.Eng.
Chief Operating Officer

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

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Calgary, Alberta

AUDITOR

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*(2) Compensation & Corporate Governance
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