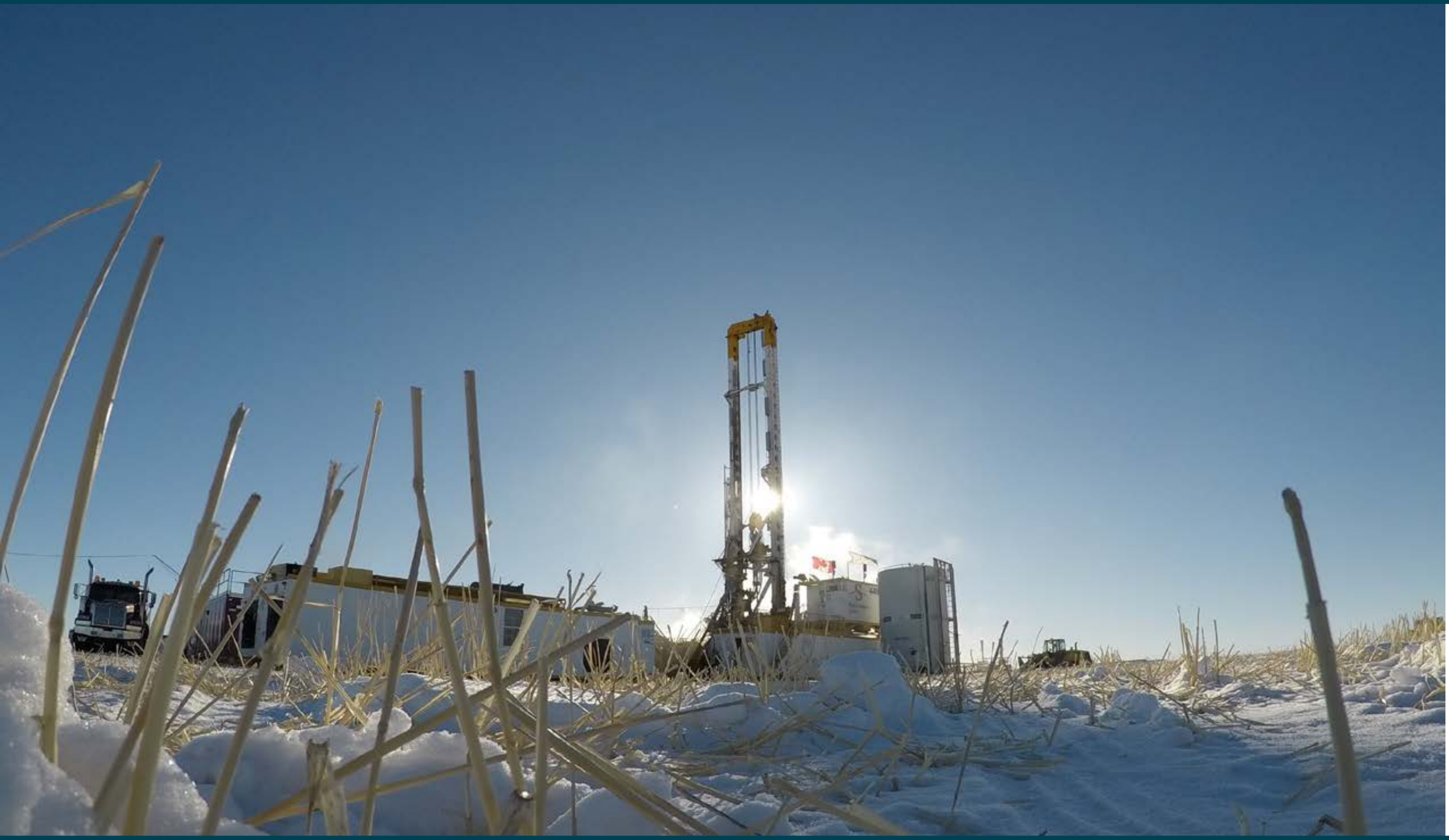


www.hemisphereenergy.ca

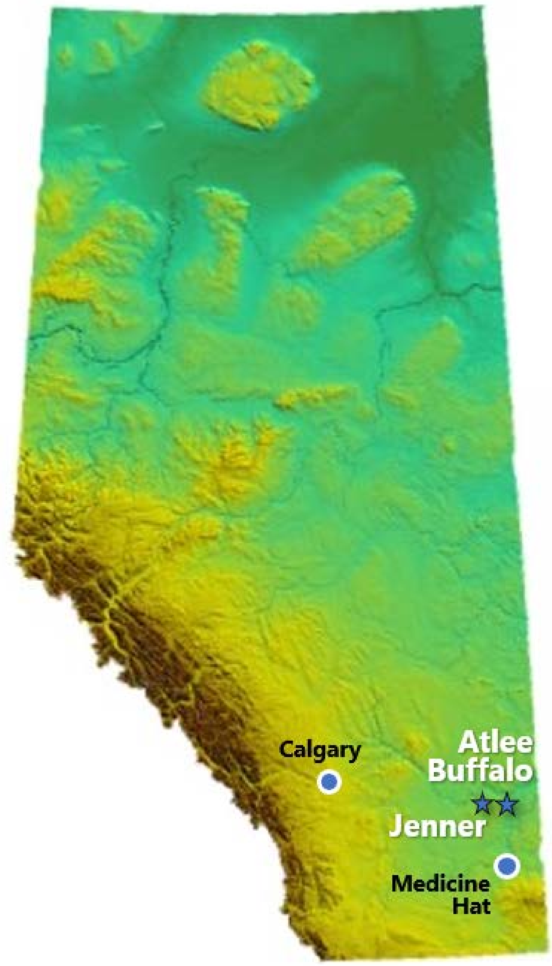
TSX-V: HME
OTCQX: HMENF

Hemisphere ENERGY

2020 ANNUAL REPORT

Corporate Summary

Hemisphere Energy Corporation is a Canadian oil company focused on the sustainable growth of our high-netback, low decline heavy oil pools utilizing enhanced oil recovery methods and proven exploitation technologies. Hemisphere trades on the TSX Venture Exchange as a Tier 1 issuer under the symbol "HME" and on the OTCQX Best Market under the symbol "HMENF".



2021 Annual General and Special Meeting of Shareholders

June 15, 2021 at 9:00am Pacific Time
Harper Grey LLP
3200 – 650 West Georgia Street,
Vancouver, British Columbia

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2020 FINANCIAL AND OPERATING HIGHLIGHTS

	Year Ended December 31 2020	2019
FINANCIAL		
Petroleum and natural gas revenue	**$ 18,660,257**	$ 31,511,084
Operating field netback[(1)]	**10,745,098**	20,123,062
Operating netback[(2)]	**14,459,691**	18,719,149
Cash flow provided by operating activities	**9,389,702**	10,451,802
Adjusted funds flow from operations[(3)]	**9,294,933**	13,043,478
Per share, basic and diluted[(3)]	**0.11**	0.14
Net income (loss)	**(415,908)**	1,577,810
Per share, basic and diluted	**(0.00)**	0.02
Capital expenditures	**1,685,422**	10,947,329
Net debt[(4)]	**24,429,191**	31,982,764
Gross term loan[(5)]	**$ 26,096,500**	$ 34,418,200
Average daily production		
Heavy oil (bbl/d)	**1,692**	1,607
Natural gas (Mcf/d)	**88**	342
NGL (bbl/d)	**-**	1
Combined (boe/d)	**1,706**	1,665
Oil and NGL weighting	**99%**	97%
Average sales prices		
Heavy oil ($/bbl)	**$ 30.03**	$ 53.30
Natural gas ($/Mcf)	**2.14**	1.87
NGL ($/bbl)	**68.84**	42.05
Combined ($/boe)	**$ 29.88**	$ 51.85
Operating netback ($/boe)		
Petroleum and natural gas revenue	**$ 29.88**	$ 51.85
Royalties	**(2.73)**	(6.38)
Operating costs	**(7.41)**	(9.81)
Transportation costs	**(2.53)**	(2.55)
Operating field netback[(1)]	**17.21**	33.11
Realized commodity hedging gain (loss)	**5.95**	(2.31)
Operating netback[(2)]	**$ 23.16**	$ 30.80

Notes:

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

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

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

(4) Net debt is a non-IFRS measure calculated as current assets minus current liabilities, excluding fair value of financial instruments, lease and warrant liabilities, plus gross term loan.

(5) Gross term loan is calculated as the total USD draws, less any payments, on the term loan translated to Canadian Dollars at the period end exchange rate.

	As at December 31 2020	2019
RESERVES		
Proved (Mboe)[(1)]	**11,679.7**	9,911.8
Proved plus Probable (Mboe)[(1)]	**14,921.2**	12,195.7
COMMON SHARES		
Common shares outstanding	**86,782,302**	88,902,302
Stock options outstanding	**8,429,000**	8,184,000
Warrants outstanding	**13,750,000**	13,750,000
Fully diluted shares outstanding	**108,961,302**	110,836,302
Weighted-average shares outstanding – basic	**88,161,583**	89,662,316
Weighted-average shares outstanding – diluted	**88,161,583**	90,362,590

Note:

(1) Reserves as attributed by the Company's independent reserves evaluator, McDaniel & Associates Consultants Ltd., in its report dated March 5, 2021 and effective as of December 31, 2020, prepared in accordance with the COGE Handbook and National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

MESSAGE TO SHAREHOLDERS

Dear Fellow Hemisphere Shareholders,

I hope this letter finds everyone healthy and safe as we look forward to a very prosperous 2021.

While the past year brought the oil and gas industry numerous challenges, Hemisphere reacted quickly by cutting our capital spending program, reducing operating costs, focusing on maintaining production and cash flow, and paying down a significant portion of our debt.

Our team prioritized essential capital expenditures, and spent only $1.7 million during the year. This capital was dedicated to expanding our waterflood injection pattern and preparing for polymer flood conversion in the Atlee Buffalo G pool. Reservoir simulation and analogue analysis both show great potential for a substantial increase in oil production and recovery from these conversions. In fact, Hemisphere's production through the latter half of April is already trending 25% higher than in the fourth quarter from the three waterflood injector conversions that were done at the end of 2020.

The operations team did an exceptional job lowering our field operating costs by 20% over the previous year to $9.94/boe. This is an outstanding result for a heavy oil company, and helped us to keep all of our employees, contractors, and small business partners employed throughout such an extremely volatile market.

Maintaining production with minimal capital spending and no drilling activity was a key corporate goal. We managed to obtain 2% year over year growth in average annual production at just over 1,700 boe/d (99% heavy oil). Negligible overall production decline, and subsequent incline from waterflood conversions, is a testament to our stable, high quality oil reserves.

Despite a reduction in annual revenue by over 40% in 2020 due to the impact of COVID-19 on oil prices, we achieved adjusted funds flow from operations of $9.3 million. This allowed us to lower our previously outstanding debt by almost 25%, thereby strengthening our leverage metrics as we move forward into growth mode.

Hemisphere is at an exciting point in its journey forward. In 2017, we took a term-loan to finance the development of our first-class oil resource. We were cash flow poor, but extremely asset rich. Things have changed, and we are now a simple, clean, and unique small-cap oil company with plenty of room for growth and cash flow to fund it. Over the coming two years, we intend to continue developing our Atlee Buffalo oil pools, pay down our debt, and return value to our shareholders through our share buyback program and potential future dividends. Thank you for your continued support, and we hope you'll hang on for the ride!!

Best Regards,
(Signed) "*Don Simmons*"
President & CEO

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding, among other matters, forward-looking information, non-IFRS measures, analogous information, reserves advisories and original oil in place. This Message to Shareholders should be read in conjunction with the audited annual financial statements of Hemisphere Energy Corporation together with Management's Discussion and Analysis for the year ended December 31, 2020, which can be found on SEDAR at www.sedar.com and is subject to the same cautionary statements as set out therein.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at April 28, 2021

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the year ended December 31, 2020 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the audited Annual Financial Statements and related notes for the years ended December 31, 2020 and 2019. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.

The information in this MD&A is based on the audited annual financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

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

Business Overview

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

Atlee Buffalo, Alberta

The Company owns and operates all of its wells in the Atlee Buffalo area. The property is accessible year-round and is located north of Medicine Hat in southeastern Alberta. Hemisphere has a 100% working interest in 8,800 net acres.

Jenner, Alberta

Hemisphere owns and operates all of its wells and has a land position of 8,024 net acres in the Jenner area. The property is accessible year-round and is located 25 kilometers west of the Company's Atlee Buffalo property in southeastern Alberta.

Operating Results

The Company generated adjusted funds flow from operations[1] of $9,294,933 ($0.11/share) for the year ended December 31, 2020, as compared to $13,043,478 ($0.14/share) for the year ended December 31, 2019. For the fourth quarter of 2020, the Company generated adjusted funds flow from operations of $2,380,051 ($0.03/share) as compared to adjusted funds flow from operations of $4,324,443 ($0.05/share) for the fourth quarter of 2019. The decrease in adjusted funds flow from operations for

[1] *Adjusted funds flow from operations, is a non-IFRS measure that represents cash generated by operating activities, before changes in non-cash working capital and adjusted for any decommissioning expenditures, and may not be comparable to measures used by other companies.*

three and twelve months ended December 31, 2020 are primarily due to the decline in realized commodity pricing of 20% and 42% over the comparable three and twelve months in 2019, as discussed below under 'Average Benchmark and Realized Prices'.

The Company reported a net loss of $415,908 ($0.00/share) for the year ended December 31, 2020 as compared to net income of $1,577,810 ($0.02/share) for the year ended December 31, 2019. The decrease in annual net income for 2020 of $1,993,718 is primarily attributed to the decrease in operating field netback of $9,377,964 and an increase in impairment of $3,111,946, offset by increases in realized and unrealized hedging gains of $5,118,506 and $3,308,750, and a decrease in depletion and depreciation expenses of $1,237,723. For the fourth quarter of 2020, the Company reported a net loss of $1,501,079 ($0.02/share) compared to a net loss of $2,888,075 ($0.03/share) for the fourth quarter of 2019. This improvement of $1,386,994 in the fourth quarter of 2020 includes an increase in foreign exchange gain of $1,293,291 over the comparable period in 2019.

Production

	Three Months Ended December 31		Year Ended December 31	
By product	**2020**	2019	**2020**	2019
Heavy oil (bbl/d)	**1,507**	2,101	**1,692**	1,607
Natural gas (Mcf/d)	**88**	381	**88**	342
NGL (bbl/d)	**-**	2	**-**	1
Total (boe/d)	**1,522**	2,166	**1,706**	1,665
Oil and NGL weighting	**99%**	97%	**99%**	97%

In the fourth quarter of 2020, the Company's average daily production was 1,522 boe/d (99% heavy crude oil and 1% conventional natural gas). This represents a 30% decrease in production from the fourth quarter of 2019. This decrease is primarily due to the conversion of three wells in the Atlee G Pool from oil producing wells to water injectors, and wells being on flush production through the fourth quarter of 2019 due to a significant drilling program in the latter half of that year. The Company's average daily production for the year ended December 31, 2020 increased by 2% to 1,706 boe/d (99% heavy crude oil and 1% conventional natural gas) from the year ended December 31, 2019. This increase in production is attributed to the continued success of the base waterflood performance in the Upper Mannville F and G pools, despite the shut-in of high water cut Jenner wells during the second quarter.

Average Benchmark and Realized Prices

	Three Months Ended December 31		Year Ended December 31	
	2020	2019	**2020**	2019
Benchmark Prices				
WTI (US$/bbl)(1)	**$ 42.66**	$ 56.96	**$ 39.40**	$ 57.02
Exchange rate (Cdn$/US$)	**1.3029**	1.3198	**1.3400**	1.3267
WTI (C$/bbl)	**55.58**	75.18	**52.79**	75.65
WCS Diff ($C/bbl)	**12.16**	20.89	**17.20**	16.88
WCS (C$/bbl)(2)	**43.42**	54.29	**35.59**	58.77
AECO natural gas ($/Mcf)(3)	**2.65**	2.48	**2.24**	1.80
Average realized prices				
Heavy oil ($/bbl)	**38.47**	48.57	**30.03**	53.30
Natural gas ($/Mcf)	**2.51**	2.21	**2.14**	1.87
NGL ($/bbl)	**-**	38.64	**68.84**	42.05
Combined ($/boe)	**$ 38.24**	$ 47.53	**$ 29.88**	$ 51.85

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

The Company's oil and natural gas sales and financial results are significantly influenced by changes in commodity prices. The West Texas Intermediate pricing ("WTI") at Cushing, Oklahoma is the benchmark reference price for North American crude oil prices. Canadian oil prices, including Hemisphere's heavy crude oil, are based on price postings, which is WTI-adjusted for transportation, quality and the currency conversion rates from United States dollar ("USD") to Canadian dollar.

The Company's combined average realized price decreased by 20% from $47.53/boe during the three months ended December 31, 2019 to $38.24/boe during the three months ended December 31, 2020. The Company's combined average realized price decreased by 42% from $51.85/boe during the twelve months ended December 31, 2019 to $29.88/boe during the twelve months ended December 31, 2020. This decrease is the result of decreases in realized WTI pricing of US$14.30/bbl and US$17.62/bbl respectively, combined with changes to the differential between WCS and WTI pricing of ($8.73)/bbl and $0.32/bbl respectively, for the three and twelve ended December 31, 2020 over the comparable periods in 2019.

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

Product	Type	Volume	Price	Index	Term
Crude oil	3-Way	625 bbl/d	US$40.00(put)/US$48.00(put)/US$60(call)	WTI-NYMEX	Apr. 1, 2021 – Jun. 30, 2021
Crude oil	Phys. Swap	400 bbl/d	US$48.00	WCS	Apr. 1, 2021 – Jun. 30, 2021
Crude oil	Swap	200 bbl/d	US$11.15	WCS Differential	May 1, 2021 – Jun. 30, 2021
Crude oil	Phys. Swap	200 bbl/d	US$46.05	WCS	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Phys. Swap	200 bbl/d	US$9.45	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	100 bbl/d	US$56.75	WTI-NYMEX	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	500 bbl/d	US$60.07	WTI-NYMEX	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	200 bbl/d	US$11.50	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	100 bbl/d	US$11.20	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	100 bbl/d	US$11.15	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	800 bbl/d	US$58.45	WTI-NYMEX	Oct. 31, 2021 – Dec. 31, 2021
Crude oil	Swap	100 bbl/d	US$12.50	WCS Differential	Oct. 31, 2021 – Dec. 31, 2021
Crude oil	Swap	100 bbl/d	US$12.00	WCS Differential	Oct. 31, 2021 – Dec. 31, 2021
Crude oil	Swap	800 bbl/d	US$57.03	WTI-NYMEX	Jan. 1, 2022 – Mar. 31, 2022
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

At December 31, 2020, the commodity contracts were fair valued as an asset of $193,688 recorded on the statement of financial position, an unrealized loss for the three month period of $1,194,784, and an unrealized gain for the twelve month period of $1,323,231, respectively (December 31, 2019 – unrealized losses of $1,162,462 and $1,985,519, respectively).

Revenue

	Three Months Ended December 31		Year Ended December 31	
	2020	2019	**2020**	2019
Heavy oil	**$ 5,334,243**	$ 9,388,453	**$ 18,591,509**	$ 31,257,434
Natural gas	**20,354**	77,547	**68,531**	234,123
NGL	**-**	6,078	**217**	19,527
Total	**$ 5,354,596**	$ 9,472,078	**$ 18,660,257**	$ 31,511,084

Revenue for the three and twelve months ended December 31, 2020 decreased by 43% and 41%, respectively, from the comparable periods in 2019. These declines are mainly attributed to decreases of 20% and 42% in the Company's combined average realized prices over the comparable periods in 2019.

Operating Netback

	Three Months Ended December 31		Year Ended December 31	
	2020	2019	**2020**	2019
Operating netback				
Revenue	**$ 5,354,596**	$ 9,472,078	**$ 18,660,257**	$ 31,511,084
Royalties	**(597,340)**	(990,107)	**(1,703,489)**	(3,877,854)
Operating costs	**(1,468,134)**	(1,665,713)	**(4,630,390)**	(5,959,810)
Transportation costs	**(357,657)**	(531,928)	**(1,581,280)**	(1,550,357)
Operating field netback(1)	**2,931,465**	6,284,329	**10,745,098**	20,123,062
Realized commodity hedging gain (loss)	**628,346**	(165,651)	**3,714,593**	(1,403,913)
Operating netback(2)	**$ 3,559,811**	$ 6,118,678	**$ 14,459,691**	$ 18,719,149
Operating netback ($/boe)				
Revenue	**$ 38.24**	$ 47.53	**$ 29.88**	$ 51.85
Royalties	**(4.27)**	(4.97)	**(2.73)**	(6.38)
Operating costs	**(10.49)**	(8.36)	**(7.41)**	(9.81)
Transportation costs	**(2.55)**	(2.67)	**(2.53)**	(2.55)
Operating field netback(1)	**20.94**	31.53	**17.21**	33.11
Realized commodity hedging gain (loss)	**4.49**	(0.83)	**5.95**	(2.31)
Operating netback(2)	**$ 25.43**	$ 30.70	**$ 23.16**	$ 30.80

Notes:

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

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

Royalties for the fourth quarter of 2020 were $4.27/boe, representing a 14% decrease from the fourth quarter of 2019. Royalties for the year ended December 31, 2020 were $2.73/boe, representing a 57% decrease over the year ended December 31, 2019. These decreases were primarily the result of lower realized commodity prices.

Operating costs include all costs for gathering, processing, dehydration, compression, water processing and marketing of the heavy oil, natural gas and NGLs, as well as additional costs incurred periodically for maintenance and repairs. Operating costs for the three months ended December 31, 2020 decreased on an absolute basis by $197,579 or 12% but increased on a per boe basis by $2.13 or 25% over the comparable period in 2019. For the year ended December 31, 2020 operating costs decreased on an absolute basis by $1,329,420 or 22% and on a per boe basis by $2.40 or 24% over the comparable period in 2019. As a direct result of the historically low realized commodity prices throughout 2020 due to the ongoing global pandemic, the Company took steps to reduce operating costs. The Company shut in the majority of high water cut production in Jenner in Q2/2020, worked with vendors and oilfield service providers for temporary rate reductions, optimized maintenance work, optimized chemical use, and reduced operator overtime. The slight increase in operating costs per boe in the fourth quarter of 2020 is due those costs being distributed across decreased production resulting from the conversion of three producing wells in the Atlee Buffalo G Pool to water injectors. The Company continues to work to find efficiencies in its operations to keep operating costs low.

Transportation costs include all costs incurred to transport emulsion, oil, and gas sales to processing and distribution facilities. Transportation costs were $2.55/boe during the fourth quarter of 2020, which is a

$0.12/boe decrease over the comparable quarter in 2019. Transportation costs were $2.53/boe for the year ended December 31, 2020, which represents a $0.02/boe decrease over the same period in 2019.

Operating netback for the three and twelve months ended December 31, 2020 were $25.43/boe and $23.16/boe respectively, 17% and 25% lower than the comparable periods in 2019. This is mainly due to the 20% and 42% decrease in the Company's combined average realized price over the comparable periods, offset by the lower royalties and operating costs discussed above, and the respective $4.49/boe and $5.95/boe realized hedging gains in the comparable three and twelve month periods of 2020 (losses of $0.83/boe for the three months and of $2.31/boe for the year ended December 31, 2019).

Exploration and Evaluation

Exploration and evaluation expenses generally consists of certain geological and geophysical costs, expiry of undeveloped lands, and costs of uneconomic exploratory wells. Exploration and evaluation expenses for the three months ended December 31, 2020 and 2019 were $221,312 and $994,518, respectively. For the years ended December 31, 2020 and 2019, exploration and evaluation expenses were $258,269 and $1,047,447, respectively.

Depletion and Depreciation

	Three Months Ended December 31				Year Ended December 31			
		2020		2019		**2020**		2019
Depletion expense	**$**	**891,225**	$	1,539,348	**$**	**4,378,402**	$	5,617,663
Depreciation expense		**26,006**		28,355		**111,409**		109,871
Total	**$**	**917,231**	$	1,567,703	**$**	**4,489,811**	$	5,727,534
$ per boe	**$**	**6.55**	$	7.87	**$**	**7.19**	$	9.42

The depletion rate is calculated using the unit-of-production method on Proved and Probable oil and natural gas reserves, taking into account the future development costs ("FDC") to develop and produce undeveloped and non-producing reserves.

Depletion and depreciation expenses for the three months ended December 31, 2020 decreased to $6.55/boe from $7.87/boe for the same period in 2019. For the year ended December 31, 2020, depletion and depreciation expenses decreased to $7.19/boe from $9.42/boe for the same period in 2019. The decrease in depletion expense for the three months and year ended December 31, 2020 over the comparable periods in 2019 is due to realized impairment, as discussed below, in combination with the amortization of production over a larger reserve base from the Company's December 31, 2020 independent engineer's evaluation report as prepared by McDaniel and Associates Consultants Ltd.

Impairment

At December 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 a significant reduction in one CGU's reserve value. It was determined that the carrying amount of Jenner CGU exceeded its recoverable amount of $1,211,160 for the year ended December 31, 2020. Accordingly, the Company recognized an impairment charge of $2,161,477 as at December 31, 2020. This impairment charge was in addition to a previous impairment charge of $3,859,110 for Jenner, which was recognized as at March 31, 2020. No impairment was recognized for Atlee Buffalo CGU 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, royalties, operating costs, future development costs and discount rates specific to the underlying composition of assets residing in each CGU.

Capital Expenditures

	Three Months Ended December 31		Year Ended December 31	
	2020	2019	**2020**	2019
Land and lease	**$ 23,776**	$ 18,617	**$ 34,064**	$ 129,263
Geological and geophysical	**183,585**	123,557	**865,909**	447,477
Drilling and completions	**145,397**	326,473	**483,845**	7,812,851
Facilities and infrastructure	**265,290**	500,064	**301,604**	2,557,737
Total capital expenditures(1)	**$ 618,048**	$ 968,711	**$ 1,685,422**	$ 10,947,329

Note:

(1) Total capital expenditures include property, plant, and equipment, exploration and evaluation expenditures, and capitalized G&A, and exclude decommissioning costs and non-cash items.

The development capital spent during the year ended December 31, 2020 focused on projects that have long-term operating costs savings and will increase oil recovery, including the conversion of three producing wells to injectors, and the evaluation and planning of future polymer floods.

General and Administrative Expense ("G&A")

	Three Months Ended December 31		Year Ended December 31	
	2020	2019	**2020**	2019
Gross G&A	**$ 569,905**	$ 1,054,091	**$ 2,582,012**	$ 2,699,855
Capitalized G&A	**(104,312)**	(125,795)	**(629,454)**	(580,389)
Total	**$ 465,593**	$ 928,296	**$ 1,952,558**	$ 2,119,466
$ per boe	**$ 3.33**	$ 4.66	**$ 3.13**	$ 3.49

General and administrative ("G&A") expenses decreased by 50% and 8% on an absolute basis for the three months and year ended December 31, 2020, and on a per boe basis by 29% and 10% respectively over the comparable period in 2019. The G&A costs decreased in the fourth quarter mainly due to reduced bonuses. The Company also recorded a reduction in wages of $93,169 through claims received from the Canada Revenue Agency under the Canada Emergency Wage Subsidy program to support businesses through the COVID-19 pandemic and subsequent economic downturn.

The Company capitalizes some general and administrative expenses which can be attributed to any costs incurred during the period relating to its development and exploration activities. For the three months and year ended December 31, 2020, capitalized general and administrative expenses decreased by $21,483 and increased by $49,065, over the respective comparable periods in 2019.

Share-based Payments

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees and consultants of the Company.

In June of 2020 the Company granted 1,500,000 stock options to officers, directors, employees and consultants at an exercise price of $0.12 over five years, all of which vested immediately. The Company uses a Black-Scholes option pricing model to calculate the fair value of stock option grants where the corresponding expense is recognized over the option vesting period. The total valuation of the options from grants in the year ended December 31, 2020, was $150,866, of which $115,664 was expensed as stock-based compensation and $35,202 was capitalized.

	Three Months Ended December 31				Year Ended December 31			
		2020		2019		**2020**		2019
Share-based payments (recovery)	**$**	**-**	$	(108,027)	**$**	**115,664**	$	9,052
Capitalized costs		**-**		-		**35,202**		62,866
Total share-based payments (recovery)	**$**	**-**	$	(108,027)	**$**	**150,866**	$	71,918

Finance Expense

	Three Months Ended December 30				Year Ended December 30			
		2020		2019		**2020**		2019
Loan interest	**$**	**661,045**	$	843,425	**$**	**3,002,024**	$	3,464,170
Lease interest		**9,363**		10,555		**39,331**		45,073
Loss/(gain) in fair value of warrant liability		**449,107**		344,533		**(228,256)**		656,620
Accretion of debt issuance costs		**168,099**		207,201		**491,144**		407,173
Amortization of deferred charges		**(71,389)**		(35,093)		**136,777**		144,407
Accretion of decommissioning liabilities		**32,256**		37,233		**129,023**		148,932
Total	**$**	**1,248,481**	$	1,407,854	**$**	**3,570,042**	$	4,866,375
$ per boe	**$**	**8.92**	$	7.06	**$**	**5.72**	$	8.01

Loan interest for the three months and year ended December 31, 2020 decreased by $182,380 and $462,146 over the respective periods in 2019 which is the result of a decrease in the 3-month LIBOR rate for the periods upon which the term loan quarterly interest is calculated, combined with a reduction in the principle of the term loan via US$6 million repayments during the year. The Company also recorded $9,363 and $39,330 of lease interest on right-of-use assets liability under IFRS 16 for the three months and year ended December 31, 2020. The finance expense per boe has decreased by 29% compared to 2019 due primarily to reduced loan interest costs and the reduction in the warrant liability valuation.

Accretion expense represents the adjusted present value of the Company's decommissioning obligations which include the abandonment and reclamation costs associated with wells and facilities. During the three months and year ended December 31, 2020, accretion expense decreased by 13% over the comparable periods in 2019.

Remeasurement Loss/(Gain) on Warrant Liability

For the three months and year ended December 31, 2020, the Company recognized a remeasurement loss of $449,107, and a gain of $228,256, respectively ($344,533 loss and $656,620 loss for comparable periods in the prior year[2]). The Company issued 13,750,000 warrants to a third-party lender on September 15, 2017 in conjunction with its term loan. Each warrant entitles the holder to purchase one common share of Hemisphere at an exercise price of $0.28 per share prior to September 15, 2022. The exercise price of the warrants 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.

[2] *Prior period comparisons have been revised as outlined in note 4 in the December 31, 2020 audited financial statements.*

The warrants are classified as a financial liability as a result of a cashless exercise provision. In no event will the Company be required to settle the warrants through a cash payment. The fair value of the warrants are revalued every quarter using the Black and Scholes pricing model. Valuations for the current and previous quarter were calculated with the following inputs:

	December 31, 2020	December 31, 2019
Share Price	$ 0.20	$ 0.21
Risk-free interest rate	0.39%	1.68%
Expected life (years)	1.70	2.70
Expected volatility	112%	109%

Tax Pools

The Company has approximately $60.2 million (2019 - $67.6 million) of tax pools available to be applied against future income for tax purposes. Based on available pools and current commodity prices, the Company does not expect to pay current income tax in 2020 and any taxes payable beyond 2020 will primarily be a function of commodity prices, capital expenditures and production volumes.

	Deduction Rate	**December 31, 2020**	December 31, 2019
Canadian exploration expense (CEE)	100%	**$ 3,336,823**	$ 3,336,823
Canadian development expense (CDE)	30%	**19,655,797**	19,140,307
Canadian oil and gas property expense (COGPE)	10%	**4,438,962**	4,932,180
Non-capital losses carry forwards (NCL)	100%	**31,174,540**	37,947,967
Undepreciated capital cost (UCC)	20-55%	**811,977**	1,086,076
Share issuance costs and other	Various	**748,801**	1,140,239
Total		**$ 60,166,900**	$ 67,583,592

Selected Annual Information

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

	Year Ended December 31		
	2020	2019	2018
Average daily production (boe/d)	**1,706**	1,665	1,111
Petroleum and natural gas revenue	**$ 18,660,257**	$ 31,511,084	$ 17,756,439
Operating netback(1)	**14,459,691**	18,719,149	6,415,532
Cash provided by operating activities	**9,389,702**	10,451,802	2,230,071
Net income (loss)(5)	**(415,908)**	1,577,810	(4,375,886)
Per share, basic and diluted	**(0.00)**	0.02	(0.05)
Adjusted funds flow from operations(2)	**9,294,933**	13,043,478	2,012,847
Per share, basic and diluted	**0.11**	0.14	0.02
Average realized price ($/boe)	**29.88**	51.85	43.78
Operating netback ($/boe)(1)	**23.16**	30.80	15.82
Capital expenditures, including property acquisitions	**1,685,422**	10,947,329	16,057,316
Net debt(3)	**24,429,191**	31,982,764	35,446,384
Gross term loan(4)	**26,096,500**	34,418,200	35,458,800
Total assets	**$ 52,479,049**	$ 61,520,356	$ 59,197,488

Notes:

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

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

(3) Net debt is a non-IFRS measure calculated as current assets minus current liabilities, excluding fair value of financial instruments, lease and warrant liabilities, plus gross term loan.

(4) Gross term loan is calculated as the total USD draws on the term loan translated to Canadian Dollars at the period end exchange rate.

(5) The net income (loss) has changed from prior presentation due to the recast of warrants from equity to debt, see Note 4. of the Audited Annual Financial Statements

Summary of Quarterly Results

	2020				2019			
	Dec. 31 Q4[(1)]	Sep. 30 Q3[(2)]	Jun. 30 Q2[(3)]	Mar. 31 Q1[(4)]	Dec. 31 Q4[(5)]	Sep. 30 Q3[(6)]	Jun. 30 Q2[(7)]	Mar. 31 Q1[(8)]
Average daily production (boe/d)	**1,522**	1,686	1,645	1,973	2,166	1,738	1,367	1,379
Heavy oil and natural gas revenue	**5,354,596**	5,889,668	2,452,793	4,963,201	9,472,078	8,207,658	7,396,095	6,435,252
Operating field netback[(9)]	**2,931,465**	3,862,969	1,259,856	2,690,808	6,284,329	5,206,705	4,357,767	4,274,261
Cash provided by operating activities	**2,127,640**	3,087,950	816,755	3,357,353	3,519,506	3,792,868	2,524,737	612,621
Adjusted funds flow from operations[(10)]	**2,380,051**	3,406,612	1,353,680	2,154,594	4,324,443	3,547,634	2,548,388	2,620,947
Per share, basic and diluted	**0.03**	0.04	0.02	0.02	0.05	0.04	0.03	0.03
Net income (loss)[(12)]	**(1,501,079)**	1,410,470	(3,420,988)	3,095,690	(2,888,075)	2,744,160	3,142,104	(1,420,379)
Per share, basic and diluted	**(0.02)**	0.02	(0.04)	0.02	(0.03)	0.03	0.03	(0.01)
Combined average realized price ($/boe)	**38.24**	37.96	16.38	27.64	47.53	51.34	59.44	51.85
Operating netback ($/boe)[(11)]	**25.43**	30.41	17.74	19.63	30.70	30.64	31.10	30.89

Notes:

(1) The decreases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to a decrease in realized commodity prices and average production rates.
(2) The increases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to an increase in realized commodity prices.
(3) The decreases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to a decrease in realized commodity prices and average production rates.
(4) The decreases in revenue, netbacks and adjusted funds flow from (used in) operations are due primarily to a decrease in realized commodity prices.
(5) The increases in revenue, netbacks and adjusted funds flow from operations are due to increases in production rates and realized commodity prices.
(6) The increases in revenue, netbacks and adjusted funds flow from operations are due to increases in production rates.
(7) The increases in revenue and netbacks are due to increases in realized commodity prices.
(8) The increases in revenue, netbacks and adjusted funds flow from operations are due to increases in realized commodity prices.
(9) Operating field netback per boe is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties, operating expenses and transportation costs on an absolute and per barrel of oil equivalent basis.
(10) Adjusted funds flow from operations is a non-IFRS measure that represents cash generated by operating activities, before changes in non-cash working capital and adjusted for any decommissioning expenditures, and may not be comparable to measures used by other companies.
(11) Operating netback is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) on an absolute and per barrel of oil equivalent basis
(12) The net income (loss) has changed from prior presentation due to the recast of warrants from equity to debt, see Note 4. of the Audited Annual Financial Statements

Outstanding Share Data

	April 28, 2021	**December 31, 2020**	December 31, 2019
Fully diluted share capital			
Common shares issued and outstanding	88,074,802	**86,782,302**	88,902,302
Stock options	6,759,000	**8,429,000**	8,184,000
Warrants	13,750,000	**13,750,000**	13,750,000
Total fully diluted shares outstanding	108,583,802	**108,961,302**	110,836,302

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 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 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.

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 six months ended December 31, 2020, the Company purchased and canceled 1,800,000 shares under the NCIB for $209,880 at an average cost of $0.12 per share.

Subsequent to the year ended December 31, 2020:

a) The Company has purchased and cancelled an additional 377,500 shares under the NCIB for $96,629 at an average cost of $0.26 per share, as at April 28, 2021.
b) The Company issued 1,670,000 shares for stock options exercised in February 2021.

The Company has the following stock options that are outstanding and exercisable as at April 28, 2021:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding April 28, 2021	Balance Exercisable April 28, 2021
$0.25	September 21, 2017	September 21, 2022	4,809,000	4,809,000
$0.28	October 2, 2017	October 2, 2022	150,000	150,000
$0.25	January 1, 2018	January 1, 2023	250,000	250,000
$0.12	March 1, 2019	March 1, 2024	50,000	50,000
$0.12	June 17, 2020	June 17, 2025	1,500,000	1,500,000
			6,759,000	6,759,000
Weighted-average exercise price			$0.22	$0.22

				Changes in the Year				
Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2019	Granted	Exercised	Forfeited/ Expired	Balance Outstanding Dec. 31, 2020	Balance Exercisable Dec. 31, 2020
$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	01-Jan-23	250,000	-	-	-	250,000	250,000
$0.12	01-Mar-19	01-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

Liquidity and Capital Management

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 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 also attempts to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

Management plans over the next two years to significantly lower debt while growing production and funds flow, which should allow the Company to accelerate internal projects, make strategic acquisitions, and increase return of capital to shareholders. In 2021, Hemisphere has set a capital program of approximately $6 million on polymer flood implementation, facilities upgrades, and a drilling program.

Management's forecasts may change materially based upon actual prices received, changes in future strip pricing, production volumes, operating costs, activity levels, cash flows, and the timing thereof and other factors which may or may not be within the control of the Company. 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.

a) Financing

The Company's net cash used in financing activities during the three and twelve months ended December 31, 2020 were $2,693,811 and $8,259,072, respectively. These funds are primarily a repayment of US$6,000,000 (CAD$7,914,175) towards the Company's term loan during the year 2020, plus shares purchased under the NCIB, and lease liability payments in the period.

b) 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 December 31, 2020 the Company had a term loan balance of US$20.5 million (CAD$26,096,500 at period close exchange rate) resulting from total draws of US26.5 million less total repayments of US$6.0 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. The Company issued 13,750,000 warrants, in conjunction with the term loan, entitling the Lender to purchase one common share of Hemisphere at an exercise price of $0.28/share prior to September 15, 2022.

The Term Loan is subject to certain quarterly financial and performance covenants 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.
6. The Company also has an annual financial covenant for its cash general and administrative costs for a base sum of $2.725 million per annum for the year ending December 31, 2020.

Covenants[3] table for the quarter ended December 31, 2020:

Ratio			Required	Actual December 31, 2020
1.	Interest Coverage Ratio	Greater than	3.00	4.55
2.	Total Leverage Ratio	Less than	3.25	2.15
3.	Minimum Average Production Boe/d	Greater than	1,500	1,522
4.	Proved Developed Producing Coverage Ratio	Greater than	1.00	2.22
5.	Total Proved Reserves Coverage Ratio	Greater than	1.50	3.93
6.	Annual gross General and Administrative Costs $MM	Less than	$2.725	$2.582

At December 31, 2020 the Company is in compliance with the financial and performance covenants as noted in the table above. In the event of a covenant violation, this would represent a default under the Term Loan and, if not remedied or waived by the lender, would result in the right of the lender to demand repayment of all amounts owed.

Management forecasts the Company will continue to meet all financial and operational covenants. Management's forecasts may change materially based upon actual prices received during the year, changes in future strip pricing, production volumes, operating costs, activity levels, cash flows, and the timing thereof and other factors which may or may not be within the control of the Company.

c) Capital Management

The Company manages its capital with the following objectives:

- Ensure sufficient flexibility to achieve the Company's ongoing business objectives including the replacement of production, funding of future growth opportunities, and pursuit of accretive acquisitions; and

- Maximize shareholder return through enhancing the Company's share value.

As part of its capital management process the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company.

[3] Details on the calculations of the covenants can be found in the Credit Agreement and the amendment thereto filed on SEDAR at www.sedar.com on September 22, 2017 and February 1, 2018 respectively, under the Company's profile.

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, incurring additional indebtedness under the Term Loan, issuing new debt instruments, other financial or equity-based instruments, adjusting capital spending, or disposing of assets. The capital structure is reviewed on an ongoing basis.

Commitments

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

As at December 31, 2020, the gross balance of the Term Loan was $26,096,500 (US$20,500,000), exclusive of the debt issuance costs. The Term Loan matures on September 15, 2022.

		2021	2022	2023	Total
Office agreement	$	78,420	78,420	32,675	189,515
Term loan		-	26,096,500	-	26,096,500
Term loan interest		2,218,203	1,663,652	-	3,881,855
	$	2,296,623	27,838,572	32,675	30,167,870

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet transactions.

Related Party Transactions

Compensation to key executive personnel, consisting of the Company's officers, directors and Chairman, was paid as follows:

	Years Ended December 31			
		2020		2019
Salaries and wages	**$**	**1,400,000**	$	1,580,000
Share-based payments		**80,462**		71,918

Proposed Transactions

As of the effective date, there are no outstanding proposed transactions.

Critical Accounting Estimates

The Company's significant accounting estimates, judgments and policies are set out in Notes 2 and 3 of the audited annual financial statements for the year ended December 31, 2020 and have been consistently followed in the preparation of the audited annual financial statements.

The preparation of the audited annual financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. A discussion of specific estimates and judgments employed in the preparation of the

Company's financial statements is included in the Company's audited annual financial statements for the year ended December 31, 2020.

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

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

Changes in Accounting Policies

New Accounting Standard

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 was effective January 1, 2020 and was 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.

Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, changes in assumptions can significantly affect estimated fair values. At December 31, 2020, the Company's financial instruments include cash and cash equivalents, accounts receivable, warrant liability, reclamation deposits, term loan, and accounts payable and accrued liabilities.

The fair values of cash and cash equivalents, accounts receivable, reclamation deposits and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these financial instruments. The fair value of the term loan is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

a) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

b) Non-derivative financial instruments

Financial assets

At initial recognition, financial assets are classified into four main categories: loans and receivables; held-to-maturity investments; available for sale financial assets; or financial assets at fair value through profit or loss. All financial assets are recognized initially at fair value, normally being the transaction price, plus any directly attributable transaction costs. Transaction costs for instruments at fair value through profit or loss are recognized immediately in earnings.

The subsequent measurement of financial assets depends on their classification.

Loans, receivables and held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Gains and losses are recognized in earnings when the asset is derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets are subsequently measured at fair value, with changes in fair value recognized directly in other comprehensive income until the asset is derecognized or determined to be impaired, at which time the cumulative change in fair value previously reported in other comprehensive income is recognized in earnings.

Financial assets at fair value through profit or loss are subsequently measured at fair value, with changes in those fair values recognized in earnings.

Financial assets are derecognized when the contractual rights to the cash flows expire, or when substantially all the risks and rewards of ownership of the financial asset are transferred to a third party.

Financial assets and liabilities are shown separately in the statement of financial position unless the Company has a legal right to offset the amounts and intends to either settle on a net basis or to realize the asset and settle the liability simultaneously, in which case they are presented on a net basis.

Impairment of financial assets

A financial asset that is not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after initial recognition and has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.
An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant financial assets are tested for impairment on an individual basis. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. The remaining financial assets are assessed collectively for impairment in groups that share similar credit risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses are recognized in earnings.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

Financial liabilities

At initial recognition, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities. All financial liabilities are recognized initially at fair value, normally being the transaction price less any directly attributable transaction costs. Transaction costs for instruments at fair value through profit or loss are recognized immediately in earnings.

The subsequent measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value, with changes in those fair values recognized in earnings.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the contractual obligation expires, is discharged, or cancelled. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in earnings.

c) Financial derivative instruments

The Company may use financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices and foreign exchange. These instruments are not used for trading or speculative purposes.

The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all derivative contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recognized at fair value. Transaction costs are recognized in earnings when incurred.

Physical delivery contracts are entered into for the purpose of delivery of oil in accordance with the Company's expected sale requirements, and therefore are not recorded in the statement of financial position. These contracts are recorded in revenue on their settlement dates.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized in earnings.

Risks

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

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

Business Risk

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its payment obligations. This risk arises principally from the Company's receivables from joint 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:

		December 31, 2020		December 31, 2019
Accounts receivable				
Marketing receivables	**$**	**1,767,578**	$	2,773,405
Trade receivables		**159,776**		11,438
Receivables from joint ventures		**5,309**		6,809
Reclamation deposits		**115,535**		115,535
	$	**2,048,198**	$	2,907,187

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they 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 December 31, 2020, the Company had net debt (current assets less current liabilities excluding fair value of financial instruments, lease and warrant liabilities, and including the gross term loan) of $24,429,191 (December 31, 2019 - $31,982,764). The Company funds its operations through operating cash flows and the term loan. At December 31, 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.

Market risk

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

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under the Company's Term Loan are subject to variable interest rates. A one percent change in interest rates would have a $261,000 annual effect on net income.

Foreign currency risk

The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency; except i) the Company's commodity prices are largely denominated in USD, and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales, and ii) the Company's Term Loan is denominated in USD and, as a result, the amount that the Company will be obligated to repay at the term of the loan will be affected by fluctuations in the exchange rate between the USD and the Canadian dollar at that time. A one percent change in the foreign exchange rate would have a $277,000 effect on the annual net income.

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 has derivative commodity contracts in place as further disclosed within this MD&A.

Other price risk

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

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. The full extent of the impact of COVID-19 on the Company's operations and future financial performance, including the recoverable amounts of its exploration and evaluation assets and property, plant and equipment, is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, the global roll-out of a vaccine and the virus' continued impact on financial markets. The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the audited annual financial statements, particularly related to recoverable amounts. There is a high degree of uncertainty regarding the estimates and assumptions used in determining the recoverable amounts including future crude oil and natural gas commodity prices, foreign exchange rates, discount rates and the Company's future crude oil and natural gas production. As the understanding of the longer-term impacts of COVID-19 develops, the estimates and assumptions used in determining the recoverable amounts could change and there could be a material financial impact in future periods.

Non-IFRS Measures

This document contains the terms "adjusted funds flow from operations," "operating netback", "operating field netback" and "net debt" which are not recognized measures under IFRS and may not be comparable to similar measures presented by other companies.

a) The Company considers adjusted funds flow from operations to be a key measure that indicates the Company's ability to generate the funds necessary to support future growth through capital investment and to repay any debt. Adjusted funds flow from operations is a measure that represents cash generated by operating activities, before changes in non-cash working capital and adjusted for decommissioning expenditures, and may not be comparable to measures used by other companies. Adjusted funds flow from operations per share is calculated using the same weighted-average number of shares outstanding as in the case of the earnings per share calculation for the period.

   A reconciliation of adjusted funds flow from operations to cash provided by operating activities is presented as follows:

	Three Months Ended December 31		Year Ended December 31	
	2020	2019	**2020**	2019
Cash provided by operating activities	**$ 2,127,640**	$ 3,519,508	**$ 9,389,702**	$ 10,451,802
Change in non-cash working capital	**247,111**	728,870	**(213,339)**	2,515,611
Adjust: Decommissioning obligation expenditures	**5,300**	76,065	**118,570**	76,065
Adjusted funds flow from operations	**$ 2,380,051**	$ 4,324,443	**$ 9,294,933**	$ 13,043,478
Per share, basic and diluted	**$ 0.03**	$ 0.05	**$ 0.11**	$ 0.14

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

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

d) Net debt is closely monitored by the Company to ensure that its capital structure is maintained by a strong balance sheet to fund the future growth of the Company. Net debt is used in this document in the context of liquidity and is calculated as the total of the Company's current assets less current liabilities, excluding the fair value of financial instruments, lease and warrant liabilities, and including the gross term loan. There is no IFRS measure that is reasonably comparable to net debt.

The following table outlines the Company calculation of net debt:

	As at December 31			
		2020		2019
Current assets[1]	**$**	**3,001,611**	$	4,301,975
Current liabilities[1]		**(1,334,300)**		(1,866,538)
Gross term loan[2]		**(26,096,500)**		(34,418,200)
Net debt	**$**	**(24,429,191)**	$	(31,982,764)

Notes:
(1) Excluding fair value of financial instruments and lease and warrant liabilities.
(2) Gross term loan is calculated as the total USD draws on the term loan translated to Canadian Dollars at the period end exchange rate.

Boe Conversion

Within this document, petroleum and natural gas volumes and reserves are converted to a common unit of measure, referred to as a barrel of oil equivalent ("boe"), using a ratio of 6,000 cubic feet of natural gas to one barrel of oil. Use of the term boe may be misleading, particularly if used in isolation. The conversion ratio is based on an energy equivalent method and does not necessarily represent a value equivalency at the wellhead.

Forward-Looking Statements

In the interest of providing Hemisphere's shareholders and potential investors with information regarding the Company, including management's assessment of the future plans and operations of Hemisphere, certain statements contained in this MD&A (particularly the Message to Shareholders) constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular, but without limiting the foregoing, this document (particularly the Message to Shareholders) contains forward-looking statements pertaining to the following: volumes and estimated net present value of the future net revenue of Hemisphere's oil and natural gas reserves; future oil and natural gas prices; future operational activities; and plans for continued growth in the Company's production, reserves and cash flow; the compliance of the Company under its credit agreements, and the expectation for the increasing of the Company's reserves with continued successful waterflood operations. In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

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

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

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

Analogous Information

The information concerning analogue pools in this MD&A (particularly in the Message to Shareholders, included with the Annual Report) may be considered to be "analogous information" within the meaning of applicable securities laws. Such information was obtained by Hemisphere management throughout the year ended December 31, 2020 from various public sources including information available to Hemisphere through the Alberta Energy Regulator. Management believes that the performance of such pools is analogous to the pools in which the Company has an interest at its Atlee Buffalo property area and is relevant as it may help to demonstrate the reaction of such pools to waterflood stimulations. Hemisphere is unable to confirm whether the analogous information was prepared by a qualified reserves evaluator or auditor or in accordance with National Instruments 51-101 – Standards of Disclosure for Oil and Gas Activities and the COGE Handbook and therefore, the reader is cautioned that the data relied upon by Hemisphere may be in error and/or may not be analogous to the oil pools in which Hemisphere holds an interest.

Reserves Advisories

It should not be assumed that the net present value of the estimated net revenues of the reserve presented in herein represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions upon which such estimates are made will be attained and variances could be material. The reserve estimates of Hemisphere's crude oil, natural gas liquids and natural gas reserves and any estimated recovery factors provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.

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. Independent auditors appointed by the shareholders have examined the financial statements. Their report is presented with the financial statements. The Audit Committee, consisting of independent members of the Board of Directors, has reviewed the financial statements with management and the independent auditors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Vancouver, British Columbia
April 28, 2021

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hemisphere Energy Corporation

Opinion

We have audited the financial statements of Hemisphere Energy Corporation (the "Company"), which comprise:

- the statements of financial position as at December 31, 2020 and December 31, 2019
- the statements of income (loss) and
- comprehensive income (loss) for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is JJ Iacuone.

KPMG LLP

Chartered Professional Accountants Calgary, Canada

April 28, 2021

STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

Recasted
(Note 4)

	Note	**December 31, 2020**	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		**$ 435,350**	$ 1,179,516
Accounts receivable		**1,932,663**	2,791,652
Prepaid expenses		**633,598**	330,806
Fair value of financial instruments	6(c)	**193,688**	-
		3,195,299	4,301,974
Non-current assets			
Reclamation deposits	11	**115,535**	115,535
Exploration and evaluation assets	9	**458,199**	2,800,569
Property and equipment	10	**48,445,138**	53,900,623
Deferred costs	13	**264,878**	401,655
Total assets		**$ 52,479,049**	$ 61,520,356
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 1,334,300**	$ 1,866,537
Current portion of lease liabilities	15	**82,773**	94,434
Warrant liability	4, 14	**993,817**	1,222,073
Fair value of financial instruments	6(c)	**-**	977,543
		2,410,890	4,160,587
Non-current liabilities			
Term loan	13	**24,979,567**	32,755,677
Lease liabilities	15	**249,761**	282,558
Fair value of financial instruments	6(c)	**-**	152,000
Decommissioning obligations	11	**8,530,687**	7,330,876
		36,170,905	44,681,698
Shareholders' Equity			
Share capital	16	**54,342,488**	54,607,961
Contributed surplus		**1,208,600**	1,057,734
Deficit		**(39,242,944)**	(38,827,037)
Total shareholders' equity		**16,308,144**	16,838,658
Total liabilities and shareholders' equity		**$ 52,479,049**	$ 61,520,356

Commitments [Note 18]
Subsequent events [Note 21]

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

Approved by the Board of Directors

(signed) *"Bruce McIntyre"*
Bruce McIntyre, Director

(signed) *"Don Simmons"*
Don Simmons, Director

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

(Expressed in Canadian dollars)

			Years Ended December 31		Recasted (Note 4)
	Note		**2020**		2019
Revenue					
Petroleum and natural gas revenue	8	$	**18,660,257**	$	31,511,084
Royalties			**(1,703,489)**		(3,877,854)
			16,956,768		27,633,230
Realized gain (loss) on financial instruments			**3,714,593**		(1,403,913)
Unrealized gain (loss) on financial instruments	6(c)		**1,323,231**		(1,985,519)
Net revenue			**21,994,592**		24,243,798
Expenses					
Production and operating			**6,211,670**		7,510,167
Exploration and evaluation	9		**258,269**		1,047,447
Depletion and depreciation	10		**4,489,811**		5,727,534
General and administrative			**1,952,558**		2,119,466
Share-based payments	16(b)		**115,664**		9,052
Impairment of property and equipment	10		**6,020,587**		2,908,641
			19,048,559		19,322,307
Results from operating activities			**2,946,033**		4,921,491
Finance expense	12		**(3,570,042)**		(4,866,375)
Foreign exchange gain			**182,233**		1,522,694
Gain on disposition			**25,868**		-
Income (loss) before tax			**(415,908)**		1,577,810
Deferred tax recovery			**-**		-
Net income (loss) and comprehensive income (loss) for the Year		**$**	**(415,908)**	$	1,577,810
Net income (loss) per share, basic and diluted	16(c)	**$**	**(0.00)**	$	0.02

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

	Note	Number common shares		Share Capital		Contributed Surplus		Recasted (Note 4) Deficit		Recasted (Note 4) Total Equity
Balance, December 31, 2018		**89,793,302**	**$**	**54,724,441**	**$**	**1,014,623**	**$**	**(40,433,654)**	**$**	**15,305,410**
Stock Option Exercise	16(b)	90,000		7,200		-		-		7,200
Share-based payments	16(b)	-		-		71,918		-		71,918
Cancelation of Stock Options		-		-		(28,807)		28,807		-
Shares repurchased under NCIB	16(a)	(981,000)		(123,680)		-		-		(123,680)
Net income for the year		-		-		-		1,577,810		1,577,810
Balance, December 31, 2019		**88,902,302**	**$**	**54,607,961**	**$**	**1,057,734**	**$**	**(38,827,037)**	**$**	**16,838,658**
Balance, December 31, 2019		**88,902,302**	**$**	**54,607,961**	**$**	**1,057,734**	**$**	**(38,827,037)**	**$**	**16,838,658**
Share-based payments	16(b)	-		-		150,866		-		150,866
Shares repurchased under NCIB	16(a)	(2,120,000)		(265,473)		-		-		(265,472)
Net loss for the year		-		-		-		(415,908)		(415,908)
Balance, December 31, 2020		**86,782,302**	**$**	**54,342,488**	**$**	**1,208,600**	**$**	**(39,242,944)**	**$**	**16,308,144**

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

STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	Note		Years Ended December 31 2020		Recasted (Note 4) 2019
Operating activities					
Net income (loss) for the year		**$**	**(415,908)**	$	1,577,810
Items not affecting cash:					
Accretion of debt issuance costs			**491,144**		407,173
Accretion of decommissioning costs			**129,023**		148,932
Amortization of deferred charges			**136,777**		144,407
Depletion and depreciation			**4,489,811**		5,727,534
Exploration and evaluation expense			**258,269**		1,047,447
Gain on disposition			**(25,868)**		-
Share-based payments			**115,664**		9,052
Unrealized loss (gain) on financial instruments			**(1,323,231)**		1,985,519
Unrealized gain on foreign exchange			**(353,079)**		(1,569,657)
Change in fair value of warrant liability	14		**(228,256)**		656,620
Impairment			**6,020,587**		2,908,641
Adjusted funds flow from operations			**9,294,933**		13,043,478
Decommissioning obligation expenditures			**(118,570)**		(76,065)
Changes in non-cash working capital	19		**213,339**		(2,515,611)
Cash provided by operating activities			**9,389,702**		10,451,802
Investing activities					
Property and equipment expenditures			**(799,854)**		(2,183,864)
Exploration and evaluation expenditures			**(885,568)**		(8,763,465)
Changes in non-cash working capital	19		**(189,379)**		(508,551)
Cash used in investing activities			**(1,874,801)**		(11,455,880)
Financing activities					
Shares issued for stock options			**-**		7,200
Shares repurchased under NCIB	16(a)		**(265,472)**		(123,679)
Proceeds from term loan (net of issue costs)	13		**-**		594,575
Repayment of term loan including fees	13		**(7,914,175)**		-
Payment of lease liabilities			**(79,420)**		(75,160)
Cash provided by (used in) financing activities			**(8,259,067)**		402,936
Net change in cash			**(744,166)**		(601,142)
Cash, beginning of year			**1,179,516**		1,780,658
Cash, end of year		**$**	**435,350**	$	1,179,516

Supplemental cash flow information (Note 19)

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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2020 and December 31, 2019
(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" 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

These audited annual financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These Financial Statements were authorized for issuance by the Board of Directors on April 28, 2021.

(b) Basis of presentation

These Financial Statements have been prepared on a historical cost basis, except for certain financial instruments and share-based payments, which are stated at their fair values. These policies have been applied consistently for all periods presented, other than as described in note 3.

(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.

Reserve estimation including engineering data, geological and geophysical data, projected future rates of production, commodity pricing, operating costs and timing of future expenditures, are subject to significant judgment and interpretation. These estimates are a critical part of many of the estimated amounts and calculations contained in the financial statements. These estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations. These determinations are updated at least on an annual basis.

As part of its capital management process the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company. See further discussions relating to liquidity in Notes 6.

Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements include:

(i) Impairment testing – internal and external sources of information including petroleum and natural gas prices, expected production volumes, expected royalty rates and operating costs, anticipated recoverable quantities of proved and probable reserves and rates used to discount future cash flow estimates. Judgment is required to assess these factors when determining if the carrying amount of an asset is impaired, or in the case of previously impaired asset, whether the carrying amount of the asset has been restored.

(ii) Depletion and depreciation – oil and natural gas reserves, including future prices, costs and reserve base to use on calculation of depletion.

(iii) Decommissioning obligations – estimates relating to amounts, likelihood, timing, inflation and discount rates.

(iv) Share-based payments – expected life of the options, risk-free rate of return and stock price volatility

(v) Financial instruments
   i. The estimated fair values of the Company's financial derivative commodity contracts are subject to measurement uncertainty due to the estimation of future crude oil and natural gas commodity prices, foreign exchange rates and volatility.
   ii. The estimated fair value of the warrant liability, which is considered a financial instrument, uses the Black & Scholes valuation model which is based on assumptions including volatility, risk-free interest rate and the expected term.

(vi) Warrants and stock options
The estimated fair value of the warrants issued as part of the term loan and stock options issued under the Company's stock option plans were based on the Black-Scholes pricing model incorporating assumptions on volatility, risk-free interest rate, forfeiture rate and the expected term.

(vii) Determinations of cash generating units ("CGUs") – geographic location, commodity type, reservoir characteristics and lowest level of cash inflows.

(viii) Determining the technical feasibility and commercial viability of exploration and evaluation assets.

(ix) Business combinations - estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of petroleum and natural gas properties based upon the estimation of recoverable quantities of Proved and Probable reserves being acquired

(x) Provisions - exercise of significant judgment and estimates of the outcome of future events.

3. Significant Accounting Policies

(a) Revenue

Revenues from the sale of heavy oil, natural gas liquids and natural gas is recognized based on the consideration specified in contracts with customers. The Company recognizes revenue when it transfers control of the product to the customer, which is generally when legal title passes to the customer which is when it is physically transferred to the pipeline or other transportation method agreed upon and collection is reasonably assured. Any revenues from processing activities are recognized over time as processing occurs, and are generally billed monthly.

The Company evaluates its arrangements with third parties and partners to determine if the Company is acting as the principal or as an agent. The Company is considered the principal in a transaction when it has primary responsibility for the transaction. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

(b) Jointly owned assets

Some of the Company's petroleum and natural gas activities involve jointly owned assets and are conducted under joint operating agreements. Accordingly the financial statements reflect the Company's proportionate share of joint assets, liabilities, revenues and expenses.

(c) Property and equipment and exploration and evaluation assets

(i) Pre-exploration expenditures

Expenditures made by the Company before acquiring the legal right to explore in a specific area do not meet the definition of an asset and therefore are expensed as incurred.

(ii) Exploration and evaluation expenditures

Costs incurred once the legal right to explore has been acquired are capitalized as exploration and evaluation assets. These costs include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, drilling costs directly attributable to an identifiable well, and directly attributable general and administrative costs. These costs are accumulated in cost centers by property and are not subject to depletion until technical feasibility and commercial viability has been determined.

Exploration and evaluation assets are assessed for impairment at each reporting date when facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The technical feasibility and commercial viability are considered to be determinable when Proved and Probable reserves have been identified. A review of each exploration license or field is carried out quarterly to ascertain whether Proved and Probable reserves have been discovered. Upon determination of Proved and Probable reserves, exploration and evaluation assets attributable to those reserves are tested for impairment and reclassified from exploration and evaluation assets to petroleum and natural gas properties.

(iii) Property and equipment

Items of property and equipment, which include petroleum and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and impairment losses.

Gains and losses on disposal of an item of property and equipment, including petroleum and natural gas properties, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

(iv) Capitalization of costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas properties only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas properties generally represent costs incurred in developing Proved and/or Probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(v) Depletion and depreciation

Depletion of petroleum and natural gas properties is determined using the unit-of-production method based on production volumes in relation to total estimated Proved and Probable reserves as determined annually by independent engineers and determined in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil.

The calculation of depletion and depreciation is based on total capitalized costs plus estimated future development costs of Proved and Probable non-producing and undeveloped reserves.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as Proved and Probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proved component of Proved and Probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially viable if management has the intention of developing and producing them. Such intention is based upon:

- A reasonable assessment of the future economics of such production;
- A reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- Evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered Proved if supported by either actual production or conclusive formation tests. The area of reservoir considered Proved includes (a) that portion delineated by drilling and defined by as-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower Proved limit of the reservoir.

Reserves that can be produced economically through application of improved recovery techniques such as fluid injection are only included in the Proved classification when successful testing by a pilot project, the operation of an installed program in the reservoir or other reasonable evidence (such as, experience of the dame techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

Depreciation of other equipment is provided for on a 20-30% declining balance basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(vi) Impairment

Exploration and evaluation assets are grouped together with the Company's CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to developed and producing assets (petroleum and natural gas properties).

Exploration and evaluation assets are assessed for impairment when they are reclassified to developing and producing assets, as part of the petroleum and natural gas properties, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For developed and producing assets, an impairment is recorded when the recoverable amount of a CGU is less than the respective carrying amount. Recoverable amount is the higher of its fair value less cost to sell and value in use. Fair value is the price that would be received from selling an asset in an orderly transaction between market participants. Fair value less costs to sell can be determined by using observable market information or by using discounted future net cash flows of Proved and Probable reserves using forecasted prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Judgment is required to assess when indicators of impairment or reversals exist and whether calculation of the recoverable amount of an asset is necessary. Management considers internal and external sources of information including petroleum and natural gas prices, expected production volumes, anticipated recoverable quantities of proved and probable reserves and rates used to discount future cash flow estimates. Judgment is required to assess these factors when determining if the carrying amount of an asset is impaired, or in the case of previously impaired asset, whether the carrying amount of the asset has been restored.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(d) Decommissioning obligations

Decommissioning obligations are measured at the present value of management’s best estimate of expenditures required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is included as finance expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision.

(e) Share-based payments

The Company has a stock option plan that is described in Note 16(b). Share-based payments to officers, directors, employees and consultants are measured at the fair value of the instruments issued and are amortized over the vesting periods. The offset to the recorded cost is to Company's contributed surplus.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital. Charges for options that are forfeited before vesting are reversed from contributed surplus.

(f) Share Capital and warrants

Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(g) Flow-through shares and units

The Company, from time to time, may issue flow-through common shares to finance a portion of its petroleum and natural gas exploration activities. Canadian income tax law permits the Company to renounce to the flow-through shareholders the income tax attributes of certain petroleum and natural gas exploration and evaluation costs financed by such shares. A liability is recognized for any premium on the flow-through shares in excess of a regular common share and is subsequently reversed as the Company incurs qualifying the designated Canadian exploration or development expenses.

(h) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Per share amounts

Basic per share amounts are calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted-average number of common shares outstanding during the period. Diluted income or loss per share is determined by dividing the income or loss attributable to common shareholders by the weighted-average number of shares outstanding adjusted for the effects of dilutive instruments such as options and warrants.

The Company uses the treasury stock method to compute the dilutive effect of stock options and warrants. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding stock options and warrants. It assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(j) Finance Expense

Finance expense comprises interest expense on borrowings and lease liabilities, accretion of the discount on decommissioning obligations and debt issue cost, amortization of deferred charges and change in fair value of the warrant liability, other finance expenses and impairment losses recognized on financial assets. Borrowing costs and interest income are recognized in earnings or loss using the effective interest method.

(k) Leases

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term. The carrying amount is reviewed for impairment at each reporting period.

The lease liability is initially measured at the present value of future lease payments, discounted using the interest rate implicit in the lease, if applicable, or the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option with a corresponding adjustment to the carrying amount of the right-of-use asset.

Lease payments are allocated between the lease liability and finance charges. Cash outflows for repayment of the principal portion of the lease liability is classified as cash flows provided by financing activities. The interest portion of the lease payments is classified as cash flows provided by operating activities.

The Company does not recognize assets and lease liabilities for short-term leases with a term of twelve months or less, and leases of low value assets. The lease payments associated with these leases are recognized as an expense in the Statement of Income and Comprehensive Income over the lease term.

(l) Government Grants

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.

Since commencement of the Canada Emergency Wage Subsidy ("CEWS") program on March 15, 2020, the Company has received $93,169 of subsidies for its eligible employees, which has been recognized as a reduction of general and administration expense.

(m) Changes in accounting policies

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.

(n) Future accounting pronouncements

On January 23, 2020, the IASB announced an amendment to IAS 1 "Presentation of financial statements" re: classification of liabilities as current or non-current which is effective for annual periods beginning on or after January 1, 2023. The amendment clarifies that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period.

The Company does not plan to early adopt any amendments issued but not yet effective.

4. 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 13).

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:

	As Previously Reported	Adjustment	As Recast
Statement of changes in shareholder's equity as at December 31, 2018			
Warrant reserves	$ 1,043,136	$ (1,043,136)	$ -
Deficit	(40,911,337)	477,683	(40,433,654)
Statement of financial position as at December 31, 2019			
Warrant reserves	$ 1,043,136	$ (1,043,136)	$ -
Warrant liability	-	1,222,073	1,222,073
Deficit	(38,648,100)	(178,936)	(38,827,036)
Statement of income (loss) and comprehensive income (loss) for the year ended December 31, 2019			
Finance expense	$ (4,209,755)	$ (656,620)	$ (4,866,375)
Net income and comprehensive income	2,234,430	(656,620)	1,577,810
Net income per share, basic and diluted	$ 0.02	$ -	$ 0.02

5. Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, changes in assumptions can significantly affect estimated fair values. At December 31, 2020, the Company's financial instruments include cash and cash equivalents, accounts receivable, reclamation deposits, term loan, warrant liability and accounts payable and accrued liabilities.

The fair values of cash and cash equivalents, accounts receivable, reclamation deposits and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these financial instruments. The fair value of the term loan is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date, which approximates the carrying value. The fair value of the warrant liability was determined utilizing a Black & Scholes pricing model as described in Note 14.

a) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

b) Non-derivative financial instruments

Financial assets

At initial recognition, financial assets are classified into four main categories: loans and receivables; held-to-maturity investments; available for sale financial assets; or financial assets at fair value through profit or loss. All financial assets are recognized initially at fair value, normally being the transaction price, plus any directly attributable transaction costs. Transaction costs for instruments at fair value through profit or loss are recognized immediately in earnings.

The subsequent measurement of financial assets depends on their classification.

Loans, receivables and held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Gains and losses are recognized in earnings when the asset is derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets are subsequently measured at fair value, with changes in fair value recognized directly in other comprehensive income until the asset is derecognized or determined to be impaired, at which time the cumulative change in fair value previously reported in other comprehensive income is recognized in earnings.

Financial assets at fair value through profit or loss are subsequently measured at fair value, with changes in those fair values recognized in earnings.

Financial assets are derecognized when the contractual rights to the cash flows expire, or when substantially all the risks and rewards of ownership of the financial asset are transferred to a third party.

Financial assets and liabilities are shown separately in the statement of financial position unless the Company has a legal right to offset the amounts and intends to either settle on a net basis or to realize the asset and settle the liability simultaneously, in which case they are presented on a net basis.

Impairment of financial assets

A financial asset that is not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after initial recognition and has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant financial assets are tested for impairment on an individual basis. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. The remaining financial assets are assessed collectively for impairment in groups that share similar credit risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses are recognized in earnings.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

Financial liabilities

At initial recognition, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities. All financial liabilities are recognized initially at fair value, normally being the transaction price less any directly attributable transaction costs. Transaction costs for instruments at fair value through profit or loss are recognized immediately in earnings.

The subsequent measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value, with changes in those fair values recognized in earnings. The estimated fair value of the warrant liability, which is considered a financial instrument, uses the Black & Scholes valuation model which is based on assumptions including volatility, risk-free interest rate and the expected term.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the contractual obligation expires, is discharged, or cancelled. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in earnings.

c) Financial derivative instruments

The Company may use financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices and foreign exchange. These instruments are not used for trading or speculative purposes.

The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all derivative contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recognized at fair value. Transaction costs are recognized in earnings when incurred.

Physical delivery contracts are entered into for the purpose of delivery of oil in accordance with the Company's expected sale requirements, and therefore are not recorded in the statement of financial position. These contracts are recorded in revenue on their settlement dates.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized in earnings.

6. 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:

		December 31, 2020		December 31, 2019
Accounts receivable				
Marketing receivables	$	**1,767,578**	$	2,773,405
Trade receivables		**159,776**		11,438
Receivables from joint ventures		**5,309**		6,809
Reclamation deposits		**115,535**		115,535
	$	**2,048,198**	$	2,907,187

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 (see note 13).

At December 31, 2020, the Company had net debt (current assets less current liabilities excluding fair value of financial instruments, lease and warrant liabilities, and including the gross term loan) of $24,429,191 (December 31, 2019 - $31,982,764). The Company funds its operations through operating cash flows and the term loan. At December 31, 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 $261,000 effect on the net loss for 2020.

(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 points change in the foreign exchange rate would have a $277,000 effect on the net loss for 2020.

(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 December 31, 2020, the Company held derivative commodity contracts as follows:

Product	Type	Volume	Price	Index	Term	Dec. 31, 2020 Fair Value
Crude oil	Collar	275 bbl/d	US$40.00-US$65.50	WTI-NYMEX	Jan. 1, 2021 – Mar. 31, 2021	10,111
Crude oil	3-Way	350 bbl/d	US$40.00(put)/US$48.60(put)/US$60(call)	WTI-NYMEX	Jan. 1, 2021 – Mar. 31, 2021	65,243
Crude oil	3-Way	625 bbl/d	US$40.00(put)/US$48.00(put)/US$60(call)	WTI-NYMEX	Apr. 1, 2021 – Jun. 31, 2021	118,334
					Total	193,688

At December 31, 2020, the commodity contracts were fair valued as an asset of $193,688 and an unrealized gain of $1,323,231. Subsequent to year end, the Company has entered into additional commodity contracts as listed in Note 21 (c).

At December 31, 2019, the Company held derivative commodity contracts as follows:

Product	Type	Volume	Price	Index	Term	Dec. 31, 2019 Fair Value
Crude oil	Swap	425 bbl/d	US$58.40	WTI-NYMEX	Jan. 1, 2020 – Mar. 31, 2020	(111,747)
Crude oil	Swap	425 bbl/d	US$57.15	WTI-NYMEX	Apr. 1, 2020 – Jun. 30, 2020	(105,497)
Crude oil	Swap	200 bbl/d	US$50.67	WTI-NYMEX	Jan. 1, 2020 – Aug. 31, 2020	(553,959)
Crude oil	Swap	425 bbl/d	US$55.85	WTI-NYMEX	Jul. 1, 2020 – Sept. 30, 2020	(90,617)
Crude oil	Collar	120 bbl/d	US$40.00-US$68.25	WTI-NYMEX	Jan. 1, 2020 – Dec. 31, 2020	(21,992)
Crude oil	Collar	200 bbl/d	US$40.00-US$67.05	WTI-NYMEX	Sep. 1, 2020 – Dec. 31, 2020	(19,009)
Crude oil	Swap	425 bbl/d	US$54.85	WTI-NYMEX	Oct. 1, 2020 – Dec. 31, 2020	(74,722)
Crude oil	Collar	275 bbl/d	US$40.00-US$65.50	WTI-NYMEX	Jan. 1, 2021 – Mar. 31, 2021	(18,999)
Crude oil	3-Way	350 bbl/d	US$40.00(put)/US$48.60(put)/US$60(call)	WTI-NYMEX	Jan. 1, 2021 – Mar. 31, 2021	(51,971)
Crude oil	3-Way	625 bbl/d	US$40.00(put)/US$48.00(put)/US$60(call)	WTI-NYMEX	Apr. 1, 2021 – Jun. 31, 2021	(81,030)
					Total	(1,129,543)

At December 31, 2019, the commodity contracts were fair valued as a liability of $1,129,543 and an unrealized loss of $1,985,519 for the year ended December 31, 2019.

(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.

7. 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, 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 year.

8. 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 6(a). As at December 31, 2020, production revenue sold to customers was comprised of three marketers which account for $1,767,578 of the accounts receivable balance.

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

		Years Ended December 31		
		2020		2019
Heavy Crude Oil	**$**	**18,591,509**	$	31,257,434
Conventional Natural Gas		**68,531**		234,123
NGL		**217**		19,527
Total	**$**	**18,660,257**	$	31,511,084

9. 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, plant and equipment is made when reserves are assigned or the exploration project has been completed. For the year ended December 31, 2020, the Company transferred $2,969,669 (December 31, 2019 - $8,110,664) to property, plant and equipment, capitalized general and administrative expenses of $604,729 (December 31, 2019 - $345,524) to exploration and evaluation assets, and recognized exploration and evaluation expense of $258,269 (December 31, 2019 - $1,047,447), which relate to expired or uneconomic properties.

Cost		
Balance, December 31, 2018	$	3,195,215
Additions		8,763,465
Exploration and evaluation expense		(1,047,447)
Transfer to property, plant and equipment		(8,110,664)
Balance, December 31, 2019	$	2,800,569
Additions		885,568
Exploration and evaluation expense		(258,269)
Transfer to property, plant and equipment		(2,969,669)
Balance, December 31, 2020	**$**	**458,199**

10. Property, Plant and Equipment

		Petroleum and Natural Gas		Right of Use and Other Assets		Total
Balance, December 31, 2018	$	93,260,225	$	114,492	$	93,374,717
Right-of-use assets		-		452,152		452,152
Additions		2,159,409		24,455		2,183,864
Increase in decommissioning obligations (Note 10)		(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		-		60,830		60,830
Additions		776,150		23,704		799,854
Increase in decommissioning obligations		1,189,358		-		1,189,358
Capitalized share-based compensation		35,202		-		35,202
Transfers from exploration and evaluation assets		2,969,669		-		2,969,669
Balance, December 31, 2020	**$**	**108,064,685**	**$**	**675,633**	**$**	**108,740,318**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
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
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**
Net Book Value						
December 31, 2019	$	53,517,568	$	383,055	$	53,900,623
December 31, 2020	**$**	**48,088,958**	**$**	**356,180**	**$**	**48,445,138**

The Company's additions for property, plant and equipment included capitalized general and administrative expenses of $24,725 and $227,070 for the years ended December 31, 2020 and 2019, respectively.

The calculation for depletion at December 31, 2020 includes estimated future development costs of $42,421,400 (December 31, 2019 - $38,751,500) associated with the development of the Company's Proved plus Probable reserves.

At December 31, 2020, the Company performed an assessment of potential impairment indicators on each of its CGUs, and management 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. 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 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 at December 31, 2020:

	2021	2022	2023	2024	2025	2026	2027	2028	Thereafter
WTI (US$/bbl)	47.17	50.17	53.17	54.97	56.07	57.19	58.34	59.50	+2%/yr
WCS (C$/bbl)	44.63	48.18	52.10	54.10	55.19	56.29	57.42	58.57	+2%/yr
AECO(Cdn$/MMbtu)	2.78	2.70	2.61	2.65	2.70	2.76	2.81	2.87	+2%/yr

Previously, on March 31, 2020 the Company performed an assessment of potential impairment indicators on each of its 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 as at March 31, 2020. 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.

The recoverable amounts were determined with fair value less costs to sell using a discounted cash flow method and categorized in Level 3 of the fair value hierarchy. Key assumptions in the determination of cash flows from reserves include crude oil and natural gas prices and discount rates specific to the underlying composition of assets residing in each CGU. The pre-tax discount rates ranged from 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 at March 31, 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(Cdn$/MMbtu)	1.85	2.30	2.44	2.49	2.54	2.59	2.65	2.70	+2%/yr

At December 31, 2019, the Company performed an assessment of potential impairment indicators on each of its 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 its Jenner CGU exceeded its recoverable value of $7,705,533 as at December 31, 2019. Accordingly, the Company recognized an impairment charge of $2,908,641 as at December 31, 2019. 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 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 at December 31, 2019:

	2020	2021	2022	2023	2024	2025	2026	2027	Thereafter
WTI (US$/bbl)	61.00	63.75	66.18	67.91	69.48	71.07	72.68	74.24	+2%/yr
WCS (C$/bbl)	57.57	62.35	64.33	66.23	67.97	69.72	71.49	73.20	+2.2%/yr
AECO(Cdn$/MMbtu)	2.04	2.32	2.62	2.71	2.81	2.89	2.96	3.03	+2%/yr

11. 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 December 31, 2020 is $7,980,351 (December 31, 2019 - $8,074,266), and $11,270,728 with inflation (December 31, 2019 - $11,243,978). 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% (December 31, 2019 – 1.76%). Inflation of 1.50% (December 31, 2019 – 1.35%) has also been factored into the calculation of amounts in the table below. The Company also has $115,535 (December 31, 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.

The change in estimates for the years ended December 31, 2020 and 2019 resulted from the decommissioning obligations being revalued at the year-end risk-free and inflation rates.

	Years Ended December 31	
	2020	2019
Decommissioning obligations, beginning of year	**$ 7,330,876**	$ 7,756,866
Increase in estimated future obligations	**-**	556,092
Change in estimate	**1,189,358**	(1,054,949)
Payment of decommissioning obligations	**(118,570)**	(76,065)
Accretion expense	**129,023**	148,932
Decommissioning obligations, end of year	**$ 8,530,687**	$ 7,330,876

12. Finance Expenses

Finance expense:	Note	**2020**	Recasted (Note 4) 2019
Loan interest		**$ 3,002,024**	$ 3,464,170
Lease interest		**39,330**	45,073
Change in fair value of warrant liability	4	**(228,256)**	656,620
Amortization of deferred charges	13	**136,777**	144,407
Accretion of debt issuance costs	13	**491,144**	407,173
Accretion of decommissioning liabilities	11	**129,023**	148,932
Total		**$ 3,570,042**	$ 4,866,375

13. 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 December 31, 2020, the Company had a gross term loan balance of US$20.5 million (CAD$26,096,500 at period close exchange rate) resulting from total draws of US$26.5 million (CAD $33,391,210) less total repayments of US$6.0 million (CAD$7,914,715). 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. The Company issued 13,750,000 warrants in September 2017 in conjunction with the credit agreement, entitling the Lender to purchase one common share of Hemisphere at an exercise price of $0.28/share prior to September 15, 2022 (see Note 14). The effective interest rate is 10.92%.

The below table summarizes the sum of issuance costs included in both the term loan and deferred charges as at December 31, 2020:

		Years Ended December 31		
Term Loan		**2020**		**2019**
Term Loan, beginning of year	$	**32,755,677**	$	33,323,584
Principal amount of Term Loan issued (repaid)		**(7,914,175)**		661,000
Unrealized (gain) loss on foreign exchange		**(353,079)**		(1,569,655)
Transfer of debt issuance costs – cash		-		(66,425)
Accretion of debt issuance costs		**491,144**		407,173
Balance, end of year	**$**	**24,979,567**	**$**	32,755,677

Deferred Costs		**2020**		**2019**
Deferred costs, beginning of year	$	**(401,655)**	$	(546,062)
Amortization of deferred costs		**136,777**		144,407
Deferred costs, end of year	**$**	**(264,878)**	**$**	(401,655)

The Company has recognized a portion of the debt issuance costs and value allocated to the warrants (Note 16(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 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.
6. The Company also has an annual financial covenant for its cash general and administrative costs for a base sum of $2.725 million per annum for the year ending December 31, 2020.

Covenants table for the quarter ended December 31, 2020:

Ratio	Covenant [1]		Required	Actual December 31, 2020
1.	Interest Coverage Ratio	Greater than	3.00	4.55
2.	Total Leverage Ratio	Less than	3.25	2.15
3.	Minimum Average Production Boe/d	Greater than	1,500	1,522
4.	Proved Developed Producing Coverage Ratio	Greater than	1.00	2.22
5.	Total Proved Reserves Coverage Ratio	Greater than	1.50	3.93
6.	Annual Gross General and Administrative Costs $MM	Less than	$2.725	$2.582

1) Details on the calculations of the covenants can be found in the Credit Agreement and the amendment thereto filed on SEDAR at www.sedar.com on September 22, 2017 and February 1, 2018 respectively, under the Company's profile.

At December 31, 2020, the Company is in compliance with the financial and performance covenants as noted in the table above. In the event of a covenant violation, this would represent a default under the Term Loan and, if not remedied or waived by the lender, would result in the right of the lender to demand repayment of all amounts owed.

Management forecasts the Company will continue to meet all financial and operational covenants. Management's forecasts may change materially based upon actual prices received during the year, changes in future strip pricing, production volumes, operating costs, activity levels, cash flows, and the timing thereof and other factors which may or may not be within the control of the Company.

14. Warrant Liability

On September 15, 2017, the Company issued 13,750,000 warrants to a third-party lender in conjunction with its Term Loan (Note 13). 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. In no event will Hemisphere be required to settle the warrants through a cash payment.

The fair value of the warrants on December 31, 2020 and 2019 was determined using the Black- Scholes pricing model with the following inputs:

	December 31, 2020	December 31, 2019
Share Price	$ 0.20	$ 0.21
Risk-free interest rate	0.39%	1.68%
Expected life (years)	1.70	2.70
Expected volatility	112%	109%

15. 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 December 31, 2020 was 10.92%.

Balance, January 1, 2019	$	452,152
Interest expense		45,073
Lease payments		(120,233)
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**
Current Portion	$	82,773
Long-term portion		249,761

16. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at December 31, 2020 and 2019, the Company had the following common shares issued and outstanding:

Common Shares	**Shares**		**Value**
Balance, December 31, 2018	**89,793,302**	**$**	**54,724,441**
Options exercised by employees during the period	90,000		7,200
Shares repurchased and canceled (NCIB)	(981,000)		(123,680)
Balance, December 31, 2019	88,902,302		54,607,961
Shares repurchased and canceled (NCIB)	(2,120,000)		(265,473)
Balance, December 31, 2020	**86,782,302**	**$**	**54,342,488**

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 $55,597 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 six months ended December 31, 2020, the Company has purchased and canceled 1,800,000 shares under the NCIB for $209,880 at an average cost of $0.12 per share. Subsequent to year end, the Company has repurchased additional NCIB shares as disclosed in Note 21 (b).

(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 December 31, 2020 and 2019 are as follows:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2019	Changes in the Year Granted	Exercised	Forfeited/ Expired	Balance Outstanding Dec. 31, 2020	Balance Exercisable Dec. 31, 2020
$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	01-Jan-23	250,000	-	-	-	250,000	250,000
$0.12	01-Mar-19	01-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

Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2018	Changes in the Year Granted	Exercised	Expired	Balance Outstanding Dec. 31, 2019	Balance Exercisable Dec. 31, 2019
$0.24	29-Jan-15	29-Jan-20	1,075,000	-	-	(75,000)	1,000,000	1,000,000
$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	-	(90,000)	-	1,595,000	1,595,000
$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	-	-	(120,000)	4,914,000	4,914,000
$0.28	2-Oct-17	2-Oct-22	150,000	-	-	-	150,000	150,000
$0.25	01-Jan-18	01-Jan-23	250,000	-	-	-	250,000	166,667
$0.12	01-Mar-19	01-Mar-24	-	50,000	-	-	50,000	50,000
			8,419,000	50,000	(90,000)	(195,000)	8,184,000	8,100,667
Weighted-average exercise price			$0.21	$0.12	$0.08	$0.08	$0.21	$0.21

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 year ended December 31, 2020, the Company recorded total share-based payments of $150,866, compared $71,918 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 to property, plant and equipment.

In March of 2019, the Company granted 50,000 stock options to a consultant 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 1.86%, expected life 5 years and forfeiture rate of 5%.

The total valuation of the vested options from the March 2019 stock option grant was $3,371, the full value of which were capitalized.

(c) Income (Loss) per share

	Years Ended December 31			
			Recasted (Note 4)	
		2020		2019
Net income (loss) for the year	**$**	**(415,908)**	$	1,577,810
Weighted-average number of common shares outstanding, basic		**88,161,583**		89,662,316
Dilutive stock options and warrants		-		700,274
Weighted-average number of common shares outstanding, diluted		**88,161,583**		90,362,590
Income (loss) per share, basic and diluted	**$**	**(0.00)**	$	0.02

For the year ended December 31, 2020, the Company incurred a loss; therefore, dilutive stock options and share purchase warrants were nil. For the comparable periods in 2019, the Company had dilutive stock options of 700,274.

17. Related Party Transactions

Compensation to key executive personnel, consisting of the Company's officers, directors and Chairman, was paid as follows:

	Years Ended December 31			
		2020		2019
Salaries and wages	**$**	**1,400,000**	$	1,580,000
Share-based payments		**80,462**		71,918

18. Commitments

		2021	2022	2023	Total
Office Rental	$	78,420	78,420	32,675	189,515
Term Loan		-	26,096,500	-	26,096,500
Term Loan Interest		2,218,203	1,663,652	-	3,881,855
	$	**2,296,623**	**27,838,572**	**32,675**	**30,167,870**

The Company has a commitment to make monthly rental payments pursuant to the office rental agreement until May 30, 2023.

19. Supplemental Cash Flow Information

	Years Ended December 31	
	2020	2019
Provided by (used in):		
Accounts receivable	**$ 858,989**	$ (2,504,483)
Prepaid expenses	**(302,791)**	(140,042)
Accounts payable and accrued liabilities	**(532,238)**	(379,638)
Total changes in non-cash working capital	**$ 23,960**	$ (3,024,162)
Provided by (used in):		
Operating activities	**$ 213,339**	$ (2,515,611)
Investing activities	**(189,379)**	(508,551)
Total changes in non-cash working capital	**$ 23,960**	$ (3,024,162)

Cash interest paid on the Company's debts during the year ended December 31, 2020 was $2,935,429 compared to $3,464,170 for the year ended December 31, 2019.

20. Income Taxes

The reconciliation of income tax computed at the current statutory tax rate of 25.50% (year ended December 31, 2019 – 26.75%) to income tax expense is:

	Year Ended December 31	
		Recasted (Note 4)
	2020	2019
Income (loss) before tax	**$ (415,908)**	$ 1,577,810
Statutory income tax rate	**25.50%**	26.75%
Expected income tax expense (recovery)	**(106,057)**	422,064
Non-deductible items	**(19,772)**	18,342
Effect of change in tax rate	**3,761**	393,426
Change in deferred tax asset	**122,068**	$ (833,832)
Deferred tax recovery	**$ -**	$ -

The combined deferred tax rate has decreased from 26.75% to 25.50% as a result of the decrease in the Alberta tax rate from 10% to 8% effective July 1, 2020.

The tax affected items that give rise to significant portions of the deferred tax asset at December 31, 2020 and 2019 are presented below:

	December 31, 2020	December 31, 2019
Deferred tax assets		
Non-capital losses	**$ 2,998,954**	$ 4,814,379
Share issue costs	**4,287**	14,790
Decommissioning obligations	**2,132,672**	1,832,719
Financial instruments	**-**	282,386
Lease liability	**83,134**	94,248
	5,219,046	$ 7,038,522
Deferred income tax liability		
Property and equipment	**(5,096,670)**	(6,983,214)
Term loan	**(73,954)**	(55,308)
Financial instruments	**(48,422)**	-
	$ -	$ -

The Company assessed the probability that future taxable profit will be available against which the Company can utilize the benefits of tax pools in excess of the carrying amount of assets and has not recognized a deferred tax asset in respect of the following deductible temporary differences.

	December 31, 2020	December 31, 2019
Non-capital losses	**$ 19,178,724**	$ 18,690,450
Capital losses	**95,333**	95,333
	$ 19,274,057	$ 18,785,783

As at December 31, 2020, the Company has non-capital losses of approximately $31,174,540 that may be applied to reduce future Canadian taxable income, expiring as follows:

Available to	
2035	$ 7,173,180
2036	7,644,779
2037	6,040,309
2038	9,091,551
2039	-
2040	1,224,721
	$ 31,174,540

21. Subsequent Events

a) In February 2021 the Company issued 1,670,000 shares for stock options exercised at $0.08 per share, under the employee stock option plan.

b) Subsequent to the year ended December 31, 2020 the Company has purchased and cancelled an additional 377,500 shares under the NCIB for $96,629 at an average cost of $0.26 per share, as at April 28, 2021.

c) Subsequent to the year end, the Company entered into the following commodity price contracts:

Product	**Type**	**Volume**	**Price**	**Index**	**Term**
Crude oil	Phys. Swap	400 bbl/d	US$58.00	WTI	Mar. 1, 2021 – Mar. 31, 2021
Crude oil	Phys. Swap	400 bbl/d	US$48.00	WCS	Apr. 1, 2021 – Jun. 30, 2021
Crude oil	Swap	200 bbl/d	US$9.15	WCS Differential	May 1, 2021 – Jun. 30, 2021
Crude oil	Phys. Swap	200 bbl/d	US$46.05	WCS	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Phys. Swap	200 bbl/d	US$11.45	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	100 bbl/d	US$56.75	WTI-NYMEX	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	500 bbl/d	US$60.07	WTI-NYMEX	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	200 bbl/d	US$11.50	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Phys. Swap	100 bbl/d	US$11.20	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Phys. Swap	100 bbl/d	US$11.15	WCS Differential	Jul. 1, 2021 – Sep. 30, 2021
Crude oil	Swap	800 bbl/d	US$58.45	WTI-NYMEX	Oct. 31, 2021 – Dec. 31, 2021
Crude oil	Swap	100 bbl/d	US$12.50	WCS Differential	Oct. 31, 2021 – Dec. 31, 2021
Crude oil	Swap	100 bbl/d	US$12.00	WCS Differential	Oct. 31, 2021 – Dec. 31, 2021
Crude oil	Swap	800 bbl/d	US$57.03	WTI-NYMEX	Jan. 1, 2022 – Mar. 31, 2022
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

OFFICERS

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

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

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

BOARD OF DIRECTORS

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

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

Bruce McIntyre, P.Geol.(1)(3)

Don Simmons, P.Geol.(3)

Gregg Vernon, P.Eng.(2)

Richard Wyman, B.Sc., MBA(1)(3)

(1) Audit Committee
(2) Compensation & Corporate Governance Committee
(3) Reserves Committee

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Calgary, Alberta

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Harper Grey LLP
Vancouver, British Columbia

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KPMG LLP
Calgary, Alberta

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