Q1 2016 HIGHLIGHTS

- Achieved quarterly production averaging 508 boe/d (81% oil).
- Realized a $2.73/boe operating netback with a challenging commodity price environment and an average WTI price of $33.45 ($US/bbl).
- Reduced operating costs to $11.45/boe, a 15% decrease from the fourth quarter of 2015, due to the voluntary shut-in of higher cost wells and the implementation of strict cost control measures.
- Significantly reduced general and administration costs to $5.42/boe, a decrease of 34% from the fourth quarter of 2015.
- Announced the achievement of over 300% proved reserves replacement at a 2015 Finding and Development Cost of $0.24/boe (including changes in future development capital), due mainly to recognition of significant recoverable reserves in the Atlee Buffalo Upper Mannville F pool based on positive waterflood response in the reservoir.

CORPORATE UPDATE

During the first quarter of 2016, Hemisphere successfully continued its conservative approach to capital spending. With the decline in oil prices and uncertainty in long term price forecasts, Hemisphere focused on operating cost efficiencies and progression of development plans in its core producing properties. The Company converted a third producing well in the Atlee Buffalo Upper Mannville F pool to an injector and is now undergoing pressure maintenance at all planned waterflood pilots in the pool.

Since April, oil prices have gradually improved, differentials have narrowed, and exchange rates have remained high. With these positive impacts to realized oil prices, Hemisphere is adjusting its focus from capital preservation to strategic capital investment in projects that will add production, increase reserves, and achieve long-term shareholder value and growth for the Company as oil prices continue to strengthen.

With all three designed waterflood pilot projects completed in the Atlee Buffalo F pool, the Company is now planning to construct a water handling facility in Atlee Buffalo. Hemisphere also has plans to drill at least one well into the Atlee Buffalo Upper Mannville G pool before year-end in order to prove the productivity of the reservoir. Historical oil production has resulted in a 3% recovery factor to date and less than a 4% recovery factor is reflected in current reserve bookings. The pool has been undergoing injection since November 2015 in order to re-energize the reservoir prior to production.

Hemisphere Energy's annual review for its demand operating credit facility has been completed and the borrowing base has been set at $12.5 million. The facility is secured by a general security agreement and a floating charge on all lands of the Company and bears an interest at the bank's prime rate plus 2.5%, as well as a standby charge for any undrawn funds.

Hemisphere's corporate strategy is to continue to achieve organic reserve growth year-over-year while managing its balance sheet by limiting capital expenditures during this time of unstable commodity prices. The Company expects to see growth in production and reserves through the year with the continued success of its waterfloods and planned capital expenditures. When oil prices recover and stabilize, the Company is prepared to accelerate development activity accordingly.

ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

June 10, 2016 at 9:00 a.m. Pacific Daylight Time
Oceanic Plaza, Pender Room, 1035 West Pender Street, Vancouver, BC

Q1 2016 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended March 31	
	2016	2015
FINANCIAL		
Petroleum and natural gas revenue	**$ 935,834**	$ 2,928,264
Petroleum and natural gas netback	**126,056**	1,827,986
Funds flow from operations[1]	**(247,514)**	1,256,533
Per share, basic and diluted	**0.00**	0.02
Net income (loss)	**(1,066,556)**	(646,345)
Per share, basic and diluted	**(0.01)**	(0.01)
Capital expenditures, including property acquisitions	**344,676**	133,289
Net debt[2]	**12,038,298**	10,420,007
Bank indebtedness	**$ 11,533,660**	$ 9,973,336
OPERATING		
Average daily production		
Oil (bbl/d)	**409**	832
Natural gas (Mcf/d)	**581**	960
NGL (bbl/d)	**2**	3
Combined (boe/d)	**508**	995
Oil and NGL weighting	**81%**	84%
Average sales prices		
Oil ($/bbl)	**$ 22.39**	$ 36.01
Natural gas ($/Mcf)	**1.86**	2.64
NGL ($/bbl)	**19.21**	21.56
Combined ($/boe)	**$ 20.24**	$ 32.71
Operating netback ($/boe)		
Petroleum and natural gas revenue	**$ 20.24**	$ 32.71
Royalties	**2.36**	2.70
Operating costs	**11.45**	6.80
Transportation costs	**3.70**	2.79
Operating netback[3]	**$ 2.73**	$ 20.42

Notes:

(1) Funds flow from operations is an additional IFRS measure that represents cash generated by operating activities, before changes in non-cash working capital and may not be comparable to measures used by other companies.

(2) Net debt is a non-IFRS measure calculated as current assets minus current liabilities including bank indebtedness and excluding flow-through share premium.

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

	As at March 31	
	2016	2015
SHARE CAPITAL		
Common shares outstanding	**75,803,498**	75,803,498
Stock options outstanding	**5,335,000**	6,860,000
Weighted-average shares outstanding – basic and diluted	**75,803,498**	75,662,498

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at May 30, 2016

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three months ended March 31, 2016 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the unaudited interim condensed financial statements and related notes for the three months ended March 31, 2016, and the audited annual financial statements and related notes for the year ended December 31, 2015. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.

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

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

Business Overview

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

Jenner, Alberta

Hemisphere has an average working interest of 92% in approximately 26,066 net acres and has continued to build a land position in the Jenner area through Crown land sales and strategic acquisitions and farm-ins. The property is accessible year-round and is located east of Brooks in southeastern Alberta.

Atlee Buffalo, Alberta

The Company operates 100% of its wells in the Atlee Buffalo area. The property is accessible year-round and is located 30 kilometres east of the Company's Jenner property in southeastern Alberta. Hemisphere has a 100% working interest in 7,200 net acres and has been building a land position in Atlee Buffalo through Crown land sales and strategic acquisitions.

Operating Results

The Company generated funds flow from operations of negative $247,514 ($0.00/share) during the first quarter of 2016, as compared to $1,256,533 ($0.02/share) during the first quarter of 2015. This change is due to the Company's decreased revenue in the first quarter of 2016 resulting from significant decline in commodity prices and lower production than the first quarter of 2015.

For the three months ended March 31, 2016, the Company reported a net loss of $1,066,556 ($0.01/share) compared to a net loss of $646,345 ($0.01/share) for the three months ended March 31, 2015.

Production

	Three Months Ended March 31	
By product:	**2016**	2015
Oil (bbl/d)	**409**	832
Natural gas (Mcf/d)	**581**	960
NGL (bbl/d)	**2**	3
Total (boe/d)	**508**	995
Oil and NGL weighting	**81%**	84%

In the first quarter of 2016, the Company's average daily production decreased to 508 boe/d (81% oil and NGL) which represents a decrease of 14% over the fourth quarter of 2015 and 49% over the first quarter of 2015. This decrease in production is attributed to the conversion of a third producing well into an injector, increased down time as a result of delaying service work on wells to preserve capital during an extremely low commodity price environment, and overall declines in well production. The gas-oil-ratio in the Upper Mannville F pool has decreased by 46% since injection began in August 2015, which is a positive indicator of waterflood success, but has resulted in lower Company gas production.

Average Benchmark and Realized Prices

	Three Months Ended March 31	
	2016	2015
Benchmark prices		
WTI ($US/bbl)(1)	**$ 33.45**	$ 48.63
Exchange rate (1 $US/$C)	**1.3723**	1.2399
WTI ($C/bbl)	**45.91**	60.30
WCS ($C/bbl)(2)	**26.29**	42.13
AECO natural gas ($/Mcf)(3)	**1.83**	2.75
Average realized prices		
Crude oil ($/bbl)	**22.39**	36.01
Natural gas ($/Mcf)	**1.86**	2.64
NGL ($/bbl)	**19.21**	21.56
Combined ($/boe)	**$ 20.24**	$ 32.71

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

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

The Company's combined average realized price decreased by 38% from $32.71/boe during the first quarter of 2015 to $20.24/boe during the first quarter of 2016. This decrease is the result of low oil prices which is reflected in the $13.61/bbl decrease from the Company's average realized crude oil price during the first quarter of 2015. The decline in oil prices has been the result of an oversupply of oil in the global market which was partially offset by tighter oil differentials and a favourable exchange rate in the first quarter of 2016. WTI prices have showed signs of recovery in the second quarter of 2016, however, have not yet stabilized.

The Company's average realized natural gas price also decreased in the first quarter of 2016 by $0.78/Mcf over the comparable quarter of 2015.

The Company does not currently have any production hedged.

Revenue

	Three Months Ended March 31	
	2016	2015
Oil	**$ 833,778**	$ 2,693,826
Natural gas	**98,321**	228,021
NGL	**3,736**	6,417
Total	**$ 935,834**	$ 2,928,264

Revenue for the first quarter of 2016 decreased by 69% from the comparable quarter in 2015. This decrease is attributed to the 38% reduction in the Company's combined average realized price as discussed above, as well as a 48% reduction in production for the first quarter of 2016.

Operating Netback

	Three Months Ended March 31	
	2016	2015
Operating netback		
Revenue	**$ 935,834**	$ 2,928,264
Royalties	**109,119**	241,711
Operating costs	**529,678**	608,497
Transportation costs	**170,981**	250,070
Operating netback	**$ 126,056**	$ 1,827,986
Operating netback ($/boe)		
Revenue	**$ 20.24**	$ 32.71
Royalties	**2.36**	2.70
Operating costs	**11.45**	6.80
Transportation costs	**3.70**	2.79
Operating netback ($/boe)	**$ 2.73**	$ 20.42

Royalties for the first quarter of 2016 were $2.36/boe, representing a 13% decrease from the first quarter of 2015. This reduction resulted from low oil prices which directly impact the Crown royalty par price.

Operating costs include all costs for gathering, processing, dehydration, compression, water processing and marketing of the oil, natural gas and NGLs, as well as additional costs incurred periodically for maintenance and repairs. Operating costs for the first quarter of 2016 decreased on an absolute basis by

13%, but increased on a per boe basis by 68% from the comparable quarter in 2015. A decrease of 15% was also seen on a per boe basis from the fourth quarter of 2015.

The decrease on an absolute basis is due to reduced variable operating costs from lower production overall, but the increase per boe is the result of additional workovers conducted on two wells during the quarter as well as lower economies of scale for fixed costs resulting from reduced production in the current quarter.

Transportation costs include all costs incurred to transport emulsion and oil and gas sales to processing and distribution facilities. Transportation costs were $3.70/boe during the first quarter of 2016, which represents an increase of $0.90/boe over the comparable quarter in 2015. This increase is the result of additional trucking to processing facilities.

Operating netback for the first quarter of 2016 was $2.73/boe compared to $20.42/boe for the first quarter of 2015. This decrease is mainly due to the 38% decrease in the Company's combined average realized price and higher operating costs for the quarter as discussed above.

Exploration and Evaluation

Exploration and evaluation expense generally consists of certain geological and geophysical costs, expiry of undeveloped lands, and costs of uneconomic exploratory wells. Exploration and evaluation expenses for the three months ended March 31, 2016 and 2015 were $9,932 and $7,392, respectively.

Depletion and Depreciation

	Three Months Ended March 31			
		2016		2015
Depletion expense	**$**	**684,438**	$	1,642,047
Depreciation expense		**2,488**		3,364
Total	**$**	**686,926**	$	1,645,411
$ per boe	**$**	**14.85**	$	18.38

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 expense for the first quarter of 2016 decreased by $958,484 ($3.53/boe) over the first quarter of 2015. The significant decrease in depletion expense for the first quarter of 2016 as compared to the comparative quarter of 2015, is due to a lower depletion rate from applying reduced production rates against the higher reserve base from the December 31, 2015 external engineers evaluation report.

Capital Expenditures

	Three Months Ended March 31	
	2016	2015
Land and lease	$ **7,560**	$ 7,434
Geological and geophysical	**55,384**	16,033
Drilling and completions	**276,142**	49,698
Facilities and infrastructure	**5,590**	60,124
Total capital expenditures[1]	$ **344,676**	$ 133,289

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

The development capital spent during the first quarter of 2016 included the conversion of a water injection well in Atlee Buffalo and pump size upgrades to attain higher production levels.

Hemisphere has taken a conservative approach to capital spending and investment in 2015 and 2016 as a result of the current commodity pricing environment. The Company will continue to limit expenditures to essential projects until oil prices improve.

General and Administrative

	Three Months Ended March 31	
	2016	2015
Gross general and administrative	$ **309,146**	$ 470,902
Capitalized general and administrative	**(58,348)**	(7,459)
Total	$ **250,798**	$ 463,443
$ per boe	$ **5.42**	$ 5.18

Gross general and administrative expenses for the first quarter of 2016 decreased by $161,756 over the first quarter of 2015 due to the decreased use of consulting and professional services, reduced investor relations and marketing activities, reductions in salaries, and decreased travel expenditures.

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 ended March 31, 2016, capitalized general and administrative expenses increased by $50,888 from the comparable period in 2015. This increase in capitalized general and administrative expenses is in relation to the Company's conformance with IFRS procedures effective in the third quarter of 2015.

For the three months ended March 31, 2016, the Company realized an increase of $0.24/boe in total general and administrative costs from the same period in 2015 which is directly a result of lower production in the current quarter.

Share-based Payments

For the three months ended March 31, 2016 and 2015, the Company recorded share-based payments of $86,392 and $219,010, respectively. This is net of $26,892 of share based payments that were capitalized in the quarter. The share-based payment in the current quarter is from the granting of 1,785,000 incentive stock options in the first quarter of 2016, of which 75,000 will vest quarterly over a twelve month period. All share-based payments are considered to be part of the Company's general and administrative expenses and a portion is capitalized as noted above.

Finance Expense

	Three Months Ended March 31 2016	2015
Finance expense		
Interest expense	$ **122,773**	$ 108,008
Part XII.6 tax	**-**	-
Accretion of provision	**35,791**	31,067
Total	$ **158,564**	$ 139,075
$ per boe	$ **3.43**	$ 1.55

Finance expense for the first quarter of 2016 increased by $19,489 over the first quarter of 2015. This increase is a result of the interest expense incurred on the Company's outstanding bank debt which was higher in the first quarter of 2016, as well as a small increase in accretion expense.

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. In the first quarter of 2016, accretion expense increased by $4,726 over the comparable quarter in 2015 due to the additional decommissioning obligations associated with the new wells drilled in the second half of 2015.

Tax Pools

As at December 31, 2015, the Company had approximately $47 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 2016. Taxes payable beyond 2016 will primarily be a function of commodity prices, capital expenditures, and production volumes.

	Deduction Rate	**December 31, 2015**	December 31, 2014
Canadian exploration expense (CEE)	100%	$ **3,336,823**	$ 3,336,823
Canadian development expense (CDE)	30%	**19,220,505**	24,371,718
Canadian oil and gas property expense (COGPE)	10%	**7,517,421**	8,352,690
Non-capital losses carry forwards (NCL)	100%	**13,734,893**	6,571,929
Undepreciated capital cost (UCC)	20-55%	**2,171,731**	2,870,328
Share issuance costs and other	Various	**797,356**	1,591,613
Total		$ **46,778,729**	$ 47,095,101

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, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Average daily production (boe/d)	**776**	683	463
Petroleum and natural gas revenue	$ **9,749,377**	$ 16,635,279	$ 10,573,199
Petroleum and natural gas netback	**5,335,096**	9,275,653	5,607,492
Funds flow from operations(1)	**3,188,486**	6,863,919	3,789,202
Per share, basic and diluted	**0.04**	0.10	0.07
Net loss after tax(2)	**(8,310,831)**	(1,667,807)	(510,266)
Per share, basic and diluted	**(0.11)**	(0.02)	(0.01)
Average realized price ($/boe)	**34.41**	66.68	62.55
Operating netback ($/boe)(3)	**18.83**	37.19	33.17

Capital expenditures, including property acquisitions	**3,086,147**	21,316,366	9,969,174
Net debt[4]	**11,446,110**	11,644,609	6,330,906
Bank indebtedness	**10,828,040**	7,184,147	4,500,000
Total assets[2]	**40,811,044**	48,951,632	32,195,577

Notes:

(1) Funds flow from operations is an additional IFRS measure that represents cash generated by operating activities, before changes in non-cash working capital and may not be comparable to measures used by other companies.

(2) Certain annual amounts were restated retrospectively due to a change in accounting policy as disclosed in Note 4 of the Company's audited annual financial statements for the year ended December 31, 2014.

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

(4) Net debt is a non-IFRS measure calculated as current assets minus current liabilities including bank indebtedness and excluding flow-through share premium.

Summary of Quarterly Results

	2016		2015				2014	
	Mar. 31 Q1[2]	Dec. 31 Q4[3]	Sep. 30 Q3[4]	Jun. 30 Q2[5]	Mar. 31 Q1[6]	Dec. 31 Q4[7]	Sep. 30 Q3[8]	Jun. 30 Q2[9]
Average daily production (boe/d)	**508**	588	678	849	995	885	725	553
Petroleum and natural gas revenue	**935,834**	1,493,313	2,043,781	3,284,020	2,928,264	4,568,286	4,703,496	3,799,461
Petroleum and natural gas netback	**126,056**	458,240	1,094,625	1,954,246	1,827,986	2,534,334	2,852,204	2,011,113
Funds flow from operating activities	**(247,514)**	(103,531)	714,505	1,320,981	1,256,531	1,433,394	2,330,091	1,563,174
Per share, basic and diluted	**(0.00)**	(0.00)	0.01	0.02	0.02	0.02	0.03	0.02
Net income (loss)[1]	**(1,066,556)**	(2,333,468)	(4,755,531)	(575,484)	(646,345)	(3,568,603)	720,312	554,465
Basic and diluted income (loss) per share	**(0.01)**	(0.03)	(0.06)	(0.01)	(0.01)	(0.05)	0.01	0.01
Combined average realized price ($/boe)	**20.24**	27.59	32.74	42.49	32.71	56.10	70.52	75.47
Operating netback ($/boe)	**2.73**	8.47	17.54	25.28	20.42	31.14	42.79	39.98

Notes:

(1) Certain quarterly amounts were restated retrospectively due to a change in accounting policy as disclosed in Note 4 of the Company's audited annual financial statements for the year ended December 31, 2014.

(2) The decreases in net income, funds flow from operations and petroleum and natural gas netbacks for this quarter can be attributed to the decrease in the Company's combined average realized price resulting from the decline in commodity prices, and lower production volumes.

(3) A significant portion of the loss in this quarter is due to the $2,702,925 recorded in property impairment and an increase in depletion expense as a result of a change in the Company's depletion accounting policy.

(4) Funds flow from operations and petroleum and natural gas netback decreased in this quarter as a result of a 54% reduction in the Company's combined average realized price. The Company does not anticipate its deferred tax asset will be realized in the near future; as a result it has provided for it in the amount of $1,236,816 in the third quarter of 2015. A significant portion of the net loss in this quarter is the result of an impairment charge of $3,012,561 against the Company's petroleum and natural gas properties.

(5) Funds flow from operations and petroleum and natural gas netbacks have shown a slight improvement over the first quarter of 2015 due to a 30% increase in the Company's combined average realized price, but have remained low compared to 2014 as a result of the decline in commodity prices. Due to taxable income generated in excess of tax pools from lower capital expenditures, the Company utilized deferred tax assets resulting in a deferred tax expense of $405,100 for the second quarter of 2015.

(6) The decreases in net income, funds flow from operations and petroleum and natural gas netbacks can be attributed to the decrease in the Company's combined average realized price resulting from the decline in oil prices.

(7) A significant portion of the loss is due to the $2,702,925 recorded in property impairment and an increase in depletion expense as a result of a change in the Company's depletion accounting policy.

(8) Net income can be attributed to a combination of the increase in the Company's production from its summer drilling program and the improvement of netback resulting from decreased operating and transportation costs.

(9) The improvement in net income for this quarter over certain prior quarters is primarily due to the Company's increase in the combined average realized price resulting in higher operating netback.

The quarterly figures above for the current and previous fiscal years are all presented with the application of IFRS.

Outstanding Share Capital

	May 27, 2016	**March 31, 2016**	December 31, 2015
Fully diluted share capital			
Common shares issued and outstanding	75,903,498	**75,803,498**	75,803,498
Stock options	4,535,000	**5,335,000**	5,995,000
Total fully diluted	80,438,498	**81,138,498**	81,798,498

Subsequent to March 31, 2016, the following events impacted the Company's share capital:

- On April 7, 2016, 100,000 incentive stock options were exercised at a price of $0.08 per share for gross proceeds of $8,000.
- On April 15, 2016, 225,000 incentive stock options were cancelled at exercise prices ranging from $0.24 to $0.70.
- On May 26, 2016 of 475,000 incentive stock options at an exercise price of $0.40 expired.

The Company has the following stock options that are outstanding and exercisable as at May 27, 2016:

Exercise Price	Expiry Date	Balance Outstanding May 27, 2016	Balance Exercisable May 27, 2016
$0.70	8-Feb-17	1,400,000	1,400,000
$0.24	29-Jan-20	1,150,000	1,150,000
$0.39	1-Mar-20	100,000	100,000
$0.08	11-Feb-21	1,685,000	1,610,000
$0.08	12-Feb-21	200,000	200,000
		4,535,000	4,460,000
Weighted-average exercise price		$0.32	$0.32

Liquidity and Capital Management

The Company's net debt as at March 31, 2016 and December 31, 2015 were $12,038,298 and $10,420,007 respectively, representing an increase in net debt of $1,618,291.

a) Financing

The Company's cash provided by financing activities for the three months ended March 31, 2016 and 2015 were $nil and $108,750, respectively. In the first quarter of 2016, the Company issued nil (March 31, 2015 – 435,000) common shares through the exercise of incentive stock options at an exercise price of $nil (March 31, 2015 - $0.25) each for gross proceeds of $nil (March 31, 2015 - $108,750).

b) Capital Resources

The Company has a demand operating credit facility in the amount of $12.5 million with Alberta Treasury Branches ("ATB"), which was renewed in May 2016. The facility is secured by a general security agreement and a floating charge on all lands of the Company. The facility bears interest at the bank's prime rate plus 2.50%, as well as a standby charge for any undrawn funds.

Pursuant to the terms of the credit facility, the Company has provided a financial covenant that at all times its working capital ratio shall not be less than 1.0. The working capital ratio is defined under the terms of the credit facilities as current assets including the undrawn portion of the revolving operating demand line credit facility, to current liabilities, excluding any current bank indebtedness.

At March 31, 2016, the Company had drawn a total of $11,533,660 from its credit facility (December 31, 2015 - $10,828,040) and had a working capital ratio of 2.6, which is in compliance with the above financial covenant. The Company's next credit facility review with ATB is set for November 2016.

The Company manages its capital with the following objectives:

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

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is composed of shareholders' equity and the undrawn component of the Company's credit facilities. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing from the Company's credit facilities, 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.

Commitment

The Company has a commitment to make monthly rental payments pursuant to the office rental agreement at its current location until May 30, 2018. The following table shows the Company's rental commitment amounts for the next four fiscal years:

	2016	2017	2018
Rental commitment	$ 145,096	$ 193,461	$ 80,609

Off-Balance Sheet Arrangements

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

Proposed Transactions

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

Critical Accounting Estimates and Judgements

The Company's significant accounting estimates, judgements and policies are set out in Notes 2 and 3 of the audited annual financial statements for the year ended December 31, 2015 and have been consistently followed in the preparation of the unaudited interim condensed financial statements.

The preparation of the unaudited interim condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. A discussion of specific estimates and judgements employed in the preparation of the Company's unaudited interim condensed financial statements is included in the Company's audited annual financial statements for the year ended December 31, 2015.

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

Newly Adopted Accounting Standards

Effective January 1, 2016, the Company has not adopted any new accounting standards. A full listing of future accounting pronouncements are disclosed in the Company's annual audited financial statements for the year ended December 31, 2015.

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 March 31, 2016, the Company's financial instruments include accounts receivable, reclamation deposits, bank indebtedness, accounts payable and accrued liabilities.

The fair values of accounts receivable, reclamation deposits, bank indebtedness, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these financial instruments.

Risks

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

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

Business Risk

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

Credit risk

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

The maximum exposure to credit risk is as follows:

	As at	
	March 31, 2016	December 31, 2015
Accounts receivable		
Trade receivables	**$ 334,445**	$ 385,432
Receivables from joint venture	**273,525**	153,897
Reclamation deposits	**115,535**	115,535
Total	**$ 723,505**	$ 654,864

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by anticipating operating, investing and financing activities and ensuring that it will have sufficient liquidity to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company. The Company prepares expenditure budgets on a quarterly and annual basis which are regularly monitored and updated when necessary in order to review debt forecasts and working capital requirements.

At March 31, 2016, the Company had net debt of $12,038,298 (December 31, 2015 - $11,446,110), which includes bank indebtedness of $11,533,660 (December 31, 2015 - $10,828,040). The Company funds its operations through production revenue and a demand operating credit facility. All of the Company's financial liabilities have contractual maturities of less than 90 days.

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 credit facilities are subject to variable interest rates. A one percent change in interest rates would not have a material effect on net income (loss) and comprehensive income (loss).

Foreign currency risk

The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency; however, commodity prices are largely denominated in USD, and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales. The Company did not have any foreign exchange rate swaps or related contracts in place as at the date of this document.

Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices may materially impact the Company's funds flow from operations, and ability to raise capital. The Company has not entered into any commodity hedge contracts as at the date of this document.

Other price risk

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

Non-IFRS and Additional IFRS Measures

This document contains the terms "funds flow from operations" which is an additional IFRS measure presented in the financial statements. This document also contains the terms "funds flow from operations", "operating netback", and "net debt" which are not recognized measures under IFRS and may not be comparable to similar measures presented by other companies.

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

A reconciliation of funds flow from (used in) operations to cash provided by (used in) operating activities is presented as follows:

	Three Months Ended March 31	
	2016	2015
Cash provided by (used in) operating activities	**$ 339,107**	$ 828,151
Change in non-cash working capital	**(91,593)**	428,382
Funds flow from (used in) operations	**$ (247,514)**	$ 1,256,533
Per share, basic and diluted	**$ -**	$ 0.02

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

c) Net debt (working capital) is closely monitored by the Company to ensure that its capital structure is maintained by a strong balance sheet to fund the future growth of the Company. Net debt is used in this document in the context of liquidity and is calculated as the total of the Company's bank debt and current liabilities, less current assets. There is no IFRS measure that is reasonably comparable to net debt.

The following table outlines the Company calculation of net debt:

	As at	
	March 31, 2016	December 31, 2015
Current assets	**$ 732,036**	$ 686,869
Current liabilities[1]	**(1,236,674)**	(1,304,939)
Bank indebtedness	**(11,533,660)**	(10,828,040)
Net debt	**$ (12,038,298)**	$ (11,466,110)

Note:
(1) Excluding bank indebtedness.

Boe Conversion

Within this document, petroleum and natural gas volumes and reserves are converted to a common unit of measure, referred to as a barrel of oil equivalent ("boe"), using a ratio of 6,000 cubic feet of natural gas to one barrel of oil. Use of the term boe may be misleading, particularly if used in isolation. The conversion ratio is based on an energy equivalent method and does not necessarily represent a value equivalency at the wellhead. This conversion conforms with the Canadian Securities Regulators National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101").

Forward-Looking Statements

In the interest of providing Hemisphere's shareholders and potential investors with information regarding the Company, including management's assessment of the future plans and operations of Hemisphere, certain statements contained in this MD&A constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular, but without limiting the foregoing, this document may contain forward-looking statements pertaining to the following: volumes and estimated value of Hemisphere's oil and natural gas reserves; the life of Hemisphere's reserves; the volume and product mix of Hemisphere's oil and natural gas production; future oil and natural gas prices; future operational activities; and future results from operations and operating metrics, including any future production growth and net debt. In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

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

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

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

MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

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

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

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

Vancouver, British Columbia
May 30, 2016

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

CONDENSED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)
(Unaudited)

	Note		**March 31, 2016**		December 31, 2015
Assets					
Current assets					
Accounts receivable		**$**	**607,970**	$	539,329
Prepaid expenses			**124,066**		147,540
			732,036		686,869
Non-current assets					
Reclamation deposits	7		**115,535**		115,535
Exploration and evaluation assets	5		**3,073,038**		3,100,937
Property and equipment	6		**36,610,312**		36,907,703
Total assets		**$**	**40,530,920**	$	40,811,044
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**1,236,674**	$	1,304,939
Bank indebtedness	9		**11,533,660**		10,828,040
			12,770,334		12,132,979
Non-current liabilities					
Decommissioning obligations	7		**6,001,025**		5,965,233
			18,771,358		18,098,212
Shareholders' Equity					
Share capital	10		**52,083,070**		52,083,070
Contributed surplus	10(b)		**1,436,236**		2,461,870
Deficit			**(31,759,745)**		(31,832,108)
Total shareholders' equity			**21,759,561**		22,712,832
Total liabilities and shareholders' equity		**$**	**40,530,920**	$	40,811,044

Commitment (Note 11)
Subsequent events (Note 13)

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

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in Canadian dollars)
(Unaudited)

	Note	Three Months Ended March 31 2016	2015
Oil and natural gas revenue		**$ 935,834**	$ 2,928,264
Royalties		**(109,119)**	(241,711)
Net oil and natural gas revenue		**826,715**	2,686,553
Expenses			
Production and operating		**700,659**	858,567
Exploration and evaluation	5	**9,932**	7,392
Depletion and depreciation	6	**686,926**	1,645,411
General and administrative		**250,798**	463,443
Share-based payments	10(b)	**86,392**	219,010
		1,734,708	3,193,823
Results from operating activities		**(907,992)**	(507,270)
Finance expense	8	**(158,564)**	(139,075)
Net loss and comprehensive loss for the period		**$ (1,066,556)**	$ (646,345)
Loss per share			
Basic and diluted	10(d)	**$ (0.01)**	$ (0.01)

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

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)
(Unaudited)

	Note	Number of common shares		Capital stock		Share-based payment reserve		Deficit		Total Equity
Balance, December 31, 2014		**75,368,498**	**$**	**51,881,960**	**$**	**2,513,122**	**$**	**(23,702,847)**	**$**	**30,692,235**
Share-based payments		-		-		222,677		-		222,677
Exercise of stock options		435,000		201,110		(92,359)		-		108,751
Expiry of stock options		-		-		(181,570)		181,570		-
Net loss for the year		-		-		-		(8,310,831)		(8,310,831)
Balance, December 31, 2015		**75,803,498**	**$**	**52,083,070**	**$**	**2,461,870**	**$**	**(31,832,108)**	**$**	**22,712,832**
Balance, December 31, 2015		**75,803,498**	**$**	**52,083,070**	**$**	**2,461,870**	**$**	**(31,832,108)**	**$**	**22,712,832**
Share-based payments	10(b)	-		-		113,284		-		113,284
Expiry of stock options		-		-		(1,138,918)		1,138,918		-
Net loss for the period		-		-		-		(1,066,556)		(1,066,556)
Balance, March 31, 2016		**75,803,498**	**$**	**52,083,070**	**$**	**1,436,236**	**$**	**(31,759,745)**	**$**	**21,759,561**

Comparison with three months ended March 31, 2015:

	Note	Number of common shares		Capital stock		Share-based payment reserve		Deficit		Total Equity
Balance, December 31, 2014		**75,368,498**	**$**	**51,881,960**	**$**	**2,513,122**	**$**	**(23,702,847)**	**$**	**30,692,235**
Exercise of stock options		435,000		201,110		(92,359)		-		108,751
Share-based payments		-		-		219,010		-		219,010
Net loss for the period		-		-		-		(646,345)		(646,345)
Balance, March 31, 2015		**75,803,498**	**$**	**52,083,069**	**$**	**2,639,773**	**$**	**(24,349,191)**	**$**	**30,373,651**

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

CONDENSED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)
(Unaudited)

	Note	Three Months Ended March 31 2016	2015
Operating activities			
Net loss for the period		**$ (1,066,556)**	$ (646,345)
Items not affecting cash:			
Depletion and depreciation		**686,926**	1,645,410
Accretion		**35,791**	31,067
Exploration and evaluation expense		**9,932**	7,392
Share-based payments		**86,392**	219,010
Funds flow from (used in) operations		**(247,514)**	1,256,533
Changes in non-cash working capital		**(91,593)**	(428,382)
Cash provided by (used in) operating activities		**(339,107)**	828,152
Investing activities			
Property and equipment expenditures		**(296,040)**	(111,015)
Exploration and evaluation expenditures		**(48,634)**	(22,274)
Changes in non-cash working capital		**(21,839)**	(3,592,801)
Cash used in investing activities		**(366,513)**	(3,726,090)
Financing activities			
Shares issued for cash, net of issue costs		**-**	108,750
Change in bank indebtedness		**705,621**	2,789,189
Cash provided by financing activities		**705,621**	2,897,939
Net change in cash		**-**	-
Cash, beginning of period		**-**	-
Cash, end of period		**$ -**	$ -

Supplemental cash flow information (Note 12)

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three months ended March 31, 2016 and 2015
(Expressed in Canadian Dollars)

1. Nature and Continuance of Operations

Hemisphere Energy Corporation (the "Company") was incorporated under the laws of British Columbia on March 6, 1978. The Company's principal business is the acquisition, exploration, development and production of petroleum and natural gas interests in Canada. It is a publicly traded company listed on the TSX Venture Exchange under the symbol "HME". The Company's head office is located at Suite 2000, 1055 West Hastings Street, Vancouver, British Columbia, Canada V6E 2E9.

2. Basis of Presentation

(a) Statement of compliance

These unaudited interim condensed financial statements ("Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2015.

These financial statements were authorized for issuance by the Board of Directors on May 30, 2016.

(b) Basis of presentation

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of these Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may materially differ from these estimates.

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

(e) Summary of significant accounting policies

These financial statements have been prepared in accordance with IFRS and follow the same accounting policies as described in Note 3 of the Company's audited annual financial statements for the year ended December 31, 2015. There have been no changes to the Company's accounting policies since the Company's audited annual financial statements for the year ended December 31, 2015 were issued.

3. 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 March 31, 2016, the Company's financial instruments include accounts receivable, reclamation deposits, bank indebtedness, and accounts payable and accrued liabilities.

The fair values of accounts receivable, reclamation deposits, accounts payable and accrued liabilities, and bank indebtedness approximate their carrying values due to the short-term maturity of these financial instruments.

4. Capital Management

The Company manages its capital with the following objectives:

(a) To ensure sufficient financial flexibility to achieve the Company's ongoing business objectives including the replacement of production, funding of future growth opportunities and pursuit of accretive acquisitions; and

(b) To maximize shareholder return through enhancing the Company's share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the Company and industry in general. The capital structure of the Company is composed of shareholders' equity and net debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing from the Company's credit facilities, 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.

5. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of Proved and Probable reserves. A transfer from exploration and evaluation assets to property and equipment is made when reserves are assigned or the exploration project has been completed. For the period ended March 31, 2016, the Company; transferred $66,601 (December 31, 2015 - $206,427) to property and equipment, capitalized general and administrative expenses of $45,452 (December 31, 2015 - $241,457) to exploration and evaluation assets, and recognized exploration and evaluation expense of $9,932 (December 31, 2015 - $64,596).

Cost		
Balance, December 31, 2014	$	2,896,887
Additions		475,073
Exploration and evaluation expense		(64,596)
Transfer to property and equipment		(206,427)
Balance, December 31, 2015	$	3,100,937
Additions		48,633
Exploration and evaluation expense		(9,932)
Transfer to property and equipment		(66,601)
Balance, March 31, 2016	**$**	**3,073,038**

6. Property and Equipment

Cost		Petroleum and Natural Gas		Other Equipment		Total
Balance, December 31, 2014	$	62,486,310	$	114,492	$	62,600,802
Additions		2,611,074		-		2,611,074
Increase in decommissioning obligations		665,954		-		665,954
Capitalized share-based payments		41,097		-		41,097
Transfer from exploration and evaluation assets		206,427		-		206,427
Balance, December 31, 2015	$	66,010,862	$	114,492	$	66,125,354
Additions		296,043		-		296,043
Capitalized share-based payments		26,892		-		26,892
Transfer from exploration and evaluation assets		66,601		-		66,601
Balance, March 31, 2016	**$**	**66,400,697**	**$**	**114,492**	**$**	**66,514,889**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance, December 31, 2014		19,668,782		61,908		19,730,689
Depletion and depreciation for the year		5,107,250		13,455		5,120,705
Impairment		4,366,257		-		4,366,257
Balance, December 31, 2015	**$**	**29,142,289**	**$**	**75,362**	**$**	**29,217,651**
Depletion and depreciation for the period		684,438		2,488		686,926
Balance, March 31, 2016	**$**	**29,826,727**	**$**	**77,850**	**$**	**29,904,577**
Net Book Value						
December 31, 2015	$	36,868,573	$	39,130	$	36,907,703
March 31, 2016	**$**	**36,573,668**	**$**	**36,642**	**$**	**36,610,312**

The Company's additions for property and equipment included capitalized general and administrative expenses of $12,896 for the period ended March 31, 2016.

The calculation of depletion at March 31, 2016 includes estimated future development costs of $18,263,600 (December 31, 2015 - $18,263,600) associated with the development of the Company's Proved plus Probable reserves.

7. Decommissioning Obligations

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

The Company estimates the total undiscounted and inflated amount of cash flows required to settle its decommissioning obligations as at March 31, 2016 is $10,104,158 (December 31, 2015 - $10,104,158). These payments are expected to be made over the next 38 years with the majority of costs to be incurred between 2025 and 2047. The discount factor, being the risk-free rate related to the liability, is 2.46% (December 31, 2015 - 2.46%). Inflation of 2.18% (December 31, 2015 – 2.18%) has also been factored into the calculation. The Company also has $115,535 (December 31, 2015 - $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.

			March 31, 2016		December 31, 2015
Decommissioning obligations, beginning of period	discounted	**$**	**5,965,233**	$	5,177,607
Increase in estimated future obligations			**-**		32,812
Change in estimate			**-**		633,142
Decommissioning obligation expenditures			**-**		(2,591)
Accretion expense			**35,791**		124,263
Decommissioning obligations, end of period	discounted	**$**	**6,001,025**	$	5,965,233

8. Finance Income and Expense

		Three Months Ended March 31		
		2016		2015
Finance expense:				
Interest expense	**$**	**122,773**	$	108,008
Accretion of provision		**35,791**		31,067
Total	**$**	**158,564**	$	139,075

9. Bank Indebtedness

At March 31, 2016, the Company had a demand operating credit facility in the amount of $15,000,000 with Alberta Treasury Branches ("ATB") which was renewed in July 2015. Funds available under the credit facility are restricted to $14,000,000 and access to the remaining $1,000,000 is based on additional approval from ATB.

The facility is secured by a general security agreement and a floating charge on all lands of the Company. The facility bears interest at the bank's prime rate plus 1.75%, as well as a standby charge for any undrawn funds. As the available lending limits of the facilities are based on the bank's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of available facilities that will be determined at each scheduled review.

Pursuant to the terms of the credit facility, the Company has provided a financial covenant that at all times its working capital ratio shall not be less than 1.0. The working capital ratio is defined under the terms of the credit facilities as current assets including the undrawn portion of the revolving operating demand line credit facility ($14.0 million), to current liabilities, excluding any current bank indebtedness.

At March 31, 2016, the Company has drawn a total of $11,533,660 from its credit facility (December 31, 2015 - $10,828,040) and had a working capital ratio of 2.6, which is in compliance with the above financial covenant. The Company completed its annual review with ATB in May 2016, which is disclosed in the Subsequent Events Note 13.

10. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at March 31, 2016, the Company had 75,803,498 common shares issued and outstanding.

No shares were issued during the period ended March 31, 2015.

(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 March 31, 2016 are as follows:

			Changes in the Period				
Exercise Price	Expiry Date	Balance Outstanding December 31, 2015	Granted	Exercised	Expired/ Cancelled	Balance Outstanding March 31, 2016	Balance Exercisable March 31, 2016
$0.30	27-Jan-16	200,000	-	-	(200,000)	-	-
$0.38	9-Feb-16	50,000	-	-	(50,000)	-	-
$0.40	26-May-16	475,000	-	-	-	475,000	475,000
$0.48	5-Jul-16	50,000	-	-	-	50,000	50,000
$0.70	8-Feb-17	1,500,000	-	-	-	1,500,000	1,500,000
$0.65	24-Apr-17	75,000	-	-	(75,000)	-	-
$0.61	5-Jul-17	425,000	-	-	(425,000)	-	-
$0.50	8-Mar-18	250,000	-	-	(250,000)	-	-
$0.55	6-Jan-19	660,000	-	-	(660,000)	-	-
$0.65	29-Sep-19	785,000	-	-	(785,000)	-	-
$0.61	7-Oct-19	200,000	-	-	(200,000)	-	-
$0.24	29-Jan-20	1,225,000	-	-	-	1,225,000	1,225,000
$0.39	1-Mar-20	100,000	-	-	-	100,000	100,000
$0.08	11-Feb-21	-	1,785,000	-	-	1,785,000	1,710,000
$0.08	12-Feb-21	-	200,000	-	-	200,000	200,000
		5,995,000	1,985,000	-	(2,645,000)	5,335,000	5,260,000
Weighted-average exercise price		$0.52	$0.08	-	$0.57	$0.33	$0.33

For the three months ended March 31, 2016, the Company recognized $113,284 (March 31, 2015 - $219,010) in share-based payment expense from the granting of 1,785,000 incentive stock options (March 31, 2015 – 1,325,000) to directors, officers, employees and consultants of the Company, of which 1,710,000 vested immediately. On February 11, 2016, 75,000 stock options were granted to a company performing investor relations services at an exercise price of $0.08 each and vest 25% at each three-month interval from the grant date. As at March 31, 2016, no share-based payment expense was recognized for these stock options as they remained unvested.

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

	March 31, 2016	March 31, 2015
Expected life (years)	**5.00**	5.00
Interest rate	**0.82%**	0.79%
Volatility	**97.18%**	91.71%
Dividend yield	**0.00%**	0.00%
Fair value at grant date	**$0.06**	$0.17

The weighted-average exercise price for stock options granted during the three months ended March 31, 2016 was $0.08 (March 31, 2015 - $0.25). The forfeiture rate has been estimated at 0.05% (March 31, 2015 – 0%).

During the three months ended March 31, 2016, the Company removed $1,138,918 (year ended December 31, 2015 - $181,570) from contributed surplus and recorded a corresponding recovery in deficit for the expired stock options.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate

(c) Share purchase warrants

As at March 31, 2016, the Company had no outstanding share purchase warrants.

(d) Loss per share

	Three Months Ended March 31	
	2016	2015
Loss for the period	**$ (1,066,556)**	$ (646,345)
Weighted average number of common shares outstanding, basic	**75,803,498**	75,622,498
Dilutive stock options	**-**	-
Weighted average number of common shares outstanding, diluted	**75,803,498**	75,622,498
Loss per share, basic and diluted	**$ (0.01)**	$ (0.01)

For the three months ended March 31, 2016, the Company incurred a loss; therefore, dilutive stock options were nil (three months ended March 31, 2015 – nil).

11. Commitment

The Company has a commitment to make monthly rental payments pursuant to the office rental agreement at its current location until May 30, 2018. The following table shows the Company's rental commitment amounts for the next three fiscal years:

	2016	2017	2018
Rental commitment	$ 145,096	$ 193,461	$ 80,609

12. Supplemental Cash Flow Information

	Three Months Ended March 31	
	2016	2015
Provided by (used in):		
Accounts receivable	**$ (68,640)**	$ 130,436
Prepaid expenses	**23,474**	21,497
Accounts payable and accrued liabilities	**(68,265)**	(4,173,116)
Total changes in non-cash working capital	**$ (113,432)**	$ (4,021,183)
Provided by (used in):		
Operating activities	**$ (91,593)**	$ (428,382)
Investing activities	**(21,839)**	(3,592,801)
Total changes in non-cash working capital	**$ (113,432)**	$ (4,021,183)

Interest paid on the Company's bank loan during the three months ended March 31, 2016 was $122,773 compared to $108,008 for the three months ended March 31, 2015.

13. Subsequent Events

a) On April 7, 2016, 100,000 incentive stock options were exercised at a price of $0.08 per share for gross proceeds of $8,000.

b) On April 15, 2016, 225,000 incentive stock options were forfeited at exercise prices ranging from $0.24 to $0.70.

c) On May 27, 2016, the Company completed its annual review with Alberta Treasury Branches ("ATB") and reset its demand operating credit facility to the amount of $12.5 million. The facility is secured by a general security agreement and a floating charge on all lands of the Company. The facility bears interest at the bank’s prime rate plus 2.50%, as well as a standby charge for any undrawn funds.

d) On May 26, 2016 of 475,000 incentive stock options at an exercise price of $0.40 were expired.

Hemisphere energy corporation

OFFICERS

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

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

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

BOARD OF DIRECTORS

Charles O'Sullivan, B.Sc., *Chairman*(2)(3)

Frank Borowicz, QC, CA (Hon)(1)(2)(3)

Bruce McIntyre, P.Geol.(1)(2)(4)

Don Simmons, P.Geol.(3)(4)

Gregg Vernon, P.Eng.(1)(4)

Richard Wyman, B.Sc., MBA(1)(4)

(1) *Audit Committee*
(2) *Compensation/Nominating Committee*
(3) *Corporate Governance Committee*
(4) *Reserves Committee*

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Calgary, Alberta

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Calgary, Alberta
Harper Grey LLP
Vancouver, British Columbia

AUDITOR

KPMG LLP
Vancouver, British Columbia

INDEPENDENT ENGINEER

McDaniel Associates & Consultants Ltd.
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services Inc.
Vancouver, British Columbia

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Calgary, Alberta