Q1 ACHIEVEMENTS AND HIGHLIGHTS

- Achieved quarterly average production of 567 boe/d (86% oil and NGL), a 37% increase over the same period in 2013.
- Generated a record $3.6 million in petroleum and natural gas revenue.
- Increased funds flow from operating activities by 91% to $1.5 million or $0.02 per share over the comparable quarter of 2013.
- Achieved record net income of $847,909 or $0.01 per share
- Increased operating netback to $36.83/boe, an improvement of $6.88/boe over Q1 2013 and $13.00/boe over Q4 2013.
- Successfully drilled and placed on production the Company's first horizontal development well in Atlee Buffalo which has continued to perform at rates higher than anticipated and achieved an initial production rate of approximately 90 boe/d (93% oil) during its first 90 days.
- Successfully drilled two additional Glauconitic horizontal oil wells in Jenner.

SUBSEQUENT ACHIEVEMENTS

- Closed a bought-deal equity financing for gross proceeds of $10 million at a price of $0.75 with net proceeds to be used to accelerate the Company's capital program focused on continuing development in Atlee Buffalo and Jenner. Hemisphere is currently finalizing its expanded drilling program and facility plans for the remainder of 2014.
- Installed a solution gas compressor at the Company's main production facility in Jenner to increase volume through-put.
- Based on field estimates, April 2014 production was approximately 670 boe/d (84% oil).

ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

June 6, 2014 at 9:00 am Pacific Daylight Time
Terrace B at the Terminal City Club
837 Hastings Street West, Vancouver, British Columbia

Q1 2014 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended			
		March 31, 2014		March 31, 2013
FINANCIAL				
Petroleum and natural gas revenue	**$**	**3,564,036**	$	2,073,617
Petroleum and natural gas netback		**1,878,003**		1,115,557
Funds flow from operating activities		**1,508,107**		791,568
Per share, basic and diluted		**0.02**		0.01
Net income		**847,909**		134,425
Per share, basic and diluted		**0.01**		0.00
Capital expenditures, including property acquisitions		**4,367,316**		1,644,844
Net debt		**(9,531,232)**		(4,718,134)
Bank indebtedness	**$**	**7,650,000**	$	3,405,000

Note:

(1) Funds flow from operating activities represents net income or loss before depletion, depreciation and accretion, share-based payments, impairment and any deferred tax adjustment.

OPERATING				
Average daily production				
Oil (bbl/d)		**488**		371
Natural gas (Mcf/d)		**473**		232
NGL (bbl/d)		**-**		4
Combined (boe/d)		**567**		414
Oil and NGL weighting		**86%**		91%
Average sales prices				
Oil ($/bbl)	**$**	**76.90**	$	59.12
Natural gas ($/Mcf)		**4.42**		3.42
NGL ($/bbl)		-		74.43
Combined ($/boe)	**$**	**69.89**	$	55.66
Operating netback ($/boe)				
Petroleum and natural gas revenue	**$**	**69.89**	$	55.66
Royalties		**10.82**		7.92
Operating costs		**19.08**		14.96
Transportation costs		**3.16**		2.84
Operating netback	**$**	**36.83**	$	29.95

	As at	
	March 31, 2014	March 31, 2013
COMMON SHARES		
Common shares outstanding	**61,344,998**	53,961,048
Warrants outstanding	**2,053,775**	8,183,445
Stock options outstanding	**5,675,000**	4,995,000
Weighted-average shares outstanding - basic	**61,324,581**	54,023,809
Weighted-average shares outstanding - diluted	**63,125,553**	55,133,147

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at May 21, 2014

The following discussion and analysis is a review of the current financial position and operating results of Hemisphere Energy Corporation ("Hemisphere" or the "Company") for the three months ended March 31, 2014 and 2013, and should be read in conjunction with the unaudited condensed interim financial statements and related notes for the three months ended March 31, 2014. These documents are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.

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

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 document 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 document, 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 its development and exploitation activities.

Although Hemisphere believes that the expectations reflected in the forward-looking statements contained in this document, 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 document, 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 document 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 document are expressly qualified by this cautionary statement.

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").

Non-IFRS Measurements

This document contains the terms "funds flow from operating activities", "operating netback" and "net debt" which are not recognized measures under IFRS. These measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures used by other companies.

a) The Company's management considers funds flow from operating activities 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 operating activities represents income or loss before depletion, depreciation, accretion, share-based payments, impairment and any deferred tax adjustments. Funds flow from operating activities 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 operating activities to cash provided by operating activities is presented as follows:

	Three Months Ended	
	March 31, 2014	March 31, 2013
Cash provided by operating activities	**$ 800,533**	$ 996,243
Change in non-cash working capital	**707,573**	(204,676)
Funds flow from operating activities	**$ 1,508,107**	$ 791,568
Funds flow from operating activities per share, basic and diluted	**$ 0.02**	$ 0.01

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 a total cost 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 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.

The following table outlines the Company's calculation of net debt:

	March 31, 2014	December 31, 2013
Current assets	**$ 1,670,550**	$ 1,145,579
Current liabilities(1)	**(3,551,782)**	(3,345,726)
Bank indebtedness	**(7,650,000)**	(4,500,000)
Net debt	**$ (9,531,232)**	$ (6,700,147)

Note:
(1) Excluding bank indebtedness.

Business Overview

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

Jenner, Alberta

Hemisphere operates 95% of its wells in the Jenner area. The property is accessible year-round and is located east of Brooks in southeastern Alberta. Hemisphere has an average working interest of 96% in approximately 25,120 net acres (10,166 ha) and has continued to build a land position in the Jenner area through Crown land sales and strategic acquisitions and farm-ins.

During the quarter, Hemisphere successfully drilled two horizontal oil wells in the Jenner area which have been tied-in and placed on production. The Company also completed a small acquisition, which resulted in the acquisition of 1.75 sections (1,120 acres) in the surrounding Jenner area.

Atlee Buffalo, Alberta

The Company operates 100% of its wells in the Atlee Buffalo area. The property is accessible year-round and is located close in proximity to Hemisphere's Jenner property in southeastern Alberta. Hemisphere has a 100% working interest in 5,760 net acres (2,331 ha) and is building a land position in Atlee Buffalo through Crown land sales and strategic acquisitions and farm-ins.

During the quarter, the Company drilled its first well in the Atlee Buffalo area targeting the oil-bearing Glauconitic sandstones within the Mannville Group. The initial production results of the well were better than expected and confirmed reservoir pressure, productivity and the effective use of horizontal well technology. A number of drilling pads were also surveyed during the first quarter of 2014 and an inventory of drilling locations were licensed to support future drilling in the area.

Trutch, British Columbia

Hemisphere has varying working interests from 30% to 100% in approximately 23,102 net acres (9,349 ha) of the Trutch property which is located approximately 200 kilometres northwest of Fort St. John in British Columbia. Hemisphere currently has production from the liquids rich Halfway formation in Trutch and recognizes potential in the Montney and Slave Point formations. Competitors to the southeast of the Trutch area have been exploring and developing the prolific Tommy Lakes Halfway gas field for a number of years and have begun using horizontal wells and multi-stage frac completions for development.

Operating Results

The Company generated funds flow from operating activities of $1,508,107 ($0.02/share) for the first quarter of 2014, as compared to $791,568 ($0.01/share) for the first quarter of 2013. For the three months ended March 31, 2014 and 2013, the Company reported net income of $847,909 ($0.01/share) and $134,425 ($0.00/share), respectively.

Production

	Three Months Ended	
	March 31, 2014	March 31, 2013
Oil (bbl/d)	**488**	371
Natural gas (Mcf/d)	**473**	232
NGL (bbl/d)	**-**	4
Total (boe/d)	**567**	414
Oil and NGL weighting	**86%**	91%

In the first quarter of 2014, the Company increased its average daily production by 37% over the comparable quarter of 2013 to 567 boe/d (86% oil and NGL) and remained consistent with production levels from the fourth quarter of 2013. This increase can be attributed to the production from the two oil wells drilled in Jenner in 2013 and the first quarter additions of two oil wells in Jenner and one oil well in Atlee Buffalo. Gas production also increased as a result of gas volumes from the new wells and the installation of a gas sweetening tower at the Company's main production facility in Jenner which was completed in the second quarter of 2013.

The Company's natural gas and NGL production in Trutch was shut-in during the first quarter of 2014 as the wells were down due to freezing of equipment and pipelines. This unscheduled downtime resulted in production loss of approximately 25 boe/d for the first quarter of 2014. The Company expects these wells to be back on production by the end of the second quarter of 2014.

Average Benchmark and Realized Prices

	Three Months Ended	
	March 31, 2014	March 31, 2013
Benchmark Prices		
WTI (US$/bbl)[1]	**$ 98.68**	$ 94.35
Exchange rate (1 US$/C$)	**1.1030**	1.0106
WTI (C$/bbl)	**108.85**	95.35
AECO natural gas ($/Mcf)[2]	**5.52**	3.14
Average realized prices		
Crude oil ($/bbl)	**76.90**	59.12
Natural gas ($/Mcf)	**4.42**	3.42
NGL ($/bbl)	**-**	74.43
Combined ($/boe)	$ **69.89**	$ 55.66

Notes:

(1) Represents posting prices of West Texas Intermediate Oil.

(2) Represents the Alberta 30 day spot AECO posting prices.

The Company's combined average realized price for the three months ended March 31, 2014 increased by $14.23/boe over the comparable quarter of 2013 and $13.34/boe over the fourth quarter of 2013. The average realized heavy oil price increased during the three months ended March 31, 2014 by $17.78/bbl over the comparable quarter in 2013. These increases are a reflection of strong WTI pricing, combined with narrowing WCS heavy oil differentials and a favourable exchange rate in the first quarter 2014.

The Company's average realized natural gas price also increased in the first quarter of 2014 by $1.00/Mcf over the first quarter of 2013 and $0.43/Mcf over the fourth quarter of 2013.

Revenue

	Three Months Ended	
	March 31, 2014	March 31, 2013
Oil	**$ 3,376,120**	$ 1,975,611
Natural gas	**187,916**	71,355
NGL	**-**	26,652
Total	**$ 3,564,036**	$ 2,073,617

Total revenue for the first quarter of 2014 was $3,564,036, representing a 72% increase from the comparable quarter of 2013 and a 20% increase from the fourth quarter of 2013. This increase in revenue is consistent with the 37% growth in production as a result of the Company's drilling program in the Jenner and Atlee Buffalo areas and the 26% increase in combined average realized price for the current quarter. The Company did not realize any NGL revenue for the quarter as its wells in the Trutch area were down due to weather-related issues.

Operating Netback

	Three Months Ended	
	March 31, 2014	March 31, 2013
Netback		
Revenue	**$ 3,564,036**	$ 2,073,617
Royalties	**551,669**	294,990
Operating costs	**973,327**	557,173
Transportation costs	**161,037**	105,897
Operating netback	**$ 1,878,003**	$ 1,115,557
Netback ($/boe)		
Revenue	**$ 69.89**	$ 55.66
Royalties	**10.82**	7.92
Operating costs	**19.08**	14.96
Transportation costs	**3.16**	2.84
Operating netback	**$ 36.83**	$ 29.95

Royalties for the first quarter of 2014 increased by $2.90/boe, or 37%, over the comparable quarter of 2013. This can be attributed to the two Jenner oil wells drilled in 2013 under a farm-in agreement which are subject to Alberta Crown royalties and gross overriding royalties. This increase in royalties is also consistent with the Company's increase in production and combined average realized price for the first quarter of 2014.

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 2014 were $19.08/boe, an increase of $4.12/boe, over the comparable quarter of 2013. This increase in operating costs can be attributed to third party processing fees for the two wells drilled by the Company in 2013, temporary propane use at new wells and costs associated with an unscheduled turnaround at the main production facility in Jenner.

Transportation costs include all costs incurred to transport oil and gas sales to processing and distribution facilities. Transportation costs for the first quarter of 2014 were $3.16/boe which represents an increase of $0.32/boe over the comparable quarter of 2013. This increase can be attributed to the Atlee Buffalo wells acquired in the fourth quarter of 2013 which have higher transportation costs associated with trucking production volumes to processing facilities and sales.

Operating netback for the first quarter of 2014 increased by 23%, over the comparable quarter of 2013. This increase is largely due to the 26% increase in the Company's combined average realized price for the quarter. Operating netback for the first quarter of 2014 also increased by 55% to $36.83/boe over the fourth quarter of 2013. This increase is largely due to the $13.34/boe increase in the Company's combined average realized price to $69.89/boe for the quarter, compared to $56.55/boe for the fourth quarter of 2013.

Exploration and Evaluation Expense

Throughout the quarter, expenditures were made on some of the Company's non-producing properties, including property leases and licenses, reclamation costs and other general expenses. Exploration and evaluation expenses for the three months ended March 31, 2014 and 2013 were $29,153 as $12,407, respectively.

Depletion and Depreciation

	Three Months Ended	
	March 31, 2014	March 31, 2013
Depletion expense	**$ 653,454**	$ 589,182
Depreciation expense	**933**	1,262
Total	**$ 654,387**	$ 590,444
$ per boe	**$ 12.83**	$ 15.85

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 to develop and produce the reserves. Depletion and depreciation expense for the three months ended March 31, 2014 increased by $63,943 due to the Company's acquisition of the Atlee Buffalo property in the fourth quarter of 2013, as well as the development of three producing oil wells during the current quarter. The decrease in depletion and depreciation by $3.09/boe for the three months ended March 31, 2014 can be attributed to the Company's 37% increase in production for the current quarter.

Capital Expenditures

The following table summarizes capital spending and property dispositions, excluding non-cash items:

	Three Months Ended	
	March 31, 2014	March 31, 2013
Land and lease	**$ 14,592**	$ (2,648)
Geological and geophysical	**116,090**	88,988
Drilling and completions	**2,940,212**	899,908
Investment in facilities	**1,221,683**	594,070
Development capital	**4,292,577**	1,580,319
Property acquisitions	**124,739**	64,525
Dispositions	**(50,000)**	-
Total capital expenditures	**$ 4,367,316**	$ 1,644,844

The development capital spent during the first quarter of 2014 includes $2,940,212 on drilling and completing three wells in the Jenner and Atlee Buffalo areas as well as production improvements to an Atlee Buffalo well. Investment in facilities of $1,221,683 included tie-in for the three wells, rental equipment buyouts and equipment upgrades at the main production facility in Jenner. The equipment upgrades included costs associated with a solution gas compressor that was completed and put online in the second quarter of 2014. The Company also completed a small acquisition in the surrounding Jenner area and a disposition of a vertical treater from its Jenner facility.

The following table is a reconciliation of the Company's capital expenditures to the additions to property and equipment as shown in Note 8 of the Company's unaudited condensed interim financial statements for the three months ended March 31, 2014 and 2013:

	Three Months Ended	
	March 31, 2014	March 31, 2013
Total capital expenditures	**$ 4,367,316**	$ 1,644,844
Increase in decommissioning obligations	**30,658**	24,722
Evaluation and exploration expenditures	**(649,098)**	(988,179)
Gain on disposition	**2,942**	-
Additions to property and equipment	**$ 3,751,818**	$ 681,387

Share-based Payments

Share-based payments for the three months ended March 31, 2014 and 2013 was $nil and $65,070, respectively. The decrease in share-based payments is attributed to the Company granting no stock options in the current quarter as compared to the first quarter of 2013 where the Company granted 250,000 stock options to a consultant of the Company.

General and Administrative

	Three Months Ended	
	March 31, 2014	March 31, 2013
Gross G&A	**$ 427,677**	$ 281,701
Overhead recovery	**(153,937)**	(1,198)
Total	**$ 273,740**	$ 280,503
$ per boe	**$ 5.37**	$ 7.53

General and administrative expenses for the first quarter of 2014 decreased by $2.16/boe over the three months ended March 31, 2013. Gross general and administrative expenses increased by $145,976 for the three months ended March 31, 2014, and the Company also captured overhead recoveries in the amount of $153,937 for the new wells drilled in the quarter.

The increase in gross general and administrative costs during the first quarter of 2014 can be attributed to increased investor relations activities, professional fees and staffing costs.

Finance Income and Expense

	Three Months Ended	
	March 31, 2014	March 31, 2013
Finance expense		
Interest expense	**$ 63,943**	$ 31,079
Part XII.6 tax	**3,059**	-
Accretion expense	**8,753**	1,629
Total finance expense	**$ 75,755**	$ 32,708

Finance expense for the three months ended March 31, 2014 increased by $43,047 over the comparable quarter of 2013. This increase is the result of interest charged on the Company's outstanding bank debt, which increased by $3,850,000 over the first quarter of 2013. The Company also incurred $3,059 in part XII.6 tax which is accumulated on the Company's unspent balance of flow-through expenditures at the end of the quarter.

The accretion expense of $8,753 represents the adjusted present value of the Company's decommissioning liability which increased in the first quarter of 2014 due to the higher decommissioning liabilities associated with the Jenner and Atlee Buffalo areas.

Selected Annual Information

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

	12 Months Ended December 31, 2013	10 Months Ended December 31, 2012	12 Months Ended February 29, 2012
Average daily production (boe/d)	**463**	408	188
Petroleum and natural gas revenue	**$ 10,573,199**	$ 7,875,723	$ 4,590,608
Petroleum and natural gas netback	**5,607,492**	4,657,308	2,942,544
Funds flow from operating activities	**3,789,201**	3,265,657	1,963,505
Per share, basic and diluted	**0.07**	0.06	0.06
Income (loss) before tax	**(5,307,312)**	543,818	(451,879)
Per share, basic and diluted	**(0.10)**	0.01	(0.01)
Net income (loss) after tax	**(3,832,078)**	61,361	942,665
Per share, basic and diluted	**(0.07)**	0.00	0.03
Combined average realized price ($/boe)	**62.55**	63.15	66.71
Operating netback ($/boe)	**33.17**	37.33	42.76
Capital expenditures, including property acquisitions	**9,969,174**	11,888,398	13,807,836
Working capital (net debt)	**(6,700,147)**	(3,927,595)	2,363,944
Bank indebtedness	**4,500,000**	1,035,000	-
Total assets	**29,074,500**	25,375,435	18,914,071
Total non-current liabilities	**$ 1,323,446**	$ 467,235	$ 358,428

Summary of Quarterly Results

	2014	2013				2012		
	Mar. 31 Q1(1)	Dec. 31 Q4(2)	Sep. 30 Q3(3)	Jun. 30 Q2	Mar. 31 Q1	Dec. 31 Q4(4)	Nov. 30 Q3	Aug. 31 Q2(5)
Average daily production (boe/d)	**567**	569	461	407	414	430	430	367
Petroleum and natural gas revenue	**3,564,036**	2,958,107	3,165,562	2,375,912	2,073,617	694,677	2,730,244	2,029,140
Petroleum and natural gas netback	**1,878,003**	1,246,355	1,970,836	1,274,744	1,115,557	365,307	1,784,702	1,139,827
Funds flow from operating activities	**1,508,107**	579,824	1,570,350	847,459	791,568	(75,268)	1,448,807	823,609
Per share, basic and diluted	**0.02**	0.01	0.03	0.02	0.01	0.00	0.03	0.02
Income (loss) before tax	**847,909**	(6,498,898)	816,130	241,029	134,425	(321,364)	695,833	(136,566)
Basic and diluted income (loss) per share	**0.01**	(0.12)	0.02	0.00	0.00	(0.01)	0.01	(0.00)
Net income (loss)	**847,909**	(5,023,664)	816,130	241,029	134,425	(803,821)	695,833	(136,556)
Basic and diluted income (loss) per share	**0.01**	(0.09)	0.02	0.00	0.00	(0.02)	0.01	(0.00)
Combined average realized price ($/boe)	**69.89**	56.55	74.56	64.18	55.66	52.10	69.78	60.10
Operating netback ($/boe)	**36.83**	23.83	46.42	34.44	29.95	27.40	45.62	33.76

Notes:

(1) The improvement in income for this quarter is primarily due to the Company's increased production levels from the drilling of three new wells and an increase in combined average realized price.

(2) A significant portion of the loss in this quarter is due to the $5,640,571 recorded in property impairment.

(3) The high income in this quarter is primarily due to the Company's increased production levels and average realized price for the quarter.

(4) Due to the Company's fiscal year-end change, this quarter only represents results from one month of operations as compared to all other quarters which represent results from three months of operations.

(5) The loss for the quarter can be attributed to decreased production resulting from facility turn-around procedures. This procedure also resulted in higher operating expenses therefore decreasing funds flow from operating activities and net income.

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

Share Capital and Financing Activities

During the three months ended March 31, 2014, the Company issued 37,500 common shares from the exercise of share purchase warrants which increased the Company's total common shares outstanding to 61,344,998.

Stock Options

Exercise Price	Expiry Date	Balance Outstanding December 31, 2013	Granted	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable March 31, 2014
$0.27	28-Sep-14	445,000	-	-	(5,000)	440,000
$0.25	8-Mar-15	485,000	-	-	-	485,000
$0.26	30-Sep-15	520,000	-	-	-	520,000
$0.30	23-Dec-15	425,000	-	-	-	425,000
$0.30	27-Jan-16	200,000	-	-	-	200,000
$0.38	9-Feb-16	50,000	-	-	-	50,000
$0.40	26-May-16	520,000	-	-	-	520,000
$0.48	5-Jul-16	50,000	-	-	-	50,000
$0.70	8-Feb-17	1,550,000	-	-	-	1,550,000
$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	685,000	-	-	-	685,000
		5,680,000	-	-	(5,000)	5,675,000
Weighted-average exercise price		$0.48	-	-	$0.27	$0.48

For the three months ended March 31, 2014 and 2013, the Company recognized $nil and $65,070, respectively, in share-based payments. The Company did not issue any stock options in the first quarter of 2014. The fair value was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	March 31, 2014	March 31, 2013
Expected life (years)	-	5.00
Interest rate	-	1.25%
Volatility	-	79.24%
Dividend yield	-	0.00%
Forfeiture rate	-	0.00%

The weighted-average grant date fair value for stock options granted during the three months ended March 31, 2014 and 2013 was $nil and $0.50, respectively.

Share Purchase Warrants

Exercise Price	Expiry Date	Balance Outstanding & Exercisable December 31, 2013	Issued	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable March 31, 2014
$0.90	25-Jan-14	43,450	-	-	(43,450)	-
$0.90	25-Jan-14	700	-	-	(700)	-
$0.95	27-Jan-14	6,161,578	-	-	(6,161,578)	-
$0.95	27-Jan-14	86,256	-	-	(86,256)	-
$0.70	27-Jan-14	862,620	-	-	(862,620)	-
$0.75	9-Dec-14	2,091,275	-	(37,500)	-	2,053,775
		9,245,879	-	(37,500)	(7,154,604)	2,053,775
Weighted-average exercise price		$0.88	$0.88	$0.75	$0.90	$0.75

On January 25, 2014, 43,450 share purchase warrants issued in conjunction with a private placement in January 2013 expired. An additional 700 finders' warrants that were issued for the same private placement also expired.

On January 27, 2014, 7,110,454 share purchase warrants issued in conjunction with a private placement in January 2012 expired. Of these share purchase warrants, 86,256 were issued as corporate finance units and 862,620 were issued as finders' warrants.

	May 21, 2014	**March 31, 2014**	December 31, 2013
Fully diluted share capital			
Common shares issued and outstanding	74,678,498	**61,344,998**	61,307,498
Share purchase warrants	2,053,775	**2,053,775**	9,245,879
Stock options	5,675,000	**5,675,000**	5,680,000
Total fully diluted	82,407,273	**69,073,773**	76,233,377

On May 14, 2014, the Company closed a bought-deal equity financing consisting of 13,333,500 common shares at a price of $0.75 per common share for aggregate gross proceeds of $10,000,125. In conjunction with the closing of the bought-deal equity financing, the Company paid $700,009 in finders' fees. The net proceeds of the financing will be used to accelerate the Company's capital program focused on continuing development of the Atlee Buffalo and Jenner properties, as well as for general corporate purposes and reducing the current indebtedness under the credit facility.

Liquidity and Capital Management

	March 31, 2014	December 31, 2013
Shareholders' equity	**$ 20,781,362**	$ 19,905,328
Undrawn component of bank credit facilities	**2,850,000**	6,000,000
Total capital	**$ 23,631,362**	$ 25,905,328

At March 31, 2014, the Company has total credit facilities of $10,500,000 (December 31, 2013 – $10,500,000). The demand operating credit facility is with Alberta Treasury Branches under a commitment letter dated September 25, 2013. 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 un-draw funds. In April 2014, the Company completed its first annual review with Alberta Treasury Branches in which the limit of the Company's credit facility was renewed at $10,500,000.

At March 31, 2014, the Company has drawn a total of $7,650,000 from the credit facility (December 31, 2013 - $4,500,000).

The Company manages its capital with the following objectives:

- Ensuring 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

- Maximizing 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.

Related Party Transactions

In the three months ended March 31, 2014, the Company paid $10,000 in director fees. These fees were charged for services provided by the Chairman of the Company's Board of Directors.

Compensation paid to Hemisphere's officers and directors is as follows:

	Three Months Ended			
		March 31, 2014		March 31, 2013
Short-term benefits	**$**	**157,500**	$	145,000
Share-based payments		-		-

Short-term benefits, which are primarily salaries and wages, have increased during the three months ended March 31, 2014 over the first quarter of 2013 due to increases in staffing costs.

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

The Company's significant accounting estimates and policies are set out in Notes 2 and 3 of the audited annual financial statements for the twelve months ended December 31, 2013 and have been consistently followed in the preparation of these unaudited condensed interim financial statements.

The preparation of these unaudited condensed interim 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.

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. Critical accounting estimates include:

Decommissioning obligations

Amounts recorded for decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third party information and calculations are subject to change over time and may have a material impact on profit and loss or financial position.

Share-based payments

The Company measures the cost of its share-based payments to directors, officers, employees and certain consultants by reference to the fair value of the equity instruments using the Black-Scholes option pricing model at the date they are granted. The assumptions used in determining fair value include: expected lives of options, risk-free rates of return and stock price volatility. Changes to assumptions may have a material impact on the amounts presented.

Income taxes

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. These differences could materially impact earnings.

Other significant areas requiring the use of estimates include the collectability of accounts receivable, the recoverability of petroleum and natural gas interest costs, the fair value of financial instruments, the balance of accrued liabilities, the rates of depletion and accretion of petroleum and natural gas interests and the assumptions used in the calculation of fair value of share-based and finder's warrants. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.
Reserve estimates impact a number of the areas referred to above, in particular the valuation of petroleum and natural gas interests, determination of decommissioning and environmental obligation, and the calculation of depletion.

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, they may be subject to future adjustment. Changes in assumptions can significantly affect estimated fair values. At March 31, 2014, 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. The following provides information about the Company's exposure to any 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, its cash balance 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 cash and 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.

The maximum exposure to credit risk is as follows:

		March 31, 2014		December 31, 2013
Accounts receivable	**$**	**1,567,338**	$	1,042,407
Reclamation deposits		**105,535**		105,535
	$	**1,672,873**	$	1,147,942

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 of debt forecasts and working capital requirements.

At March 31, 2014, the Company had net debt of $9,531,232 (December 31, 2013 - $6,700,147), which includes bank indebtedness of $7,650,000 (December 31, 2013 - $4,500,000). 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 three types of risk: interest rate risk, foreign currency 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 and comprehensive income.

Foreign currency risk
The Company is not exposed to significant foreign currency risk.

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 or foreign currency risk. The Company is not exposed to significant other price risk.

CONDENSED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)
(Unaudited)

	Note		March 31, 2014		December 31, 2013
Assets					
Current assets					
Accounts receivable		$	**1,567,338**	$	1,042,407
Prepaid expenses			**103,212**		103,172
			1,607,550		1,145,579
Non-current assets					
Reclamation deposits	9		**105,535**		105,535
Exploration and evaluation assets	7		**2,211,069**		1,894,497
Property and equipment	8		**26,971,525**		23,541,568
Deferred tax asset	17		**2,387,321**		2,387,321
Total assets		$	**33,346,000**	$	29,074,500
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	**3,182,542**	$	2,976,486
Bank indebtedness	11		**7,650,000**		4,500,000
Flow-through premium liability	12		**369,240**		369,240
Total current liabilities			**11,201,782**		7,845,726
Non-current liabilities					
Decommissioning obligations	9		**1,362,856**		1,323,446
			12,564,638		9,169,172
Shareholders' Equity					
Capital stock	12		**42,155,798**		42,127,674
Share-based payment reserve	12(c)		**2,245,595**		2,574,789
Warrant reserve	12(d)		**83,651**		204,479
Deficit			**(23,703,684)**		(25,001,614)
Total shareholders' equity			**20,781,362**		19,905,328
Total liabilities and shareholders' equity		$	**33,346,000**	$	29,074,500

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

On Behalf of the Board of Directors

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

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

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)
(Unaudited)

	Note		Three Months Ended March 31, 2014		March 31, 2013
Oil and natural gas revenue		**$**	**3,564,036**	$	2,073,617
Royalties			**(551,669)**		(294,990)
Total oil and natural gas revenue			**3,012,367**		1,778,627
Expenses					
Production and operating			**1,134,365**		663,070
Exploration and evaluation	7		**29,153**		12,407
Depletion and depreciation	8		**654,387**		590,444
Share-based payments	12(c)		**-**		65,070
General and administrative			**273,740**		280,503
			2,091,646		1,611,494
Results from operating activities			**920,722**		167,133
Finance expense	10		**(75,755)**		(32,708)
Gain on disposition			**2,942**		-
Net income and comprehensive income for the period		**$**	**847,909**	$	134,425
Income per share					
Basic and diluted	12(e)	**$**	**0.01**	$	0.00

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

CONDENSED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)
(Unaudited)

	Three Months Ended	
	March 31, 2014	March 31, 2013
Operating activities		
Net income for the period	**$ 847,909**	$ 134,425
Items not affecting cash:		
Depletion, depreciation and accretion	**663,140**	592,072
Gain on disposition	**(2,942)**	-
Share-based payments	**-**	65,070
Funds flow from operating activities	**1,508,107**	791,568
Changes in non-cash working capital	**(707,573)**	204,676
Cash provided by operating activities	**800,533**	996,243
Investing activities		
Property and equipment expenditures	**(3,768,218)**	(1,528,969)
Exploration and evaluation expenditures	**(649,098)**	(104,168)
Proceeds from disposition of property and equipment	**50,000**	-
Reclamation deposits	**-**	(5,000)
Changes in non-cash working capital	**388,658**	(1,784,137)
Cash used in investing activities	**(3,978,658)**	(3,422,274)
Financing activities		
Shares issued for cash, net of issue costs	**28,125**	56,029
Proceeds from bank indebtedness	**3,150,000**	2,370,000
Cash provided by financing activities	**3,178,125**	2,426,029
Inflow (outflow) of cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**$ -**	$ -

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

Supplemental cash flow information (Note 15)

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)
(Unaudited)

	Note	Number of common shares		Capital stock		Share-based payment reserve		Warrant reserve		Deficit		Total Equity
Balance, December 31, 2012		**53,961,048**		**38,805,193**		**2,214,325**		**183,572**		**(21,242,708)**		**19,960,382**
Non-flow-through share issuance		4,269,450		2,262,808		-		94,079		-		2,356,887
Flow-through share issuance		3,077,000		2,000,050		-		-		-		2,000,050
Share-based payments		-		-		360,464		-		-		360,464
Share issuance costs		-		(571,137)		-		-		-		(571,137)
Premium on issuance of flow-through shares		-		(369,240)		-		-		-		(369,240)
Expiry of warrants		-		-		-		(73,172)		73,172		-
Net loss for the year		-		-		-		-		(3,832,078)		(3,832,078)
Balance, December 31, 2013		**61,307,498**	**$**	**42,127,674**	**$**	**2,574,789**	**$**	**204,479**	**$**	**(25,001,614)**	**$**	**19,905,328**
Balance, December 31, 2013		**61,307,498**	**$**	**42,127,674**	**$**	**2,574,789**	**$**	**204,479**	**$**	**(25,001,614)**	**$**	**19,905,328**
Warrant exercise	12(b)	37,500		28,125		-		-		-		28,125
Expiry of warrants	12(d)	-		-		(329,194)		(120,828)		450,022		-
Net income for the period		-		-		-		-		847,909		847,909
Balance, March 31, 2014		**61,344,998**	**$**	**42,155,798**	**$**	**2,245,595**	**$**	**83,651**	**$**	**(23,703,684)**	**$**	**20,781,362**

	Number of common shares	Capital stock	Share-based payment reserve	Warrant reserve	Deficit	Total Equity
Balance, December 31, 2012	**53,961,048**	**38,805,193**	**2,214,325**	**183,572**	**(21,242,708)**	**19,960,382**
Share-based payments	-	-	65,070	-	-	65,070
Share issuance	86,900	56,485	-	-	-	56,485
Share issuance costs	-	(456)	-	-	-	(456)
Net income for the period	-	-	-	-	134,425	134,425
Balance, March 31, 2013	**54,047,948**	**38,861,222**	**2,279,395**	**183,572**	**(21,108,283)**	**20,215,908**

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

(Unaudited)

1. Nature and Continuance of Operations

Hemisphere Energy Corporation (the "Company") was incorporated under the laws of British Columbia on March 6, 1978. The Company's principal business is the acquisition, exploration, development and production of petroleum and natural gas interests. It is a publicly traded company listed on the TSX Venture Exchange under the symbol "HME". The Company's head office is located at 570-789 West Pender Street, Vancouver, British Columbia, Canada V6C 1H2.

2. Basis of Presentation

(a) Statement of compliance

These unaudited condensed interim 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 twelve months ended December 31, 2013.

These Financial Statements were authorized for issuance by the Board of Directors on May 21, 2014.

(b) Basis of presentation

These Financial Statements have been prepared on a historical cost basis, except for financial instruments, which are stated at their fair values. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information.

(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 differ from these estimates.

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.

Significant areas requiring the use of estimates include the collectability of accounts receivable, the recoverability of property and equipment and exploration and evaluation assets, the fair value of financial instruments, valuation of accrued liabilities, determination of decommissioning obligations, the rates of depletion and amortization of property and equipment, assumptions used in the calculation of fair value of share-based payments and finder’s warrants, and the recoverability of deferred income tax assets. While management believes these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

Management has applied judgment in the determination of reserve estimates. Reserve estimates affect a number of the areas referred to above, in particular the valuation of property and equipment, determination of decommissioning obligations, and the calculation of depletion of property and equipment.

3. 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 twelve months ended December 31, 2013. There have been no changes to the Company’s accounting policies since these Financial Statements were issued.

4. 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, they may be subject to future adjustment. Changes in assumptions can significantly affect estimated fair values. At March 31, 2014, 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.

5. 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 venture partners 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. The maximum exposure to credit risk is as follows:

		March 31, 2014		December 31, 2013
Accounts receivable	**$**	**1,567,338**	**$**	1,042,407
Reclamation deposits		**105,535**		105,535
	$	**1,672,873**	$	1,147,942

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company.

At March 31, 2014, the Company had net debt of $9,531,232 (December 31, 2013 - $6,700,147), which includes bank indebtedness of $7,650,000 (December 31, 2013 - $4,500,000). The Company funds its operations through production revenue and a demand operating credit facility (Note 11). All of the Company's financial liabilities have contractual maturities of less than 90 days.

(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 three types of risk: interest rate risk, foreign currency 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 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).

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) 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.

6. 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 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 or other financial or equity-based instruments, adjusting capital spending or disposing of assets. The capital structure is reviewed on an ongoing basis.

The Company's capital structure as at March 31, 2014 and December 31, 2013 are as follows:

		March 31, 2014		December 31, 2013
Shareholders' equity	**$**	**20,781,362**	$	19,905,328
Undrawn component of bank credit facilities		**2,850,000**		6,000,000
Total capital	**$**	**23,631,362**	$	25,905,328

As at March 31, 2014, the Company had total available credit facilities of $10,500,000 (December 31, 2013 - $10,500,000) of which the Company had drawn $7,650,000 (December 31, 2013 - $4,500,000) (Note 11).

7. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of proved reserves. A transfer from exploration and evaluation assets to property and equipment is made when the well has come on production or the exploration project has been completed. For the quarter ended March 31, 2014, the Company transferred $332,528 (fiscal year ended December 31, 2013 - $2,353,078) to property and equipment.

Cost		
Balance, December 31, 2013	$	1,894,498
Additions		678,252
Exploration and evaluation expense		(29,153)
Transfer to property and equipment		(332,528)
Balance, March 31, 2014	$	2,211,069

8. Property and Equipment

		Petroleum and Natural Gas		Other Equipment		Total
Cost						
Balance, December 31, 2013	$	38,546,910	$	67,522	$	38,614,432
Additions		3,751,818		-		3,751,818
Transfer from exploration and evaluation assets		332,528		-		332,528
Balance, March 31, 2014	**$**	**42,631,256**	**$**	**67,522**	**$**	**42,698,778**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance, December 31, 2013	$	15,018,360	$	54,504	$	15,072,864
Charge for year		653,456		933		654,389
Balance, March 31, 2014	**$**	**15,671,816**	**$**	**55,437**	**$**	**15,727,253**
Net Book Value						
December 31, 2013	$	23,528,550	$	13,018	$	23,541,568
March 31, 2014	**$**	**26,959,440**	**$**	**12,085**	**$**	**26,971,525**

9. Decommissioning Obligations

The Company's decommissioning obligations result from its ownership interest in petroleum and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's 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 estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at March 31, 2014 is $2,336,800 (December 31, 2013 - $2,246,800). These payments are expected to be made over the next 24 years with the majority of costs to be incurred between 2019 and 2039. The discount factor, being the risk-free rate related to the liability, is 3.09% (December 31, 2013 – 3.09%). Inflation of 1.10% (December 31, 2013 - 1.10%) has also been factored into the calculation. The Company also has $105,535 (December 31, 2013 - $105,535) in various reclamation bonds for its properties held by the British Columbia Ministry of Energy, Mines and Petroleum Resources.

		March 31, 2014		December 31, 2013
Decommissioning obligations, beginning of period	**$**	**1,323,446**	$	467,235
Increase in estimated future obligations		**30,658**		849,698
Accretion expense		**8,753**		6,513
Decommissioning obligations, end of period	**$**	**1,362,856**	$	1,323,446

10. Finance Income and Expenses

		Three Months Ended		
		March 31, 2014		March 31, 2013
Finance expense:				
Interest expense	**$**	**63,943**	$	31,079
Part XII.6 tax		**3,059**		-
Accretion expense		**8,753**		1,628
Net finance expenses	**$**	**75,755**	$	32,708

11. Bank Indebtedness

The Company has a demand operating credit facility in the amount of $10,500,000 with Alberta Treasury Branches under commitment letter as of September 25, 2013. 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.

Pursuant to the terms of the credit facility, the Company has provided a covenant that at all times its working capital ratio shall not be less that 1.0 to 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, 2014, the Company has drawn a total of $7,650,000 from the credit facility (December 31, 2013 - $4,500,000).

12. Capital Stock

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

On February 19, 2014, the Company received proceeds of $28,125 for the exercise of 37,500 share purchase warrants at an exercise price of $0.75.

(c) 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 may not be less than the last closing price of the Company's shares and not less than $0.10 per share.

On March 31, 2014, 5,000 stock options were cancelled for an individual who no longer provides services to the Company. Details of the Company's stock options for the three months ended March 31, 2014 are as follows:

Exercise Price	Expiry Date	Balance Outstanding & December 31, 2013	Granted	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable March 31, 2014
$0.27	28-Sep-14	445,000	-	-	(5,000)	440,000
$0.25	8-Mar-15	485,000	-	-	-	485,000
$0.26	30-Sep-15	520,000	-	-	-	520,000
$0.30	23-Dec-15	425,000	-	-	-	425,000
$0.30	27-Jan-16	200,000	-	-	-	200,000
$0.38	9-Feb-16	50,000	-	-	-	50,000
$0.40	26-May-16	520,000	-	-	-	520,000
$0.48	5-Jul-16	50,000	-	-	-	50,000
$0.70	8-Feb-17	1,550,000	-	-	-	1,550,000
$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	685,000	-	-	-	685,000
		5,680,000	-	-	(5,000)	5,675,000
Weighted-average exercise price		$0.48	-	-	$0.27	$0.48

For the three months ended March 31, 2014, the Company recognized $nil in share-based payments as the Company did not issue any stock options in the first quarter of 2014. The fair value was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	March 31, 2014	March 31, 2013
Expected life (years)	-	5.00
Interest rate	-	1.25%
Volatility	-	79.24%
Dividend yield	-	0.00%
Forfeiture rate	-	0.00%

The weighted-average grant date fair value for stock options granted during the three months ended March 31, 2014 was $nil (March 31, 2013 - $0.50).

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.

(d) Share purchase warrants

On February 19, 2014, the Company received proceeds of $28,125 for the exercise of 37,500 share purchase warrants with an exercise price of $0.75.

Details of the Company's share purchase warrants for the three months ended March 31, 2014 are as follows:

Exercise Price	Expiry Date	Balance Outstanding & Exercisable December 31, 2013	Issued	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable March 31, 2014
$0.90	25-Jan-14	43,450	-	-	(43,450)	-
$0.90	25-Jan-14	700	-	-	(700)	-
$0.95	27-Jan-14	6,161,578	-	-	(6,161,578)	-
$0.95	27-Jan-14	86,256	-	-	(86,256)	-
$0.70	27-Jan-14	862,620	-	-	(862,620)	-
$0.75	9-Dec-14	2,091,275	-	(37,500)	-	2,053,775
		9,245,879	-	(37,500)	(7,154,604)	2,053,775
Weighted-average exercise price		$0.88	-	$0.75	$0.92	$0.75

For the three months ended March 31, 2014, the Company removed $120,828 from the warrant reserve (twelve months ended December 31, 2013 - $73,172) and $329,194 from the share based payment reserve (twelve months ended December 31, 2013 - $nil) and recorded a corresponding recovery in deficit for expired warrants.

(e) Income (loss) per share

	Three Months Ended	
	March 31, 2014	March 31, 2013
Net income for the period	**$ 847,909**	$ 134,425
Weighted average number of common shares outstanding, basic	**61,324,581**	54,023,809
Dilutive stock options and share purchase warrants	**1,800,971**	1,109,337
Weighted average number of common shares outstanding, fully diluted	**63,125,553**	55,133,147
Income per share, basic	**0.01**	$ 0.00
Income per share, fully diluted	**0.01**	$ 0.00

For the three months ended March 31, 2014, 1,550,000 stock options and 2,053,775 share purchase warrants were excluded from the fully diluted weighted-average common shares outstanding calculation because their exercise price was higher than the average market price for the quarter.

13. Commitment

The Company has a commitment to make monthly rental payments pursuant to the office rental agreement at its current location until July 31, 2014. Following the expiration of this agreement, the Company has entered into a rental agreement for its new office location, which expires May 30, 2018. The following table shows the Company's rental commitment amounts for the next five fiscal years:

	2014	2015	2016	2017	2018
Rental commitment	$ 133,509	$ 177,834	$ 177,834	$ 177,834	$ 74,098

14. Related Party Transactions

For the three months ended March 31, 2014, the Company paid fees of $10,000 (three months ended March 31, 2013 - $10,000) to a director of the Company. These fees were charged for services provided by the Chairman of the Company's Board of Directors.

Remuneration of key executive personnel, consisting of the Company's officers and directors, were awarded as follows for the three months ended March 31, 2014 and 2013:

		Three Months Ended		
		March 31, 2014		March 31, 2013
Short-term benefits	**$**	**157,500**	$	145,000
Share-based payments	**$**	**-**	$	-

No long-term benefits were paid to related parties.

15. Supplemental Cash Flow Information

		Three Months Ended		
		March 31, 2014		March 31, 2013
Provided by (used in):				
Accounts receivable	**$**	**(524,931)**	$	153,856
Prepaid expenses		**(41)**		19,831
Accounts payable and accrued liabilities		**206,056**		(1,753,148)
Total changes in non-cash working capital	**$**	**(318,915)**	$	(1,579,461)
Provided by (used in):				
Operating activities	**$**	**(707,573)**	$	194,925
Investing activities		**388,658**		(1,784,137)
Financing activities		**-**		9,750
Total changes in non-cash working capital	**$**	**(318,915)**	$	(1,579,461)

16. Subsequent Events

On May 14, 2014, the Company closed a bought-deal equity financing consisting of 13,333,500 common shares at a price of $0.75 per common share for aggregate gross proceeds of $10,000,125. In conjunction with the closing of the bought-deal equity financing, the Company paid $700,009 in finders' fees. The Company will use the net proceeds from the offering to accelerate its capital program focused on continuing development of the Company's Atlee Buffalo and Jenner properties, as well as for general corporate purposes and reducing its current indebtedness under its credit facility.

17. Income Taxes

Effective April 1, 2013, the British Columbia provincial tax increased from 10% to 11% and the Canadian federal corporate tax rate remained unchanged at 15%. The overall increase in tax rates has resulted in an increase in the Company's statutory tax rate from 25.00% to 25.75%.

The reconciliation of income tax computed at the statutory tax rate of 25.75% (ten months ended December 31, 2012 – 25.0%, year ended February 29, 2012 – 26.5%) to income tax (recovery) expense is:

	Year Ended December 31, 2013	Ten Months Ended December 31, 2012
Income (loss) before income taxes	$ (5,307,312)	$ 543,818
Statutory income tax rate	25.75%	25.0%
Expected income tax expense (recovery)	(1,366,633)	135,955
Non-deductible items	94,497	74,299
Over (under) provided in prior periods	26,036	-
Temporary differences of property and equipment and evaluation and exploration assets	(176,391)	272,203
Effect of change in tax rate	(52,743)	-
Recognized tax benefits	-	-
Deferred tax expense (recovery)	$ (1,475,234)	$ 482,457

The tax affected items that give rise to significant portions of the deferred tax asset at December 31, 2013 and December 31, 2012 are presented below:

	December 31, 2013	December 31, 2012
Deferred tax assets		
Non-capital losses	$ 1,839,139	$ 1,133,375
Exploration and evaluation assets	4,801,435	3,795,028
Share issue costs	241,943	183,126
Other	348,705	146,658
	7,231,222	5,258,187
Deferred income tax liability		
Property and equipment	(4,843,901)	(4,346,100)
	$ 2,387,231	$ 912,087

The Company has begun recognizing its deferred tax assets since the year ended February 29, 2012, as it is probable that future taxable profits will be available.

The Company does not have any remaining unrecognized deductible temporary differences and unused tax losses for which no deferred tax assets are recognized.

As at December 31, 2013, the Company has non-capital losses of approximately $7,074,000 that may be applied to reduce future Canadian taxable income, expiring as follows:

Available to	
2014	$ 502,000
2025	547,000
2026	341,000
2027	216,000
2028	312,000
2029	323,000
2030	557,000
2031	623,000
2032	1,113,000
2033	2,540,000
	$ 7,074,000

Hemisphere energy corporation

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

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

Ian Duncan, P.Eng.
Vice President, Engineering

BOARD OF DIRECTORS

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

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

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

Greg Sadler, P. Eng.(2)(3)(4)

Don Simmons, P.Geol.(4)

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

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

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