



Q1 2017 HIGHLIGHTS

- Achieved quarterly production average of 583 boe/d (91% oil), a 15% increase over the first quarter of 2016.
- Increased revenue by 145% to \$2.3 million compared to the first quarter of 2016.
- Increased operating netbacks, which includes gains on commodity contracts, to \$18.26/boe, an increase of 570% from the first quarter of 2016.
- Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) (excluding unrealized gain/loss on financial instruments) were \$652,000.
- Increased funds flow from operations to \$505,331, for an increase of 85% over the fourth quarter of 2016.
- Corporate Liability Management Ratio (LMR) with the Alberta Energy Regulator was 4.59 at the end of the first quarter 2017.
- Renewed \$12.5 million credit facility with no changes to covenants and applicable margins on borrowing costs.

CORPORATE UPDATE

During the first quarter of 2017, Hemisphere continued to be conservative in its capital spending while focusing on preparation of development plans in its core producing properties. With all four waterflood pilot projects successfully underway in Atlee Buffalo, the Company raised \$1.1 million of development flow-through equity in April 2017 in order to drill up to two wells in the third quarter to expand production and reserves in the Upper Mannville G pool. Available cashflow will be used for installation of additional facilities at the G pool, which is currently producing at a rate limited by pump and tank sizes.

With the completion of a turnaround in Jenner in early May and the recent addition of a pipeline in Atlee Buffalo to help reinject more water, corporate production has reached approximately 650 boe/d (93% oil), based on field estimates, in the last week. A number of optimization candidates have also been identified to increase pump sizes in the near future.

The Company's annual review for its demand operating credit facility has been completed and the borrowing base has been reaffirmed 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. Current corporate net debt is estimated at \$10.2 million with approximately \$9.9 million drawn on the credit facility.

Hemisphere's corporate strategy is to continue to achieve organic production and reserve growth while preserving financial flexibility. With continued success of its waterfloods and planned capital expenditures the Company expects to see growth in production and reserves through the year. Economics in the Atlee Buffalo waterflood play are strong at current strip pricing and management believes the Company has considerable growth upside through development of these exceptional assets.

ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

June 14, 2017 at 9:30 a.m. Pacific Daylight Time
Oceanic Plaza, Pender Room, 1035 West Pender Street, Vancouver, BC

Q1 2017 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended March 31	
	2017	2016
FINANCIAL		
Petroleum and natural gas revenue	\$ 2,292,746	\$ 935,834
Operating netback ⁽¹⁾	958,276	126,056
Funds flow from operations ⁽²⁾	505,331	(247,514)
Per share, basic and diluted	0.01	(0.00)
Net income (loss)	(138,678)	(1,066,556)
Per share, basic and diluted	(0.00)	(0.01)
Capital expenditures, including property acquisitions	256,513	344,676
Net debt ⁽³⁾	11,578,352	12,038,298
Bank indebtedness	\$ 11,622,930	\$ 11,533,660
OPERATING		
Average daily production		
Oil (bbl/d)	530	409
Natural gas (Mcf/d)	309	581
NGL (bbl/d)	2	2
Combined (boe/d)	583	508
Oil and NGL weighting	91%	81%
Average sales prices		
Oil (\$/bbl)	\$ 46.29	\$ 22.39
Natural gas (\$/Mcf)	2.80	1.86
NGL (\$/bbl)	46.97	19.21
Combined (\$/boe)	\$ 43.68	\$ 20.24
Operating netback (\$/boe)		
Petroleum and natural gas revenue	\$ 43.68	\$ 20.24
Royalties	5.70	2.36
Operating costs	17.41	11.45
Transportation costs	3.07	3.70
Operating field netback ⁽⁴⁾	\$ 17.51	\$ 2.73
Realized commodity hedging gain (loss)	0.75	-
Operating netback ⁽¹⁾	\$ 18.26	\$ 2.73

Notes:

- (1) Operating netback is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss).
- (2) 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.
- (3) Net debt is a non-IFRS measure calculated as current assets minus current liabilities including bank indebtedness and excluding fair value of financial instruments and any flow-through share premium.
- (4) Operating field netback per boe is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties, operating expenses and transportation costs per barrel of oil equivalent.

	As at March 31	
	2017	2016
SHARE CAPITAL		
Common shares outstanding	85,745,102	75,803,498
Stock options outstanding	2,985,000	5,335,000
Weighted-average shares outstanding – basic and diluted	85,745,102	75,803,498

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at May 25, 2017

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, 2017 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, 2017, and the audited annual financial statements and related notes for the year ended December 31, 2016. 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 a 100% working interest in 21,619 net acres and has continued to build a land position in the Jenner area through Crown land sales and strategic acquisitions. 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 7,040 net acres and has been building a land position in Atlee Buffalo through Crown land sales and strategic acquisitions since 2013.

Operating Results

The Company generated funds flow from operations of positive \$505,331 (\$0.01/share) during the first quarter of 2017, as compared to a funds flow from operations of negative \$247,514 (\$0.00/share) during the first quarter of 2016. This change is due to the Company's increased revenue in the first

quarter of 2017 from the improvement in commodity prices and higher production than the first quarter of 2016.

For the three months ended March 31, 2017, the Company reported a net loss of \$138,678 (\$0.00/share) compared to a net loss of \$1,066,556 (\$0.01/share) for the three months ended March 31, 2016.

Production

By product:	Three Months Ended March 31	
	2017	2016
Oil (bbl/d)	530	409
Natural gas (Mcf/d)	309	581
NGL (bbl/d)	2	2
Total (boe/d)	583	508
Oil and NGL weighting	91%	81%

In the first quarter of 2017, the Company's average daily production increased to 583 boe/d (91% oil and NGL) which represents an increase of 15% over the comparable quarter of 2016. This increase in production is attributed to continued success of the waterflood in the Upper Mannville F and G pools.

Average Benchmark and Realized Prices

	Three Months Ended March 31	
	2017	2016
Benchmark prices		
WTI (\$US/bbl) ⁽¹⁾	\$ 51.90	\$ 33.45
Exchange rate (1 \$US/\$C)	1.3233	1.3723
WTI (\$C/bbl)	68.68	45.91
WCS (\$C/bbl) ⁽²⁾	49.40	26.29
AECO natural gas (\$/Mcf) ⁽³⁾	2.69	1.83
Average realized prices		
Crude oil (\$/bbl)	46.29	22.39
Natural gas (\$/Mcf)	2.80	1.86
NGL (\$/bbl)	46.97	19.21
Combined (\$/boe)	\$ 43.68	\$ 20.24

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 increased significantly by 116% from \$20.24/boe during the first quarter of 2016 to \$43.68/boe during the first quarter of 2017. This increase is the result of higher oil prices which is reflected in the \$23.90/bbl increase from the Company's average realized crude oil price during the first quarter of 2016. The increase in oil prices is a result of a reduction of

supply in the global market as well as quality price differentials in the first quarter of 2017. WTI prices have showed signs of recovery in the first quarter of 2017, however, have not yet stabilized.

The Company's average realized natural gas price also increased in the first quarter of 2017 by \$0.94/Mcf over the comparable quarter of 2016.

At March 31, 2017, the Company held derivative commodity contracts as follows:

Product	Type	Notional Volumes	\$Cdn Price	Index	Term
Crude oil	Swap	100 bbl/day	\$72.15	WTI-NYMEX	Jan 1, 2017 to Jun 30, 2017
Crude oil	Swap	100 bbl/day	\$69.50	WTI-NYMEX	Feb 1, 2017 to Jul 31, 2017

At March 31, 2017 the commodity contracts were fair valued as an asset of \$79,049 recorded on the balance sheet, and an unrealized gain of \$79,049 recorded as revenue for the three months ended March 31, 2017.

Revenue

	Three Months Ended March 31	
	2017	2016
Oil	\$ 2,207,694	\$ 833,778
Natural gas	77,751	98,321
NGL	7,300	3,736
Total	\$ 2,292,746	\$ 935,834

Revenue for the first quarter of 2017 increased by 145% from the comparable quarter in 2016. This increase is attributed to the \$23.45/boe increase in the Company's combined average realized price as discussed above, as well as a 15% increase in production for the first quarter of 2017.

Operating Netback

	Three Months Ended March 31	
	2017	2016
Operating netback		
Revenue	\$ 2,292,746	\$ 935,834
Royalties	299,117	109,119
Operating costs	913,541	529,678
Transportation costs	161,263	170,981
Operating field netback ⁽¹⁾	\$ 918,824	\$ 126,056
Realized commodity hedging gain (loss)	39,452	-
Operating netback ⁽²⁾	\$ 958,276	\$ 126,056
Operating netback (\$/boe)		
Revenue	\$ 43.68	\$ 20.24
Royalties	5.70	2.36
Operating costs	\$ 17.41	\$ 11.45
Transportation costs	3.07	3.70
Operating field netback ⁽¹⁾	\$ 17.51	\$ 2.73
Realized commodity hedging gain (loss)	0.75	-
Operating Netback ⁽²⁾	\$ 18.26	\$ 2.73

Notes:

- (1) Operating field netback is a non-IFRS measure calculated as the Company's oil and gas sales, less royalties, operating expenses and transportation costs per barrel of oil equivalent.
- (2) Operating netback is a non-IFRS measure calculated as the operating field netback plus the Company's realized commodity hedging gain (loss) per barrel of oil equivalent.

Royalties for the first quarter of 2017 were \$5.70/boe, representing a 142% increase from the first quarter of 2016. This was a result of higher oil prices which directly impact the Crown royalty par price, and the end of royalty holiday period for all eligible wells..

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 2017 increased on an absolute basis by 72%, and on a per BOE basis by \$5.95/boe over the same period in 2016.

The increase to operating costs is the result of two workovers to replace pumps, as well as one clean-out, in combination with severe winter weather conditions and increased variable costs from higher overall production.

Transportation costs include all costs incurred to transport emulsion and oil and gas sales to processing and distribution facilities. Transportation costs were \$3.07/boe during the first quarter of 2017, which represents a decrease of \$0.62/boe over the comparable quarter in 2016. This decrease is attributable to reduced trucking rates and a reduction of infield trucking.

Operating netback for the first quarter of 2017 was significantly higher than the comparable quarter in 2016 from \$2.73/boe to \$18.26/boe. This increase is mainly due to the 116% increase in the Company's combined average realized price and higher production for the quarter as discussed above. In addition, the Company held derivative commodity contracts in the first quarter of 2017 which resulted in a realized hedging gain of \$0.75/boe.

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, 2017 and 2016 were \$9,295 and \$9,932, respectively.

Depletion and Depreciation

	Three Months Ended March 31			
	2017		2016	
Depletion expense	\$	683,894	\$	684,438
Depreciation expense		1,845		2,488
Total	\$	685,738	\$	686,926
\$ per boe	\$	13.07	\$	14.85

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 ("FDC") to develop and produce undeveloped and non-producing reserves.

Depletion and depreciation expense for the first quarter of 2017 decreased slightly by \$1.79/boe over the first quarter of 2016. The decrease in depletion expense for the first quarter of 2017 as compared to the comparative quarter of 2016, is due to amortization of production over a larger reserve base from the December 31, 2016 external engineers evaluation report.

Capital Expenditures

	Three Months Ended March 31			
	2017		2016	
Land and lease	\$	10,688	\$	7,560
Geological and geophysical		72,228		55,384
Drilling and completions		77,749		276,142
Facilities and infrastructure		95,849		5,590
Total capital expenditures ⁽¹⁾	\$	256,513	\$	344,676

Note:

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

The development capital spent during the first quarter of 2017 included installation of a large downhole pump in a producing well, installation of a transfer pump to further reduce trucking costs, and survey and environmental work for future 2017 capital projects.

General and Administrative

	Three Months Ended March 31			
	2017		2016	
Gross general and administrative	\$	378,838	\$	309,146
Capitalized general and administrative		(72,911)		(58,348)
Total	\$	305,927	\$	250,798
\$ per boe	\$	5.83	\$	5.42

Gross general and administrative expenses for the first quarter of 2017 increased by \$69,692 over the first quarter of 2016 due to increased accounting and professional services costs, as well as increased management fees and salary 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, 2017, capitalized general and administrative expenses increased by \$14,563 from the comparable period in 2016.

For the three months ended March 31, 2017, the Company realized an increase of \$0.41/boe in total general and administrative costs from the same period in 2016 which correlates with the increase in expenses in the current quarter.

Share-based Payments

For the three months ended March 31, 2017 the Company recorded share-based payments of \$1,093 from the vesting of the 25% balance of the 75,000 stock options granted to a consulting company performing investor relations services at an exercise price of \$0.08 each. The Company did not grant any stock options in the first quarter of 2017. When applicable, 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	
	2017	2016
Finance expense		
Interest expense	\$ 147,018	\$ 122,773
Part XII.6 tax	-	-
Accretion expense	26,932	35,791
Total	\$ 173,950	\$ 158,564
\$ per boe	\$ 3.31	\$ 3.43

Finance expense for the first quarter of 2017 increased by 9.7% over the first quarter of 2016. 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 2017, offset by a decrease 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 2017, accretion expense decreased by 24.8% over the comparable quarter in 2016 due to a decrease in the total value of abandonment and reclamation obligations year-over-year, and a reduced discount rate.

Tax Pools

As at December 31, 2016, the Company had approximately \$48 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 2017. Taxes payable beyond 2017 will primarily be a function of commodity prices, capital expenditures, and production volumes.

	Deduction Rate	December 31, 2016	December 31, 2015
Canadian exploration expense (CEE)	100%	\$ 3,336,823	\$ 3,336,823
Canadian development expense (CDE)	30%	14,879,326	19,220,505
Canadian oil and gas property expense (COGPE)	10%	6,765,679	7,517,421
Non-capital losses carry forwards (NCL)	100%	21,122,443	13,734,893
Undepreciated capital cost (UCC)	20-55%	1,571,468	2,171,731
Share issuance costs and other	Various	581,463	797,356
Total		\$ 48,257,202	\$ 46,778,729

Summary of Quarterly Results

	2017	2016				2015			
	Mar. 31 Q1 ⁽¹⁾	Dec. 31 Q4 ⁽²⁾	Sep. 30 Q3 ⁽³⁾	Jun. 30 Q2 ⁽⁴⁾	Mar. 31 Q1 ⁽⁵⁾	Dec. 31 Q4 ⁽⁶⁾	Sep. 30 Q3 ⁽⁷⁾	Jun. 30 Q2 ⁽⁸⁾	
Average daily production (boe/d)	583	590	518	492	508	588	678	849	
Petroleum and natural gas revenue	2,292,746	2,206,835	1,630,105	1,448,722	935,834	1,493,313	2,043,781	3,284,020	
Petroleum and natural gas Netback (excluding hedging)	918,824	860,849	779,966	580,876	126,056	458,240	1,094,625	1,954,246	
Funds flow from/used in operations	505,331	273,181	345,007	159,894	(247,514)	(103,531)	714,505	1,320,981	
Per share, basic and diluted	0.01	0.00	0.00	0.00	0.00	(0.00)	0.01	0.02	
Net income (loss)	(138,678)	(620,027)	(413,340)	(580,725)	(1,066,556)	(2,333,468)	(4,755,531)	(575,484)	
Basic and diluted income (loss) per share	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)	(0.03)	(0.06)	(0.01)	
Combined average realized price (\$/boe)	43.68	40.63	34.19	32.34	20.24	27.59	32.74	42.49	
Operating netback (\$/boe)	18.26	15.85	16.36	12.97	2.73	8.47	17.54	25.28	

Notes:

- (1) The increase in revenue and netbacks, is due to an 8% increase in the Company's combined average realized price and 31% lower general and administrative costs from the previous quarter
- (2) Revenues in this quarter increased as a result of a 14% increase in the Company's production and a 19% increase in the combined average realized price from the third quarter of 2016.
- (3) The increase in revenue and netbacks, and the resulting reduced loss in this quarter over the previous quarter is due primarily to a reduction in operating costs as well as an increase in production and a slight improvement in commodity prices.
- (4) The increase in revenue and netbacks, and the resulting reduced loss in this quarter over the previous quarter is due primarily to an improvement in commodity prices.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) 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 third quarter of 2015.

Outstanding Share Capital

	May 25, 2017	March 31, 2017	December 31, 2016
Fully diluted share capital			
Common shares issued and outstanding	89,793,302	85,745,102	85,745,102
Stock options	2,985,000	2,985,000	4,385,000
Total fully diluted	92,778,302	88,730,102	90,130,102

Subsequent to March 31, 2017, the following events impacted the Company's share capital:

- On April 27, 2017, 4,048,200 flow-through shares were issued at a price of \$0.28 per share during a non-brokered private placement offering for gross proceeds of \$1,133,496.

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

Exercise Price	Expiry Date	Balance Outstanding	Balance Exercisable
		May 25, 2017	May 25, 2017
\$0.24	29-Jan-20	1,075,000	1,075,000
\$0.39	1-Mar-20	100,000	100,000
\$0.08	11-Feb-21	1,685,000	1,685,000
\$0.08	12-Feb-21	125,000	125,000
		2,985,000	2,985,000
Weighted-average exercise price		\$0.15	\$0.15

Liquidity and Capital Management

The Company's net debt as at March 31, 2017 and December 31, 2016 were \$11,578,352 and \$11,827,170 respectively, representing a decrease in net debt of \$248,818.

a) Financing

The Company's cash provided by financing activities for the three months ended March 31, 2017 were \$nil (March 31, 2016 - \$nil). On April 27, 2017, 4,048,200 flow-through shares were issued at a price of \$0.28 per share during a non-brokered private placement offering for a gross proceeds of \$1,133,496.

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 reaffirmed in the mid-year review in January 2017 and the annual review in May 2017. 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. 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, to current liabilities, excluding any current bank indebtedness.

At March 31, 2017, the Company had drawn a total of \$11,622,930 from its credit facility (December 31, 2016 - \$11,247,537) and had a working capital ratio of 2.0, which is in compliance with the above financial covenant.

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 remaining fiscal years:

	2017	2018
Rental commitment	\$ 145,096	\$ 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, 2016 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, 2016.

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, 2017, 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, 2016.

The following accounting standards and amendments, issued by the International Accounting Standards Board ("IASB"), become effective January 1, 2018: IAS 38 (amendments to Clarification of Acceptable Methods of Depreciation and Amortization), IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. IFRS 16 Leases comes effective January 1, 2019. The impact of these accounting standards and amendments are not expected to have a material impact on the Company's financial statements, although the Company is still finalizing its assessment.

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, 2017, 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, 2017	December 31, 2016
Accounts receivable		
Trade receivables	\$ 773,795	\$ 863,115
Receivables from joint venture	46,684	45,088
Reclamation deposits	115,535	115,535
Total	\$ 936,014	\$ 1,023,738

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, 2017, the Company had net debt of \$11,578,352 (December 31, 2016 - \$11,827,170), which includes bank indebtedness of \$11,622,930 (December 31, 2016 - \$11,247,537). 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.

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 Measures

This document contains the terms "funds flow from (used in) 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	
	2017	2016
Cash provided by (used in) operating activities	\$ 180,842	\$ (339,107)
Change in non-cash working capital	(324,489)	(91,593)
Funds flow from (used in) operations	\$ 505,331	\$ (247,514)
Per share, basic and diluted	\$ 0.01	\$ (0.00)

- b) Operating field netback is a benchmark used in the oil and natural gas industry and a key indicator of profitability relative to current commodity prices. Operating field netback is calculated as oil and gas sales, less royalties, operating expenses and transportation costs on an absolute and per 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.

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

- 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, 2017	December 31, 2016
Current assets ⁽¹⁾	\$ 958,435	\$ 1,078,020
Current liabilities ⁽²⁾	(913,856)	(1,657,652)
Bank indebtedness	(11,622,930)	(11,247,537)
Net debt	\$ (11,578,352)	\$ (11,827,170)

Note:

(1) excluding fair value of financial instruments

(2) 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 25, 2017

(signed) "Don Simmons"

Don Simmons, President & CEO

(signed) "Dorlyn Evancic"

Dorlyn Evancic, Chief Financial Officer

CONDENSED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	Note	March 31, 2017	December 31, 2016
Assets			
Current assets			
Accounts receivable		\$ 820,479	\$ 908,203
Prepaid expenses		137,956	169,817
Fair Value of financial instruments		79,049	-
		1,037,484	1,078,020
Non-current assets			
Reclamation deposits	7	115,535	115,535
Exploration and evaluation assets	5	3,324,335	3,260,407
Property and equipment	6	34,739,597	35,242,044
Total assets		\$ 39,216,951	\$ 39,696,006
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 913,856	\$ 1,657,652
Bank indebtedness	9	11,622,930	11,247,537
		12,536,786	12,905,189
Non-current liabilities			
Decommissioning obligations	7	4,923,613	4,896,681
		17,460,399	17,801,870
Shareholders' Equity			
Share capital	10	53,838,621	53,838,621
Contributed surplus		318,198	1,192,106
Deficit		(32,400,267)	(33,136,591)
Total shareholders' equity		21,756,552	21,894,136
Total liabilities and shareholders' equity		\$ 39,216,951	\$ 39,696,006
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 INCOME*(Expressed in Canadian dollars)**(Unaudited)*

	Note	Three Months Ended March 31	
		2017	2016
Revenue			
Oil and natural gas revenue		\$ 2,292,746	\$ 935,834
Royalties		(299,117)	(109,119)
		1,993,629	826,715
Realized Gain on financial instruments		39,452	-
Unrealized (loss) gain on financial instruments		79,049	-
Net revenue		2,112,130	826,715
Expenses			
Production and operating		1,074,805	700,659
Exploration and evaluation	5	9,295	9,932
Depletion and depreciation	6	685,738	686,926
General and administrative		305,927	250,798
Share-based payments	10(b)	1,093	86,392
		2,076,858	1,734,708
Results from operating activities		35,272	(907,992)
Finance expense	8	(173,950)	(158,564)
Net loss and comprehensive loss for the period		\$ (138,678)	\$ (1,066,556)
Loss per share			
Basic and diluted	10(d)	\$ (0.00)	\$ (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	Contributed Surplus	Deficit	Total Equity
Balance, December 31, 2015		75,803,498	\$ 52,083,070	\$ 2,461,870	\$ (31,832,108)	\$ 22,712,832
Non-flow-through share		6,496,604	1,234,355	-	-	1,234,355
Flow-through share issuance		3,270,000	686,700	-	-	686,700
Share issuance costs		-	(124,306)	-	-	(124,306)
Flow-through share premium		-	(65,400)	-	-	(65,400)
Exercise of stock options		175,000	24,203	(10,203)	-	14,000
Share-based payments		-	-	116,604	-	116,604
Expiry of stock options		-	-	(1,376,165)	1,376,165	-
Net loss for the year		-	-	-	(2,680,648)	(2,680,648)
Balance, December 31, 2016		85,745,102	\$ 53,838,621	\$ 1,192,106	\$ (33,136,591)	\$ 21,894,136
Balance, December 31, 2016		85,745,102	\$ 53,838,621	\$ 1,192,106	\$ (33,136,591)	\$ 21,894,136
Share-based payments	10(b)	-	-	1,093	-	1,093
Expiry of stock options		-	-	(875,000)	875,000	-
Net loss for the period		-	-	-	(138,678)	(138,678)
Balance, March 31, 2017		85,745,102	\$ 53,838,621	\$ 318,198	\$ (32,400,267)	\$ 21,756,552

Comparison with three months ended March 31, 2016:

	Note	Number of common shares	Capital stock	Contributed Surplus	Deficit	Total Equity
Balance, December 31, 2015		75,803,498	\$ 52,083,070	\$ 2,461,870	\$ (31,832,108)	\$ 22,712,832
Expiry of stock options		-	-	(1,138,918)	1,138,918	-
Share-based payments		-	-	113,284	-	113,284
Net loss for the period		-	-	-	(1,066,556)	(1,066,556)
Balance, March 31, 2016		75,803,498	\$ 52,083,070	\$ 1,436,236	\$ (31,759,746)	\$ 21,759,561

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	
		2017	2016
Operating activities			
Net income for the period		\$ (138,678)	\$ (1,066,556)
Items not affecting cash:			
Depletion and depreciation		685,738	686,926
Accretion		26,932	35,791
Exploration and evaluation expense		9,295	9,932
Share-based payments		1,093	86,392
Unrealized loss (gain) on financial instruments		(79,049)	
Funds flow from (used in) operations		505,331	(247,514)
Changes in non-cash working capital		(324,489)	(91,593)
Cash provided by (used in) operating activities		180,842	(339,107)
Investing activities			
Property and equipment expenditures		(183,291)	(296,040)
Exploration and evaluation expenditures		(73,223)	(48,634)
Changes in non-cash working capital		(299,722)	(21,839)
Cash used in investing activities		(556,236)	(366,513)
Financing activities			
Shares issued for cash, net of issue costs		-	-
Change in bank indebtedness		375,393	705,621
Cash provided by financing activities		375,393	705,621
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, 2016.

These financial statements were authorized for issuance by the Board of Directors on May 25, 2017.

(b) Basis of presentation

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

are recognized in the year in which the estimates are revised and in any future years affected.

(e) 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, 2016. 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, 2016 were issued.

(f) Future Accounting Pronouncements

At the date of these financial statements the standards and interpretations listed below were issued but not yet effective. The adoption of these standards may result in future changes to existing accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on results of operations and financial position.

- (i) In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales contracts with customers to determine the extent of the impact, if any, that this standard will have on the consolidated financial statements.
- (ii) In July 2014, the IASB finalized the remaining elements of IFRS 9 – Financial Instruments, which includes new requirements for the classification and measurement of financial assets, amends the impairment model and outlines a new general hedge accounting standard. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the consolidated financial statements and does not anticipate material changes to the valuation of its financial assets.
- (iii) In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The Company is currently identifying contracts that will be identified as leases and evaluating the impact of the standard on the consolidated financial statements.

There are no other standards and interpretations in issue but not yet adopted that are expected to have a material effect on the reported earnings or net assets of the Company.

3. Financial Risk Management

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

(a) Credit risk

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

The maximum exposure to credit risk is as follows:

	March 31, 2017	December 31, 2016
Accounts receivable		
Trade receivables	\$ 773,795	\$ 863,115
Receivable from joint operators	46,684	45,088
Reclamation deposits	115,535	115,535
	\$ 936,014	\$ 1,023,738

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.

(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, 2017, the Company had net debt (ie. current assets less current liabilities) of \$11,578,352 (December 31, 2016 - \$11,827,170), which includes bank indebtedness of \$11,622,930 (December 31, 2016 - \$11,247,537). The Company has a demand operating credit facility in the amount of \$12,500,000 with Alberta Treasury Branches (Note 12).

The Company funds its operations through production revenue and a demand operating credit facility (Note 10). 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 interest rate risk, foreign currency risk, commodity price risk and other price risk.

(i) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under the Company's credit facilities are subject to variable interest rates. A one percent change in interest rates would have a \$120,000 effect on net loss and comprehensive loss.

(ii) Foreign currency risk

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

(iii) Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices may materially impact the Company's ability to raise capital.

At March 31, 2017, the Company held derivative commodity contracts as follows:

Product	Type	Notional Volumes	\$Cdn Price	Index	Term
Crude oil	Swap	100 bbl/day	\$72.15	WTI-NYMEX	Jan 1, 2017 to Jun 30, 2017
Crude oil	Swap	100 bbl/day	\$69.50	WTI-NYMEX	Feb 1, 2017 to Jul 31, 2017

At March 31, 2016 the commodity contracts were fair valued as an asset of \$79,049 recorded on the balance sheet, and an unrealized gain of \$79,049 recorded as revenue for the three months ended March 31, 2017.

(iv) Other price risk

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

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, 2017, the Company had \$nil transfers (December 31, 2016 - \$99,012) to property and equipment, capitalized general and administrative expenses of \$61,358 (December 31, 2016 - \$206,160) to exploration and evaluation assets, and recognized exploration and evaluation expense of \$9,295 (December 31, 2016 - \$135,308).

Cost	
Balance, December 31, 2015	\$ 3,100,937
Additions	504,877
Exploration and evaluation expense	(246,393)
Transfer to property and equipment	(99,012)
Balance, December 31, 2016	\$ 3,260,407
Additions	73,223
Exploration and evaluation expense	(9,295)
Transfer to property and equipment	-
Balance, March 31, 2017	\$ 3,324,335

6. Property and Equipment

Cost	Petroleum and		Total
	Natural Gas	Other Equipment	
Balance, December 31, 2015	\$ 66,010,862	\$ 114,492	\$ 66,125,354
Additions	2,217,499	-	2,217,499
Increase in decommissioning obligations	(1,211,718)	-	(1,211,718)
Capitalized share-based payments	26,893	-	26,893
Transfer from exploration and evaluation assets	99,012	-	99,012
Balance, December 31, 2016	\$ 67,142,548	\$ 114,492	\$ 67,257,040
Additions	183,291	-	183,291
Transfer from exploration and evaluation assets	-	-	-
Balance, March 31, 2017	\$ 67,325,839	\$ 114,492	\$ 67,440,331
Accumulated Depletion, Depreciation, Amortization and Impairment Losses			
Balance, December 31, 2015	29,142,289	75,362	29,217,651
Depletion and depreciation for the year	2,787,391	9,954	2,797,345
Impairment	-	-	-
Balance, December 31, 2016	\$ 31,929,680	\$ 85,316	\$ 32,014,996
Depletion and depreciation for the period	683,894	1,845	685,738
Balance, March 31, 2017	\$ 32,613,574	\$ 87,161	\$ 32,700,734
Net Book Value			
December 31, 2016	\$ 35,212,868	\$ 29,176	\$ 35,242,044
March 31, 2017	\$ 34,712,265	\$ 27,332	\$ 34,739,597

The Company's additions for property and equipment included capitalized general and administrative expenses of \$11,553 for the period ended March 31, 2017.

The calculation of depletion at March 31, 2017 includes estimated future development costs of \$22,049,000 (December 31, 2016 - \$22,049,600) 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, 2017 is \$5,818,088 (December 31, 2016 - \$5,818,088). These payments are expected to be made over the next 37 years with the majority of costs to be incurred between 2025 and 2054. The discount factor, being the risk-free rate related to the liability, is 2.20% (December 31, 2016 - 2.20%). Inflation of 1.40% (December 31, 2016 - 1.40%) has also been factored into the calculation. The Company also has \$115,535 (December 31, 2016 - \$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, 2017	December 31, 2016
Decommissioning obligations, beginning of period	discounted	\$ 4,896,681	\$ 5,965,233
Increase in estimated future obligations		-	66,998
Change in estimate		-	(1,278,716)
Decommissioning obligation expenditures		-	-
Accretion expense		26,932	143,166
Decommissioning obligations, end of period	discounted	\$ 4,923,613	\$ 4,896,681

8. Finance Income and Expense

		Three Months Ended March 31	
		2017	2016
Finance expense:			
Interest expense	\$	147,018	\$ 122,773
Accretion expense		26,932	35,791
Total	\$	173,950	\$ 158,564

9. Bank Indebtedness

At March 31, 2017, the Company had a demand operating credit facility in the amount of \$12,500,000 with Alberta Treasury Branches (“ATB”) which was reaffirmed at its mid-year review in January 2017 and again in the annual review completed in May 2017 (see Note 13 – Subsequent Events).

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 2.5%, 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 (\$12.5 million), to current liabilities, excluding any current bank indebtedness.

At March 31, 2017, the Company has drawn a total of \$11,622,930 from its credit facility (December 31, 2016 - \$11,247,537) and had a working capital ratio of 2.0, which is in compliance with the above financial covenant.

10. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at March 31, 2017, the Company had 85,745,102 common shares issued and outstanding.

No shares were issued during the period ended March 31, 2017.

During the year ended December 31, 2016, the following share transactions occurred:

- (i) On April 7, 2016, the Company issued 100,000 common shares for the exercise of stock options at \$0.08 per share for proceeds of \$8,000.
 - (ii) On June 29, 2016 the Company closed the first tranche of its non-brokered private placement offering. The Company issued 2,743,000 flow-through shares at a price of \$0.21 per share, which were issued on a Canadian Development Expense flow-through basis pursuant to the provisions of the Income Tax Act (Canada), and 2,449,500 common shares of Hemisphere at a price of \$0.19 per share, for gross proceeds to the Company of \$1,041,435. In conjunction with closing the financing, the Company paid \$29,524 in share issuance costs.
 - (iii) On July 12, 2016 the Company closed the final tranche of its non-brokered private placement offering. The Company issued 527,000 flow-through shares at a price of \$0.21 cents per share, which were issued on a Canadian development expense flow-through basis pursuant to the provisions of the Income Tax Act (Canada), and 4,047,104 common shares of Hemisphere at a price of \$0.19 per share, for gross proceeds to the company of \$879,620. In conjunction with closing the financing, the Company paid \$94,782 in share issuance costs.
 - (iv) On September 19, 2016, the Company issued 75,000 common shares for the exercise of stock options at \$0.08 per share for proceeds of \$6,000.
- (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, 2017 are as follows:

Exercise Price	Expiry Date	Balance Outstanding December 31, 2016	Changes in the Period			Balance Outstanding March 31, 2017	Balance Exercisable March 31, 2017
			Granted	Exercised	Expired/Cancelled		
\$0.70	8-Feb-17	1,400,000	-	-	(1,400,000)	-	-
\$0.24	29-Jan-20	1,075,000	-	-	-	1,075,000	1,075,000
\$0.39	1-Mar-20	100,000	-	-	-	100,000	100,000
\$0.08	11-Feb-21	1,685,000	-	-	-	1,685,000	1,685,000
\$0.08	12-Feb-21	125,000	-	-	-	125,000	125,000
		4,385,000	-	-	(1,400,000)	2,985,000	2,985,000
Weighted-average exercise price		\$0.32	-	-	\$0.70	\$0.15	\$0.15

For the three months ended March 31, 2017 the Company recorded share-based payments of \$1,093 from the vesting of the 25% balance of the 75,000 stock options granted to a company performing investor relations services at an exercise price of \$0.08 each. The Company did not grant any stock options in the first quarter of 2017. When applicable, all share-based payments are considered to be part of the Company's general and administrative expenses and a portion is capitalized.

(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	
	2017	2016
Loss for the period	\$ (138,678)	\$ (1,066,556)
Weighted average number of common shares outstanding, basic	85,745,102	75,803,498
Dilutive stock options	-	-
Weighted average number of common shares outstanding, diluted	85,745,102	75,803,498
Loss per share, basic and diluted	\$ (0.00)	\$ (0.01)

For the three months ended March 31, 2017, the Company incurred a loss; therefore, dilutive stock options were nil (three months ended March 31, 2016 – 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 remaining fiscal years:

	2017	2018
Rental commitment	\$ 145,096	\$ 80,609

12. Supplemental Cash Flow Information

	Three Months Ended March 31	
	2017	2016
Provided by (used in):		
Accounts receivable	\$ 87,724	\$ (68,640)
Prepaid expenses	31,861	23,474
Accounts payable and accrued liabilities	(743,796)	(68,265)
Total changes in non-cash working capital	\$ (624,211)	\$ (113,432)
Provided by (used in):		
Operating activities	\$ (324,489)	\$ (91,593)
Investing activities	(299,722)	(21,839)
Total changes in non-cash working capital	\$ (624,211)	\$ (113,432)

Interest paid on the Company's bank loan during the three months ended March 31, 2017 was \$147,018 compared to \$122,771 for the three months ended March 31, 2016.

13. Subsequent Events

- a) On April 27, 2017 the Company closed a non-brokered private placement offering. The Company issued 4,048,200 flow-through shares at a price of \$0.28 cents per share, which were issued on a Canadian development expense flow-through basis pursuant to the provisions of the Income Tax Act (Canada) for gross proceeds of \$1,133,496. In conjunction with closing the financing, the Company paid \$52,974 in cash finders fees.
- b) On May 8, 2017, the Company completed its annual review with Alberta Treasury Branches ("ATB") and its demand operating credit facility was reaffirmed and maintained at \$12.5 million. All covenants and applicable margins on borrowing costs remain unchanged. 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.

Hemisphere

energy corporation

OFFICERS

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

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

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

BANKER

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Calgary, Alberta

AUDITOR

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Vancouver, British Columbia

TRANSFER AGENT

Computershare Investor Services Inc.
Vancouver, British Columbia

BOARD OF DIRECTORS

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

Frank Borowicz, QC, CA (Hon)⁽¹⁾⁽²⁾⁽³⁾

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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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