Q1 2019 HIGHLIGHTS

- Achieved record revenue of $6.4 million, an increase of 90% over the first quarter of 2018.
- Realized record quarterly funds flow from operations of $2.6 million, a 30% increase over the entire annual funds flow from operations for 2018.
- Increased quarterly production by 61% to 1,379 boe/d (97% oil), as compared to the first quarter of 2018.
- Reduced operating and transportation expenses to $12.10/boe, a 31% reduction from the first quarter of 2018.
- Improved operating netback by 149% to $30.89/boe, as compared to the first quarter of 2018.
- Reduced general and administration costs to $2.26/boe, which is a 57% reduction over the same quarter in 2018.
- Focused on improving Hemisphere's balance sheet by reducing net debt by 8% during the first quarter of 2019 over net debt levels as at Dec. 31, 2018.
- Increased corporate Liability Management Ratio (LMR) with the Alberta Energy Regulator to 9.1 at the end of the first quarter 2019.

CORPORATE UPDATE

During the first quarter of 2019, Hemisphere recovered from the low oil prices and wide Canadian oil price differentials that the oil and gas sector experienced in the fourth quarter of 2018 which allowed Hemisphere to bring back on production that was shut-in during the latter part of 2018. However, during the first quarter, Hemisphere experienced some significant production downtime in the field associated with severe winter conditions. Despite these obstacles, Hemisphere maintained record production levels and lowered operating and transportation expenses, resulting in record corporate revenue and funds flow from operations for the quarter.

Hemisphere's average realized price of $51.85/boe in the first quarter of 2019 is 128% higher than the fourth quarter of 2018 and is an increase of 18% over the same period in 2018. The higher oil price environment along with a 61% increase in production year over year to 1,379 boe/d (97% oil) resulted in record revenues of over $6.4 million for the first quarter. Hemisphere's low operating and transportation costs of $12.10/boe, decreased royalties to $5.30/boe, and lower general and administrative costs of $2.26/boe lead to record funds flow from operations of $2.6 million.

With limited capital spending in the first quarter, Hemisphere focused on lowering net debt levels and planning for an active development program in the second half of 2019. Hemisphere is currently preparing for another significant drilling program scheduled to begin in June where up to 16 additional wells are planned to be drilled in the Atlee Buffalo area. Hemisphere will continue to monitor the oil price environment and will adjust capital spending if required. The Company's corporate strategy through 2019 is to focus on strengthening its financial capacity by investing capital in growing production, reserves, and free cash flow to generate greater shareholder value in the coming year.

Annual General and Special Meeting of Shareholders

Hemisphere's Annual General and Special Meeting of Shareholders is being held in the Pender Room of Oceanic Plaza, 1035 West Pender Street, Vancouver, British Columbia on Friday, June 14, 2019 at 9:00 a.m. (Pacific Daylight Time).

Q1 2019 FINANCIAL AND OPERATING HIGHLIGHT

	Three Months Ended March 31	
	2019	2018
OPERATING		
Average daily production		
Oil (bbl/d)	**1,329**	809
Natural gas (Mcf/d)	**287**	281
NGL (bbl/d)	**2**	2
Combined (boe/d)	**1,379**	858
Oil and NGL weighting	**97%**	95%
Average sales prices		
Oil ($/bbl)	**$ 52.18**	$ 45.76
Natural gas ($/Mcf)	**7.14**	2.09
NGL ($/bbl)	**43.84**	54.06
Combined ($/boe)	**$ 51.85**	$ 43.96
Operating netback ($/boe)		
Petroleum and natural gas revenue	**$ 51.85**	$ 43.96
Royalties	**5.30**	6.67
Operating costs	**9.65**	15.04
Transportation costs	**2.45**	2.59
Operating field netback(1)	**34.45**	19.66
Realized commodity hedging (gain) loss	**3.56**	7.24
Operating netback(2)	**$ 30.89**	$ 12.42
FINANCIAL		
Petroleum and natural gas revenue	**$ 6,435,252**	$ 3,393,921
Operating field netback(1)	**4,274,261**	1,517,978
Operating netback(2)	**3,832,225**	959,096
Cash flow provided by (used in) operating activities	**614,691**	(607,823)
Funds flow from operations(3)	**2,623,016**	99,720
Per share, basic and diluted	**0.03**	0.00
Net loss	**(889,224)**	(2,389,393)
Per share, basic and diluted	**(0.01)**	(0.03)
Capital expenditures	**611,795**	2,870,066
Net debt(4)	**32,771,889**	22,024,394
Gross term Loan(5)	**$ 34,707,400**	$ 23,209,200

Notes:

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

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

(3) Funds flow from operations is a non-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.

(4) Net debt is a non-IFRS measure calculated as current assets minus current liabilities including gross term loan and excluding fair value of financial instruments and any flow-through share premium.

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

	Three months ended March 31	
	2019	2018
SHARE CAPITAL		
Common shares outstanding	**89,883,302**	89,793,302
Stock options outstanding	**8,184,000**	8,419,000
Warrants outstanding	**13,750,000**	13,750,000
Fully Diluted	**111,817,302**	111,962,302
Weighted-average shares outstanding – basic and diluted	**89,803,302**	89,793,302

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at May 27, 2019

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, 2019 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, 2019, and the audited annual financial statements and related notes for the year ended December 31, 2018. 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 13,411 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 kilometers east of the Company's Jenner property in southeastern Alberta. Hemisphere has a 100% working interest in 15,520 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 $2,623,711 ($0.03/share) for the three months ended March 31, 2019, as compared to $99,720 ($0.00/share) for the three months ended March 31, 2018. The increase in funds flow from operations for three months ended March 31, 2019 are the effect of increased production over the comparable period in 2018, coupled with an increased WCS oil price resulting from narrowing of the WCS/WTI differential in the first quarter of 2019.

The Company reported a net loss of $889,224 ($0.01/share) for the three months ended March 31, 2019, which includes non-cash items of $1,237,372 in depletion and depreciation, $2,809,888 in unrealized hedge losses and an offset gain of $751,400 in foreign exchange. This loss is a reduction of $1,500,169 as compared to the net loss of $2,389,393 ($0.03/share) for the three months ended March 31, 2018. This decrease in losses for the first quarter of 2019 is primarily attributable to the higher netbacks mentioned above.

Production

	Three Months Ended March 31	
By product:	**2019**	2018
Oil (bbl/d)	**1,329**	809
Natural gas (Mcf/d)	**287**	281
NGL (bbl/d)	**2**	2
Total (boe/d)	**1,379**	858
Oil and NGL weighting	**97%**	95%

In the first quarter of 2019, the Company's average daily production was 1,379 boe/d (97% oil and NGL) representing a 61% increase over the comparable quarter in 2018. This increase in production can be attributed to new wells drilled and placed on production between March 2018 and March 2019, as well as the continued success and improvement of the base waterflood performance in the Upper Mannville F and G pools.

Average Benchmark and Realized Prices

	Three Months Ended March 31	
	2019	2018
Benchmark prices		
WTI ($US/bbl)[1]	**$ 54.81**	$ 62.87
Exchange rate (1 $US/$C)	**1.3294**	1.2646
WTI ($C/bbl)	**72.87**	79.50
WCS Diff ($C/bbl)	**(16.21)**	(30.74)
WCS ($C/bbl)[2]	**56.66**	48.76
AECO natural gas ($/Mcf)[3]	**2.62**	2.06
Average realized prices		
Crude oil ($/bbl)	**52.18**	45.76
Natural gas ($/Mcf)	**7.14**	2.09
NGL ($/bbl)	**43.84**	54.06
Combined ($/boe)	**$ 51.85**	$ 43.96

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 by 18% from $43.96/boe during the three months ended March 31, 2018 to $51.85/boe during three months ended March 31, 2019. These increases are the result of a higher realized foreign exchange rate between the Canadian and US Dollar, combined with reduction of $14.53/bbl in the Differential between the WCS and WTI pricing.

The Company's average realized natural gas price increased in the three months ended March 31, 2019 by $5.05/Mcf over the comparable period in 2018. This price increase is due to significantly higher realized natural gas pricing in British Columbia, where the Company holds a non-operated Joint Interest accounting for almost one third of it's natural gas production during the period.

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

Product	Type	Volume	Price	Index	Term
Crude oil	Collar	200 bbl/d	US$56.00-US$59.00	WTI-NYMEX	April 1, 2019 – June 30, 2019
Crude oil	Swap	250 bbl/d	US$13.50	WCS	April 1, 2019 –June 30, 2019
Crude oil	Swap	200 bbl/d	US$13.65	WCS	April 1, 2019 – June 30, 2019
Crude oil	Swap	100 bbl/d	US$12.60	WCS	April 1, 2019 – June 30, 2019
Crude oil	Swap	350 bbl/d	US$10.50	WCS	May 1, 2019 – June 30, 2019
Crude oil	Swap	100 bbl/d	US$17.30	WCS	July 1, 2019 – September 30, 2019
Crude oil	Swap	100 bbl/d	US$15.45	WCS	July 1, 2019 – September 30, 2019
Crude oil	Collar	100 bbl/d	US$55.00-US$63.25	WTI-NYMEX	July 1, 2019 – September 30, 2019
Crude oil	Swap	250 bbl/d	US$50.67	WTI-NYMEX	January 1, 2019 – December 31, 2019
Crude oil	Collar	130 bbl/d	US$40.00-US$74.50	WTI-NYMEX	March 1, 2019 – December 31, 2019
Crude oil	Collar	100 bbl/d	US$55.00-US$66.00	WTI-NYMEX	April 1, 2019 – December 31, 2019
Crude oil	Collar	100 bbl/d	US$58.00-US$66.15	WTI-NYMEX	June 1, 2019 – December 31, 2019
Crude oil	Swap	200 bbl/d	US$50.67	WTI-NYMEX	January 1, 2020 – August 31, 2020
Crude oil	Collar	120 bbl/d	US$40.00-US$68.25	WTI-NYMEX	January 1, 2020 – December 31, 2020
Crude oil	Collar	200 bbl/d	US$40.00-US$67.05	WTI-NYMEX	September 1, 2020 – December 31, 2020
Crude oil	Collar	275 bbl/d	US$40.00-US$65.50	WTI-NYMEX	January 1, 2021 – March 31, 2021

At March 31, 2019 the commodity contracts were fair valued as a liability of $1,953,912 and an unrealized loss for the three month period of $2,809,888 (March 31, 2018 – loss of $757,169).

Revenue

	Three Months Ended March 31	
	2019	2018
Oil	**$ 6,243,337**	$ 3,333,282
Natural gas	**184,411**	52,678
NGL	**7,504**	7,961
Total	**$ 6,435,252**	$ 3,393,921

Revenue for the three months ended March 31, 2019 increased by 90% from the comparable period in 2018. This increase is attributed to the $7.89/boe increase in the Company's combined average realized price and production increase of 61% during the period.

Operating Netback

	Three Months Ended March 31 2019	2018
Operating netback		
Revenue	**$ 6,435,252**	$ 3,393,921
Royalties	**658,137**	514,771
Operating costs	**1,198,390**	1,161,134
Transportation costs	**304,464**	200,038
Operating field netback(1)	**$ 4,274,261**	$ 1,517,977
Realized commodity hedging loss	**442,036**	558,882
Operating netback(2)	**$ 3,832,225**	$ 959,095
Operating netback ($/boe)		
Revenue	**$ 51.85**	$ 43.96
Royalties	**5.30**	6.67
Operating costs	**$ 9.65**	$ 15.04
Transportation costs	**2.45**	$ 2.59
Operating field netback(1)	**$ 34.45**	$ 19.66
Realized commodity hedging loss	**3.56**	7.24
Operating Netback(2)	**$ 30.89**	$ 12.42

Notes:

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

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

Royalties for the three months ended March 31, 2019 were $5.30/boe, representing a 20% decrease from the three months ended March 31, 2018. This was primarily the result of Hemisphere's newly drilled 2018 wells being on royalty holiday, coupled with the extremely low commodity prices in the fourth quarter, which directly impact the Crown royalty par price.

Operating costs include all costs for gathering, processing, dehydration, compression, water processing and marketing of the oil, natural gas and NGLs, as well as additional costs incurred periodically for maintenance and repairs. Operating costs for the three months ended March 31, 2019 increased on an absolute basis by 3%, but decreased on a per boe basis by $5.39 or 36%, over the same periods in 2018. The increase to absolute operating costs is the result of more operating wellbores and corresponding production, while the decrease per boe is due to stable fixed operating costs and efficiencies from the higher production.

Transportation costs include all costs incurred to transport emulsion and oil and gas sales to processing and distribution facilities. Transportation costs were $2.45/boe during the first quarter of 2019, which is a $0.14/boe decrease from the comparable quarter in 2018. The Company's installation of handling facilities in 2018 led to a reduction in trucked water, resulting in a decrease in trucking for the three months ended March 31, 2019 over the comparable periods in 2018.

Operating netback at $30.89/boe for the three months ended March 31, 2019 was 149% higher than the comparable quarter in 2018, mainly due to the 18% increase in the Company's combined average realized price, coupled with the lower royalties and operating costs as discussed above.

Exploration and Evaluation

Exploration and evaluation expense generally consists of certain geological and geophysical costs, expiry of undeveloped lands, and costs of uneconomic exploratory wells. Exploration and evaluation expenses for the three months ended March 31, 2019 and 2018 were $14,745 and $9,920, respectively.

Depletion and Depreciation

	Three Months Ended March 31	
	2019	2018
Depletion expense	**$ 1,210,792**	$ 862,477
Depreciation expense	**26,580**	1,370
Total	**$ 1,237,372**	$ 863,847
$ per boe	**$ 9.97**	$ 11.19

The Company depletes its property, plant and equipment 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. The Company depreciates its right-of-use (ROU) assets on a straight-line basis.

Depletion and depreciation expenses for the three months ended March 31, 2019 decreased to $9.97/boe from $11.19/boe for the same period in 2018. The decrease in depletion expense for the period ended March 31, 2019 as compared to the same periods in 2018 is due to amortization of production over a larger reserve base from the Company's December 31, 2018 independent engineers evaluation report as prepared by McDaniel and Associates Consultants Ltd.

Capital Expenditures

	Three Months Ended March 31	
	2019	2018
Land and lease	**$ 2,380**	$ 3,014
Geological and geophysical	**123,270**	114,438
Drilling and completions	**393,237**	2,177,414
Facilities and infrastructure	**92,908**	575,198
Total capital expenditures(1)	**$ 611,795**	$ 2,870,066

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

The development capital spent during the three months ended March 31, 2019 included preparatory spending for a summer drilling program, the upsizing of pumps at several wells, and the installation of a natural gas dryer at a battery facility.

General and Administrative

	Three Months Ended March 31	
	2019	2018
Gross general and administrative	**$ 399,939**	$ 498,537
Capitalized general and administrative	**(119,003)**	(92,067)
Total	**$ 280,936**	$ 406,470
$ per boe	**$ 2.26**	$ 5.27

Gross general and administrative expenses per boe for the three months ended March 31, 2019 decreased by 20% over the same period in 2018 due to reduced consulting fees, combined with a decrease in travel and investor relations costs in the first quarter of 2019. A further reduction in gross general and administrative expenses was realized in the current period due to the adoption of IFRS 16 "Leases," on January 1, 2019, as discussed in the Changes in Accounting Policies section of this MD&A.

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, 2019, capitalized general and administrative expenses increased by $26,936 over the comparable period in 2018.

Share-based Payments

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees and consultants of the Company. For the three months ended March 31, 2019, the Company recorded share-based payments of $60,225, compared to $61,244 for the same period in 2018.

In March of 2019 the Company granted 50,000 stock options to an employee at an exercise price of $0.12 each, all of which vested immediately. The Company uses a Black-Scholes option pricing model to calculate the fair value of stock option grants where the corresponding expense is recognized over the option vesting period. The total valuation of the vested options from grants in the first quarter of 2019, as well as the vesting of options issued but unvested in prior fiscal years, was $91,654, of which $60,225 was expensed as stock-based compensation and $31,433 was capitalized.

	Three Months Ended March 31			
		2019		2018
Share-based payments	**$**	**60,225**	$	61,244
Capitalized costs		**31,433**		38,748
Total share-based payments	**$**	**91,658**	$	99,992

Finance Expense

	Three Months Ended March 31			
		2019		2018
Interest expense	**$**	**893,976**	$	496,493
Lease interest		**11,968**		-
Accretion of debt issuance costs		**48,524**		73,693
Amortization of deferred charges		**55,654**		47,451
Accretion of decommissioning liabilities		**37,233**		34,586
Total finance expense	**$**	**1,047,355**	$	652,223
$ per boe	**$**	**8.44**	$	8.45

Interest expense for the three months ended March 31, 2019 increased by $397,483 over the respective period in 2018. This increase is a result of the higher carrying balance of the term loan in the first quarter of 2019 over the comparable period in 2018. The Company also recorded $11,968 for lease interest on right-of-use assets liability under the new IFRS 16 accounting policy. Overall, with the production growth, the relative per boe finance expense has remained essentially unchanged.

Accretion expense represents the adjusted present value of the Company's decommissioning obligations which include the abandonment and reclamation costs associated with wells and facilities. During the three months ended March 31, 2019 accretion expense increased by 8% over the comparable period due to the additional abandonment and reclamation costs recorded for the new wells drilled in 2018.

Tax Pools

The Company has approximately $56.3 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 2019 and any taxes payable beyond 2019 will primarily be a function of commodity prices, capital expenditures and production volumes.

	Deduction Rate	**December 31, 2018**
Canadian exploration expense (CEE)	100%	**$ 3,336,823**
Canadian development expense (CDE)	30%	**15,671,786**
Canadian oil and gas property expense (COGPE)	10%	**6,089,111**
Non-capital losses carry forwards (NCL)	100%	**29,648,931**
Undepreciated capital cost (UCC)	20-55%	**1,182,138**
Share issuance costs and other	Various	**340,199**
Total		**$ 56,268,988**

Summary of Quarterly Results

	2019	2018				2017		
	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)	**1,379**	1,378	1,150	1,053	858	770	681	600
Oil and natural gas revenue	**6,435,252**	2,886,840	5,856,762	5,618,915	3,393,921	3,528,565	2,733,656	2,419,666
Operating field netback[9]	**4,274,261**	1,023,282	3,239,217	3,279,840	1,517,979	1,650,446	1,208,106	1,096,412
Cash provided by (used in) operating activities	**614,691**	231,079	2,192,827	413,989	(607,823)	166,400	955,787	612,221
Funds flow from (used in) operations[10]	**2,623,016**	(725,431)	1,387,470	1,251,089	99,720	714,801	657,840	598,078
Per share, basic and diluted	**0.03**	(0.01)	0.02	0.01	0.00	0.01	0.01	0.01
Net income (loss)	**(889,224)**	25,334	(236,344)	(2,253,163)	(2,389,393)	(3,308,520)	(142,254)	(206,724)
Per share, basic and diluted	**(0.01)**	0.00	(0.00)	(0.03)	(0.03)	(0.04)	(0.00)	(0.00)
Combined average realized price ($/boe)	**51.85**	22.78	55.36	58.64	43.96	49.80	43.62	44.34
Operating netback ($/boe)[11]	**30.89**	5.14	23.43	24.27	12.42	23.29	19.28	20.09

Notes:

(1) The increases in revenue, netbacks and funds flow from operations are due to increases in realized commodity prices.

(2) The decreases in revenue, netbacks and funds flow from (used in) operations are due to a sharp decrease in realized commodity prices.

(3) The increases in revenue and funds flow from operations are due to increases in production rates, while netbacks remained relatively the same due to the decrease in commodity prices.

(4) The increases in revenue, netbacks and funds flow from operations are due to increases in production rates and commodity prices.

(5) The decreases in netbacks and funds flow from operations are primarily due to the wider WCS/WTI differential and losses incurred from hedging contracts.

(6) The increases in revenue, netbacks and funds flow from operations are due to increases in production rates and commodity prices.

(7) The increases in revenue, netbacks and funds flow from operations are due to increases in production rates and commodity prices, as well as the realized commodity hedging gains.

(8) The increases in revenue and netbacks are due to an 8% increase in the Company's combined average realized price and 31% lower general and administrative costs from the previous quarter.

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

(10) Funds flow from (used in) operations is a non-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.

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

Outstanding Share Capital

	May 27, 2019	**March 31, 2019**	December 31, 2018
Fully diluted share capital			
Common shares issued and outstanding	89,883,302	**89,883,302**	89,793,302
Stock options	8,184,000	**8,184,000**	8,419,000
Warrants	13,750,000	**13,750,000**	13,750,000
Total fully diluted shares outstanding	111,817,302	**111,817,302**	111,962,302

The Company has the following stock options that are outstanding and exercisable as at May 27, 2019:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding	Balance Exercisable
$0.24	January 29, 2015	January 29, 2020	1,000,000	1,000,000
$0.39	March 1, 2015	March 1, 2020	100,000	100,000
$0.08	February 11, 2016	February 11, 2021	1,595,000	1,595,000
$0.08	February 12, 2016	February 12, 2021	125,000	125,000
$0.25	September 21, 2017	September 21, 2022	4,914,000	3,276,000
$0.28	October 2, 2017	October 2, 2022	150,000	100,000
$0.25	January 1, 2018	January 1, 2023	250,000	166,667
$0.08	March 1, 2019	March 1, 2024	50,000	50,000
			8,184,000	6,412,667
Weighted-average exercise price			$0.21	$0.20

Liquidity and Capital Management

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging. The economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's liquidity and ability to generate profits in the future.

a) Financing

The Company's net cash used in financing activities during the three months ended March 31, 2019 was $10,891. These funds are from the proceeds of shares issued for stock options, less the payment of lease liabilities in the quarter.

b) Term Loan

On September 15, 2017, the Company entered into a first lien senior secured credit agreement (the "Credit Agreement") with a third-party lender (the "Lender") providing for a multi-draw, non-revolving term loan facility of a maximum aggregate principal amount of up to US$35.0 million. Security granted by the Company under the Credit Agreement included a demand debenture for US$75.0 million which provides for a first ranking security interest and floating and fixed charges over all of the real and personal property present and after acquired of the Company.

An initial commitment amount of US$15.0 million (the "Term Loan") was granted at inception and on January 23, 2018 and June 1, 2018 the Company amended its credit agreement with its Lender to increase the commitment amount by US$5.0 million and US$10.0 million respectively. This brings the Company's aggregate amount committed by the Lender under the Term Loan to US$30.0 million.

As at March 31, 2019 the Company has drawn US$26.0 million (CAD$34,707,400). The Company's ability to access additional commitments in excess of US$30.0 million is subject to approval of the Lender based on review and approval of the Company's future development plans.

The interest rate for the Term Loan is the three-month United States dollar London Interbank Offered Rate ("LIBOR") with a LIBOR floor of 1%, plus 7.50% payable quarterly, for a five-year term with a maturity date of September 15, 2022. In conjunction, the Company issued 13,750,000 warrants entitling the Lender to purchase one common share of Hemisphere at an exercise price of $0.28/share prior to September 15, 2022.

The Term Loan is subject to certain financial and performance covenants, which are listed below from the quarter ended March 31, 2019 and onward:

1. Interest coverage ratio for the quarter ended March 31, 2019 and each quarter thereafter shall not be less than 3.00 to 1.00.

2. Total leverage ratio for the quarters ended March 31, 2019 and June 30, 2019 shall not be more than 3.50 to 1.00; quarter ended September 30, 2019 and each quarter thereafter shall not be more than 3.25 to 1.00.

3. Minimum average production for the quarters ended March 31, 2019 and June 30, 2019 will not be less than 1,300 boe/d; quarter ended September 30, 2019 and each quarter thereafter will not be less than 1,500 boe/d.

4. Proved developed producing coverage ratio for the quarter ended March 31, 2019, based on reserve reports internally prepared by Hemisphere, and each quarter thereafter shall not be less than 1.00 to 1.00.

5. Total proved reserves coverage ratio for the quarter ended March 31, 2019, based on reserve reports internally prepared by Hemisphere, and each quarter thereafter shall not be less than 1.50 to 1.00.

6. The Company also has an annual financial covenant for its cash general and administrative costs for a base sum of $2.725 million per annum for the year ending December 31, 2019.

For the quarter ending March 31, 2019 the Company has met all of its financial and performance covenants in effect, as follows:

Ratio			Required	Actual March 31, 2019	
1.	Interest Coverage Ratio	Greater than	3.00	3.90	
2.	Total Leverage Ratio	Less than	3.50	2.48	
3.	Minimum Average Production	Greater than	1,300	1,379	Boe/d
4.	Proved Developed Producing Coverage Ratio	Greater than	1.00	1.20	
5.	Total Proved Reserves Coverage Ratio	Greater than	1.50	2.29	

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

c) Capital Management

The Company manages its capital with the following objectives:

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

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

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is composed of shareholders' equity and the Term Loan. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, incurring additional indebtedness under the Term Loan, issuing new debt instruments, other financial or equity-based instruments, adjusting capital spending, or disposing of assets. The capital structure is reviewed on an ongoing basis.

Related Party Transactions

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

	Three Months Ended March 31 **2019**	2018
Salaries and wages	**$ 265,000**	$ 205,000
Share-based payments	-	-

Commitment

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

As at March 31, 2019, the gross balance of the Term Loan was $34,707,400 (US$26,000,000), exclusive of the debt issuance costs. The Term Loan matures on September 15, 2022.

		2019	2020	2021	2022	2023	Total
Lease operating costs	$	57,321	76,428	76,428	76,428	31,845	318,450
Term loan		-	-	-	34,707,400	-	34,707,400
Term loan interest		2,295,895	3,061,193	3,061,193	2,295,895	-	10,714,174
	$	2,353,216	3,137,621	3,137,621	37,079,723	31,845	45,740,024

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.

Changes in Accounting Policies

Effective January 1, 2019, the Company adopted IFRS 16. The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings (deficit) and applies the standard prospectively. Therefore, the comparative information in the interim financial statements has not been restated.

On adoption, management elected to use the following practical expedients permitted under the new standard:

- account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases;
- account for lease payments as an expense and not recognize a right-of-use asset (ROU asset) if the underlying asset is of a low dollar value; and
- the use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

IFRS 16 requires entities to recognize lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, "Leases". Under the principles of IFRS 16 these leases have been measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates at January 1, 2019. Incremental borrowing rates as at January 1, 2019 is estimated at an average of 10.92%. The associated ROU assets were measured at the amount equal to the lease liability on January 1, 2019.

Adopting IFRS 16 impacted the Company's lease liabilities and ROU assets as follows, as at January 1, 2019:

- recorded lease liabilities of $452,152; and
- recorded ROU assets of $452,152;

Adopting IFRS 16 impacted the Company's Q1 2019 financial results compared with what would have occurred had we not adopted the new accounting policy as follows:

- decreased gross general and administrative costs by $17,721
- decreased production costs in the amount of $12,338;
- increased DD&A expenses in the amount of $25,533; and
- increased finance expenses in the amount of $11,968.

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, 2019, the Company's financial instruments include cash and cash equivalents, accounts receivable, reclamation deposits, term loan, and accounts payable and accrued liabilities.

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

a) Fair value hierarchy

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

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

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

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

b) Non-derivative financial instruments

Financial assets

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

The subsequent measurement of financial assets depends on their classification.

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

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

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

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

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

Impairment of financial assets

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

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

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

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

All impairment losses are recognized in earnings.

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

Financial liabilities

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

The subsequent measurement of financial liabilities depends on their classification.

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

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

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

c) Financial derivative instruments

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

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

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

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

Risks

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

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

Business Risk

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

Credit risk

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

The maximum exposure to credit risk is as follows:

	March 31, 2019	December 31, 2018
Accounts receivable		
Marketing receivables	$ 2,485,829	$ 168,284
Trade receivables	28,940	104,454
Receivables from joint ventures	127,184	14,431
Reclamation deposits	115,535	115,535
	$ 2,757,488	$ 402,704

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. Historically, the Company has never experienced any collection issues with its oil marketer.

Liquidity risk

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

The Company also prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company will also attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging. The economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's liquidity and ability to generate profits in the future.

At March 31, 2019, the Company had net debt (current assets less current liabilities excluding fair value of financial instruments, less the gross term loan) of $32,771,889 (December 31, 2018 - $35,446,384), which includes the gross term loan of $34,707,400 (December 31, 2018 - $35,458,800). The Company funds its operations through operating cash flows and the term loan, which has an additional US$4 million of borrowing base committed by its lender at March 31, 2019, which it can draw for future capital programs.

Market risk

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

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under the Company's Term Loan are subject to variable interest rates. A one percent change in interest rates would have a $347,000 annual effect on net 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; except i) the Company's commodity prices are largely denominated in USD, and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales. The Company does have foreign currency mark-to-market swaps in place as further disclosed within this MD&A and the audited annual financial statements for the year ended December 31, 2018; and ii) the Company's Term Loan is denominated in USD and, as a result, the amount that the Company will be obligated to repay at the term of the loan will be affected by fluctuations in the exchange rate between the USD and the Canadian dollar at that time. A one percent change in the foreign exchange rate would have a $302,000 effect on the annual net loss.

Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices may materially impact the Company's funds flow from operations, and ability to raise capital. The Company has derivative commodity contracts in place as further disclosed within this MD&A and the audited annual financial statements for the year ended December 31, 2018.

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 (used in) 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 (used in) 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 (used in) 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		
		2019		2018
Cash provided by (used in) operating activities	**$**	**614,691**	$	(607,823)
Less: Change in non-cash working capital		**(2,008,325)**		(707,543)
Funds flow from operations	**$**	**2,623,016**	$	99,720
Per share, basic and diluted	**$**	**0.03**	$	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 barrel of oil equivalent basis. These terms should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income or loss as determined in accordance with IFRS as an indicator of the Company's performance.

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

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

The following table outlines the Company calculation of net debt:

		As at		
		March 31, 2019		December 31, 2018
Current assets[(1)]	**$**	**3,908,486**	$	2,258,590
Current liabilities[(2)]		**(1,972,975)**		(2,246,174)
Term Loan		**(34,707,400)**		(35,458,800)
Net debt	**$**	**(32,771,889)**	$	(35,446,384)

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

Boe Conversion

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

Forward-Looking Statements

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

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

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

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

Reserves Advisories

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

Original Oil in Place

The reference to Original Oil-In-Place ("OOIP") in the Message to Shareholders is equivalent to Discovered Petroleum Initially-In-Place ("DPIIP"). DPIIP, as defined in the Canadian Oil and Gas Handbook, is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of DPIIP includes production, reserves and contingent resources; the remaining portion of DPIIP is unrecoverable. It should not be assumed that any portion of the OOIP/DPIIP set forth in the presentation is recoverable other than the portion which has been attributed reserves by McDaniel & Associates Consultants Ltd. There is uncertainty that it will be commercially viable to produce any portion of the OOIP/DPIIP other than the portion that is attributed reserves. The OOIP/DPIIP set forth in the Message to Shareholders has been provided for the sole purpose of highlighting the potential recovery factors for the reservoirs in which the Company holds an interest. The OOIP/DPIIP volumes set forth in the Message to Shareholders are from the mapping of the reservoirs by McDaniel & Associates Consultants Ltd. (who is independent of Hemisphere) in connection with preparing the Company's reserve report effective as of December 31, 2018.

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 27, 2019

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

CONDENSED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)
(Unaudited)

	Note		March 31, 2019		December 31, 2018
Assets					
Current assets					
Cash and cash equivalents		**$**	**1,030,287**	$	1,780,658
Accounts receivable			**2,641,953**		287,169
Prepaid expenses			**236,246**		190,762
Fair value of financial instruments			**-**		636,801
			3,908,486		2,895,390
Non-current assets					
Reclamation deposits	8		**115,535**		115,535
Fair value of financial instruments	3(c)		**-**		219,175
Exploration and evaluation assets	6		**3,638,326**		3,195,215
Property and equipment	7		**51,626,261**		52,226,110
Deferred charges	11		**490,409**		546,063
Total assets		**$**	**59,779,017**	$	59,197,488
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**1,895,741**	$	2,246,175
Lease liability	9		**77,234**		-
Fair value of financial instruments	3(c)		**1,471,912**		-
			3,444,887		2,246,175
Non-current liabilities					
Term loan	11		**32,620,708**		33,323,584
Lease liability	9		**356,827**		-
Fair value of financial instruments			**482,000**		-
Decommissioning obligations	8		**7,794,099**		7,756,866
			44,698,521		43,326,625
Shareholders' Equity					
Share capital	12		**54,731,641**		54,724,441
Contributed surplus			**1,077,474**		1,014,623
Warrant reserve	12(c)		**1,043,136**		1,043,136
Deficit			**(41,771,755)**		(40,911,337)
Total shareholders' equity			**15,080,496**		15,870,863
Total liabilities and shareholders' equity		**$**	**59,779,017**	$	59,197,488

Commitments (Note 13)
Subsequent events (Note 3)

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

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in Canadian dollars)
(Unaudited)

	Note	Three Months Ended March 31 2019	2018
Revenue			
Oil and natural gas revenue	5	**$ 6,435,252**	$ 3,393,921
Royalties		**(658,137)**	(514,771)
		5,777,115	2,879,150
Realized loss on financial instruments		**(442,036)**	(558,882)
Unrealized loss on financial instruments	3(c)	**(2,809,888)**	(757,169)
Net revenue		**2,525,191**	1,563,099
Expenses			
Production and operating		**1,502,855**	1,361,172
Exploration and evaluation	6	**14,745**	9,920
Depletion and depreciation	7	**1,237,372**	863,846
General and administrative		**280,936**	406,470
Share-based payments	12(b)	**60,225**	61,243
		3,096,132	2,702,651
Results from operating activities		**(570,941)**	(1,139,552)
Finance expense	10	**(1,047,355)**	(652,223)
Foreign exchange gain (loss)		**729,072**	(597,618)
Net loss and comprehensive loss for the period		**$ (889,224)**	$ (2,389,393)
Net loss per share			
Basic and diluted	12(d)	**$ (0.01)**	$ (0.03)

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 common shares		Share Capital		Contributed Surplus		Warrant Reserve		Deficit		Total Equity
Balance, December 31, 2017		**89,793,302**	**$**	**54,724,441**	**$**	**649,775**	**$**	1,043,136	**$**	**(36,057,767)**	**$**	**20,359,585**
Share-based payments	12(b)	-		-		364,848		-		-		364,848
Net loss for the year		-		-		-		-		(4,853,569)		(4,853,569)
Balance, December 31, 2018		**89,793,302**	**$**	**54,724,441**	**$**	**1,014,623**	**$**	**1,043,136**	**$**	**(40,911,337)**	**$**	**15,870,862**
Balance, December 31, 2018		**89,793,302**	**$**	**54,724,441**	**$**	**1,014,623**	**$**	**1,043,136**	**$**	**(40,911,337)**	**$**	**15,870,862**
Stock Option Exercise		90,000		7,200		-		-		-		7,200
Share-based payments		-		-		91,658		-		-		91,658
Expiry of Stock Options		-		-		(28,807)		-		28,807		-
Net loss for the period		-		-		-		-		(889,224)		(889,224)
Balance, March 31, 2019		**89,883,302**	**$**	**54,731,641**	**$**	**1,077,474**	**$**	**1,043,136**	**$**	**(41,771,755)**	**$**	**15,080,496**

Comparison with three months ended March 31, 2018:

	Note	Number common shares		Share Capital		Contributed Surplus		Warrant Reserve		Deficit		Total Equity
Balance, December 31, 2017		**89,793,302**	**$**	**54,724,441**	**$**	**649,775**	**$**	1,043,136	**$**	**(36,057,767)**	**$**	**20,359,585**
Share-based payemnts	12(b)	-		-		99,991		-		-		99,991
Net loss for the period		-		-		-		-		(2,389,393)		(2,389,393)
Balance, March 31, 2018		**89,793,302**	**$**	**54,724,441**	**$**	**749,766**	**$**	**1,043,136**	**$**	**(38,447,160)**	**$**	**18,070,183**

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

CONDENSED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)
(Unaudited)

	Three Months Ended March 31	
	2019	2018
Operating activities		
Net loss for the period	**$ (889,224)**	$ (2,389,393)
Items not affecting cash:		
Accretion of debt issuance costs	**48,524**	47,451
Accretion of decommissioning costs	**37,233**	34,586
Amortization of deferred charges	**55,654**	73,693
Depletion and depreciation	**1,237,372**	863,846
Exploration and evaluation expense	**14,745**	9,920
Share-based payments	**60,225**	61,243
Unrealized loss on financial instruments	**2,809,888**	757,169
Unrealized loss (gain) on foreign exchange	**(751,400)**	641,206
Funds flow from operations	**2,623,016**	99,720
Changes in non-cash working capital	**(2,008,325)**	(707,543)
Cash provided by (used in) operating activities	**614,691**	(607,823)
Investing activities		
Property and equipment expenditures	**(153,938)**	(2,532,661)
Exploration and evaluation expenditures	**(457,857)**	(337,405)
Changes in non-cash working capital	**(742,376)**	1,737,707
Cash used in investing activities	**(1,354,171)**	(1,132,359)
Financing activities		
Shares issued for stock options and warrants	**7,200**	-
Proceeds from term loan	**-**	3,645,010
Payment of lease liabilities	**(18,091)**	-
Cash provided by (used in) financing activities	**(10,891)**	3,645,010
Net change in cash	**(750,371)**	1,904,827
Cash, beginning of period	**1,780,658**	1,372,991
Cash , end of period	**$ 1,030,287**	$ 3,277,821

Supplemental cash flow information (Note 14)

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, 2019 and 2018

(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 501, 905 Pender Street West, Vancouver, British Columbia, Canada V6C 1L6

2. Basis of Presentation

(a) Statement of compliance

The interim condensed financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" of International Financial Reporting Standards ("IFRS").

These interim condensed financial statements have been prepared following the same accounting policies and methods of computation as the audited annual financial statements of the Company for the year ended December 31, 2018 except as detailed in note 2(e) below. These interim condensed financial statements should be read in conjunction with the financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2018.

These financial statements were authorized for issuance by the Board of Directors on May 27, 2019.

(b) Basis of valuation

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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) Changes in accounting policy

Effective January 1, 2019, the Company adopted IFRS 16, "Leases" ("IFRS 16"). The Company has applied IFRS 16 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings (deficit) and applies the standard prospectively. Therefore, the comparative information in the Company's financial statements have not been restated. On adoption, management elected to use the following practical expedients permitted under IFRS 16:

- account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases;
- account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of a low dollar value (less than US$5 thousand); and
- the use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

The effect of initially applying the standard was a $452,152 increase to right-of-use assets, with a corresponding lease liability recorded. The right-of-use asset was measured at the amount equal to the lease liability on January 1, 2019 with no impact on deficit.

The preparation of the interim condensed financial statements in accordance with IFRS 16 requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 are listed below:

- Incremental borrowing rate: The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

The following accounting policy came into effect on January 1, 2019:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset; this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision making rights that are most relevant to changing how and for what purpose the assets is used. In rare cases where the decision is predetermined, the Company has the right to direct the use of the asset if either:
    i. the Company has the right to operate the asset; or
    ii. the Company designed the asset in a way that predetermines how and for what purpose it will be used.

When the Company is a lessee, it recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate, initially measured at the index or rate as at the commencement date; and
- amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an option renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.
When the lease liability is re-measured in this way, a corresponding adjustment is made to

the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amounts of the right-of-use asset has been reduced to nil.

The Company presents right-of-use assets in "property, plant and equipment" and lease obligations in "lease liabilities" in the statement of financial position.

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 over 90 days past due or impaired.

The maximum exposure to credit risk is as follows:

	March 31, 2019	December 31, 2018
Accounts receivable		
Marketing receivables	**$ 2,485,829**	$ 168,284
Trade receivables	**28,940**	104,454
Receivables from joint ventures	**127,184**	14,431
Reclamation deposits	**115,535**	115,535
	$ 2,757,488	$ 402,704

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

(b) Liquidity risk

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

The Company also prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company will also attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging. The economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's liquidity and ability to generate profits in the future.

At March 31, 2019, the Company had net debt (current assets less current liabilities excluding fair value of financial instruments, and including the gross term loan) of $32,771,889 (December 31, 2018 - $35,446,384), which includes the gross term loan (Note 11) of $34,707,400 (December 31, 2018 - $35,458,800). The Company funds its operations through operating cash flows and the term loan, which has an additional US$4 million of borrowing base committed by its lender at March 31, 2019, which it can draw for future capital programs.

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under the Company's Term Loan are subject to variable interest rates. A one percent change in interest rates would have a $347,000 annual effect on net loss.

(ii) Foreign currency risk

The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency; except i) the Company's commodity prices are largely denominated in USD, and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales. The Company does have any foreign currency mark-to-market swaps in place; and ii) the Company's Term Loan is denominated in USD and, as a result, the amount that the Company will be obligated to repay at the term of the loan will be affected by fluctuations in the exchange rate between the USD and the Canadian dollar at that time. A one percent change in the foreign exchange rate would have a $302,000 effect on the annual net loss and comprehensive loss.

(iii) Commodity price risk

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

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

Product	Type	Volume	Price	Index	Term	Mar. 31, 2019 Fair Value
Crude oil	Collar	200 bbl/d	US$56.00-US$59.00	WTI-NYMEX	April 1, 2019 – June 30, 2019	49,390
Crude oil	Swap	250 bbl/d	US$13.50	WCS	April 1, 2019 – June 30, 2019	105,320
Crude oil	Swap	200 bbl/d	US$13.65	WCS	April 1, 2019 – June 30, 2019	87,900
Crude oil	Swap	100 bbl/d	US$12.60	WCS	April 1, 2019 – June 30, 2019	31,195
Crude oil	Swap	350 bbl/d	US$10.50	WCS	May 1, 2019 – June 30, 2019	21,609
Crude oil	Swap	100 bbl/d	US$15.45	WCS	July 1, 2019 – September 30, 2019	8,049
Crude oil	Swap	100 bbl/d	US$17.30	WCS	July 1, 2019 – September 30, 2019	30,769
Crude oil	Collar	100 bbl/d	US$55.00-US$63.25	WTI-NYMEX	July 1, 2019 – September 30, 2019	8,106
Crude oil	Swap	250 bbl/d	US$50.67	WTI-NYMEX	January 1, 2019 – December 31, 2019	884,892
Crude oil	Collar	130 bbl/d	US$40.00-US$74.50	WTI-NYMEX	March 1, 2019 – December 31, 2019	8,237
Crude oil	Swap	200 bbl/d	US$50.67	WTI-NYMEX	January 1, 2020 – August 31, 2020	534,624
Crude oil	Collar	120 bbl/d	US$40.00-US$68.25	WTI-NYMEX	January 1, 2020 – December 31, 2020	79,941
Crude oil	Collar	200 bbl/d	US$40.00-US$67.05	WTI-NYMEX	September 1, 2020 – December 31, 2020	48,140
Crude oil	Collar	275 bbl/d	US$40.00-US$65.50	WTI-NYMEX	January 1, 2021 – March 31, 2021	55,738
					Total	$1,953,912

At March 31, 2019 the commodity contracts were fair valued as a liability of $1,953,912 and an unrealized loss for the three months ended March 31, 2019 of $2,809,888 (March 31, 2018 – loss of $757,169).

Subsequent to the March 31, 2019, the Company entered into the following commodity price contracts:

Product	Type	Volume	Price	Index	Term
Crude oil	Collar	100 bbl/d	US$55.00-US$66.00	WTI-NYMEX	April 1, 2019 – December 31, 2019
Crude oil	Collar	100 bbl/d	US$58.00-US$66.15	WTI-NYMEX	June 1, 2019 – December 31, 2019

(iv) Other price risk

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

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 business and industry in general. The capital structure of the Company is composed of shareholders' equity and the Term Loan. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing from the Company's term loan, issuing new debt instruments, other financial or equity-based instruments, adjusting capital spending, or disposing of assets. The capital structure is reviewed on an ongoing basis. There were no changes to capital management during the period.

5. Revenue

The Company sells its production pursuant to variable-price contracts. The transaction price for variable-price contracts is based on a benchmark commodity price, adjusted for quality, location or other factors whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver variable volumes of heavy oil, natural gas or natural gas liquids to the contract counterparty.

Production revenue is recognized when the Company gives up control of the unit of production at the delivery point agreed to under the terms of the contract. The amount of production revenue recognized is based on the agreed transaction price and the volumes delivered. Any variability in the transaction price relates specifically to the Company's efforts to transfer production and therefore the resulting revenue is allocated to the production delivered in the period to which the variability relates. The Company does not have any factors considered to be constraining in the recognition of revenue with variable pricing factors. Production revenues are normally collected on the business day nearest the 25th day of the month following production.

The Company's production revenues were primarily generated in its core areas of the Mannville oil play in the Atlee Buffalo and Jenner areas of southeastern Alberta. The Company's customers are oil and natural gas marketers and joint operations partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by management's policies and practices related to credit risk as discussed in note 3(a). As at March 31, 2019, production revenue sold to customers was comprised primarily from three marketers which account for $2,485,829 of the accounts receivable balance.

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

	Three Months Ended March 31			
		2019		2018
Oil	$	**6,243,337**	$	3,333,283
Natural gas		**184,411**		52,678
NGL		**7,504**		7,960
Total	$	**6,435,252**	$	3,393,921

6. 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 three months ended March 31, 2019, the Company had $nil transfers (December 31, 2018 - $4,425,630) to property and equipment, capitalized general and administrative expenses of $108,440 (December 31, 2018 - $173,487) to exploration and evaluation assets, and recognized exploration and evaluation expense of $14,745 (December 31, 2018 - $932,374).

Cost		
Balance, December 31, 2017	$	4,894,108
Additions		3,659,109
Exploration and evaluation expense		(932,374)
Transfer to property and equipment		(4,425,628)
Balance, December 31, 2018	$	3,195,215
Additions		457,856
Exploration and evaluation expense		(14,745)
Balance, March 31, 2019	**$**	**3,638,326**

7. Property and Equipment

Cost		Petroleum and Natural Gas		Right of Use and Other Assets		Total
Balance, December 31, 2017	$	74,892,367	$	114,492	$	75,006,859
Additions		12,398,208		-		12,398,208
Increase in decommissioning obligations		1,442,408		-		1,442,408
Capitalized share-based payments		101,614		-		101,614
Transfer from exploration and evaluation assets		4,425,628		-		4,425,630
Balance, December 31, 2018	$	93,260,225	$	114,492	$	93,374,716
Right-of-use assets		-		452,152		452,152
Additions		153,295		644		153,939
Capitalized share-based compensation		31,433		-		31,433
Balance, March 31, 2019	**$**	**93,444,953**	**$**	**567,288**	**$**	**94,012,241**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance, December 31, 2017	**$**	35,020,142	$	92,693	$	35,112,835
Depletion and depreciation for the year		4,455,420		5,480		4,460,900
Impairment Loss		1,574,872		-		1,574,872
Balance, December 31, 2018	**$**	**41,050,434**	**$**	**98,173**	**$**	**41,148,607**
Depletion and depreciation for the period		1,210,792		26,580		1,237,372
March 31, 2019	**$**	**42,261,226**	**$**	**124,753**	**$**	**42,385,980**
Net Book Value						
December 31, 2018	$	52,209,791	$	16,319	$	52,226,110
March 31, 2019	**$**	**51,183,729**	**$**	**454,832**	**$**	**51,626,261**

The Company's additions for property and equipment included capitalized general and administrative expenses of $10,564 for the period ended March 31, 2019 (March 31, 2018 - $53,430).

The calculation of depletion at March 31, 2019 includes estimated future development costs of $50,819,300 (December 31, 2018 - $50,819,300) associated with the development of the Company's Proved plus Probable reserves.

8. 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, 2018 is $11,993,913 (December 31, 2018 - $11,993,913). These payments are expected to be made over the next 43 years with the costs to be incurred between 2027 and 2061. The discount factor, being the risk-free rate related to the liability, is 1.92% (December 31, 2018 – 1.92%). Inflation of 2.1% (December 31, 2018 – 2.1%) has also been factored into the calculation of amounts in the table below. The Company also has $115,535 (December 31, 2018 - $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.

		Three Months Ended March 31, 2019		Year Ended December 31, 2018
Decommissioning obligations, beginning of period	**$**	**7,756,866**	$	6,176,112
Increase in estimated future obligations		**-**		1,154,722
Change in estimate		**-**		287,687
Accretion expense		**37,233**		138,345
Decommissioning obligations, end of period	**$**	**7,794,099**	$	7,756,866

9. Lease Liabilities

The Company has lease liabilities for contracts related to financing facilities, surface leases, vehicles and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Discount rate used during the three months ended March 31, 2019 was 10.92%. The following table summarizes lease liabilities at March 31, 2019:

		Three Months Ended March 31, 2019
Balance, January 1, 2019	$	452,152
Interest expense		11,968
Lease payments		(30,059)
Balance, March 31, 2019	$	**434,061**
Current Portion	$	77,234
Long-term portion		356,827

10. Finance Income and Expense

	Three Months Ended March 31			
		2019		2018
Finance expense:				
Interest expense	**$**	**893,976**	$	496,493
Lease interest		**11,968**		-
Accretion of debt issuance costs		**48,524**		73,693
Amortization of deferred charges		**55,654**		47,451
Accretion of decommissioning liabilities		**37,233**		34,586
Total finance expense	**$**	**1,047,355**	$	652,223

11. Term Loan

On September 15, 2017, the Company entered into a first lien senior secured credit agreement (the "Credit Agreement") with a third-party lender (the "Lender") providing for a multi-draw, non-revolving term loan facility of a maximum aggregate principal amount of up to US$35.0 million. Security granted by the Company under the Credit Agreement included a demand debenture for US$75.0 million which provides for a first ranking security interest and floating and fixed charges over all of the real and personal property present and after acquired of the Company.

An initial commitment amount of US$15.0 million (the "Term Loan") was granted at inception and on January 23, 2018 and June 1, 2018 the Company amended its credit agreement with its Lender to increase the commitment amount by US$5.0 million and US$10.0 million respectively. This brings the Company's aggregate amount committed by the Lender under the Term Loan to US$30.0 million.

As at March 31, 2019 the Company has drawn US$26.0 million (CAD$34,707,400). The Company's ability to access additional commitments in excess of US$30.0 million is subject to approval of the Lender based on review and approval of the Company's future development plans.

The interest rate for the Term Loan is the three-month United States dollar London Interbank Offered Rate ("LIBOR") with a LIBOR floor of 1%, plus 7.50% payable quarterly, for a five-year term with a maturity date of September 15, 2022. In conjunction, the Company issued 13,750,000 warrants entitling the Lender to purchase one common share of Hemisphere at an exercise price of $0.28/share prior to September 15, 2022. The effective interest rate is 10.92%.

The below tables summarize the Term Loan and Deferred Costs associated with the Term Loan, respectively, at March 31, 2019:

Term Loan		**Three Months Ended March 31, 2019**		**Year Ended December 31, 2018**
Term Loan, beginning of period	$	33,323,584	$	17,465,518
Principal amount of Term Loan issued				14,199,400
Foreign exchange adjustment		(751,400)		2,279,936
Transfer of debt issuance costs – cash		-		(534,379)
Transfer of debt issuance costs – warrants		-		(380,573)
Accretion of debt issuance costs		48,524		293,681
Balance, end of period	**$**	**32,620,708**	**$**	**33,323,584**

Deferred Costs		**March 31, 2019**		**December 31, 2018**
Deferred costs, beginning of period	$	(546,063)	$	(1,210,691)
Debt issuance costs - cash		-		81,724
Debt issuance costs - warrants		-		380,573
Amortization of deferred costs		55,654		202,332
Deferred costs, end of period	**$**	**(490,409)**	**$**	**(546,063)**

The Company has recognized a portion of the debt issuance costs and value allocated to the warrants (Note 12(c)) against the Term Loan based on the proportion of the facility drawn, with the balance included in deferred charges. The portion recognized against the Term Loan will be accreted using the effective interest method (refer to effective interest rate above) through finance expense while the deferred charge balance is being straight-line amortized over the five-year term. As future draws are made under the term Loan, the unamortized proportion of the deferred charges will be transferred against the debt obligation and accreted also using the effective interest method.

The Term Loan is subject to certain financial covenants which are listed below from the quarter ended March 31, 2019:

1. Interest coverage ratio for the quarter ended March 31, 2019 and each quarter thereafter shall not be less than 3.00 to 1.00.

2. Total leverage ratio for the quarters ended March 31, 2019 and June 30, 2019 shall not be more than 3.50 to 1.00; quarter ended September 30, 2019 and each quarter thereafter shall not be more than 3.25 to 1.00.

3. The Company also has an annual financial covenant for its cash general and administrative costs for a base sum of $2.725 million per annum for the year ending December 31, 2019.

The Term Loan is also subject to certain performance covenants surrounding production and reserves as denoted in the table below. For the quarter ended March 31, 2019 the Company has met all of its financial and performance covenants in effect, as follows:

Ratio			**Required**	**Actual Mar. 31, 2019**	
1.	Interest Coverage Ratio	Greater than	3.00	3.90	
2.	Total Leverage Ratio	Less than	3.50	2.48	
3.	Minimum Average Production	Greater than	1,300	1,379	Boe/d
4.	Proved Developed Producing Coverage Ratio	Greater than	1.00	1.20	
5.	Total Proved Reserves Coverage Ratio	Greater than	1.50	2.29	

12. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at March 31, 2019, the Company had 89,883,302 common shares issued and outstanding.

No shares were issued during the period ended March 31, 2019, nor during the year ended December 31, 2018.

(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, 2019 are as follows:

			Changes in the Period				
Exercise Price	Expiry Date	Balance Outstanding December 31, 2018	Granted	Exercised	Expired/ Cancelled	Balance Outstanding March 31, 2019	Balance Exercisable March 31, 2019
$0.24	29-Jan-20	1,075,000	-	-	(75,000)	1,000,000	1,000,000
$0.39	1-Mar-20	100,000	-	-	-	100,000	100,000
$0.08	11-Feb-21	1,685,000	-	(90,000)	-	1,595,000	1,595,000
$0.08	12-Feb-21	125,000	-	-	-	125,000	125,000
$0.25	21-Sep-22	5,034,000	-	-	(120,000)	4,914,000	3,276,000
$0.28	2-Oct-22	150,000	-	-	-	150,000	100,000
$0.25	1-Jan-23	250,000	-	-	-	250,000	166,667
$0.12	1-Mar-24	-	50,000	-	-	50,000	50,000
		8,419,000	50,000	(90,000)	(195,000)	8,184,000	6,412,667
Weighted-average exercise price		$0.21	$0.12	$0.08	$0.25	$0.21	$0.20

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees and consultants of the Company. For the three months ended March 31, 2019, the Company recorded total share-based payments of $60,225, compared to $61,243 for the same period in 2018.

In March of 2019 the Company granted 50,000 stock options to an employee at an exercise price of $0.12 each, all of which vested immediately. The Company uses a Black-Scholes option pricing model to calculate the fair value of stock option grants and the factors used were; volatility 66.18%, risk free rate 1.80%, expected life 5 years and forfeiture rate of 5%.

The total valuation of the vested options from grants in the first quarter of 2019, as well as the vesting of options issued but unvested in prior fiscal years, was $91,654, of which $60,221 was expensed as stock-based compensation and $31,433 was capitalized.

(c) Share purchase warrants

On September 15, 2017, the Company issued 13,750,000 warrants to a third-party lender in conjunction with its Term Loan (Note 11). Each warrant entitles the holder to purchase one common share of Hemisphere at an exercise price of $0.28 per share prior to September 15, 2022. The exercise price of the warrants represented a 40% premium to the 30-day volume weighted average price ("VWAP") of Hemisphere's common shares at market close on September 14, 2017. The warrants are subject to a forced exercise clause which applies upon a 30-day VWAP equaling or exceeding $1.40 per share. The warrants are non-transferable.

The Company ascribed a value to the warrants of $1,428,954 by comparing the fair value of the Term Loan both with and without the warrant feature determining the difference in value to be related to the warrants. The effective rates have been disclosed in Note 11. Further, a deferred tax liability of $385,818 was incurred with regard to the warrants that is applied against the recorded warrant reserve and also recovered against the net loss.

As at March 31, 2019, the Company had 13,750,000 outstanding and exercisable share purchase warrants.

(d) Loss per share

		Three Months Ended March 31		
		2019		2018
Loss for the period	**$**	**(889,224)**	$	(2,389,393)
Weighted average number of common shares outstanding, basic		**89,803,302**		89,793,302
Dilutive stock options and warrants		**-**		-
Weighted average number of common shares outstanding, diluted		**89,803,302**		89,793,302
Loss per share, basic and diluted	**$**	**(0.01)**	$	(0.03)

For the three months ended March 31, 2019, the Company incurred a loss; therefore, dilutive stock options were nil (three months ended March 31, 2018 – nil).

13. Commitment

		2019	2020	2021	2022	2023	Total
Lease operating costs	$	57,321	76,428	76,428	76,428	31,845	318,450
Term loan		-	-	-	34,707,400	-	34,707,400
Term loan interest		2,295,895	3,061,193	3,061,193	2,295,895	-	10,714,174
	$	2,353,216	3,137,621	3,137,621	37,079,723	31,845	45,740,024

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

As at March 31, 2019, the gross balance of the Term Loan was $34,707,400 (US$26,000,000), exclusive of the debt issuance costs. The Term Loan matures on September 15, 2022.

14. Supplemental Cash Flow Information

		Three Months Ended March 31		
		2019		2018
Provided by (used in):				
Accounts receivable	**$**	**(2,354,784)**	$	234,994
Prepaid expenses		**(45,484)**		44,398
Accounts payable and accrued liabilities		**(350,433)**		750,772
Total changes in non-cash working capital	**$**	**(2,750,701)**	$	1,030,164
Provided by (used in):				
Operating activities	**$**	**(2,008,325)**	$	(707,543)
Investing activities		**(742,376)**		1,737,707
Total changes in non-cash working capital	**$**	**(2,750,701)**	$	1,030,164

Interest paid on the Company's debts during the three months ended March 31, 2019 was $905,944, compared to $496,493 for equivalent period in 2018.

Hemisphere energy corporation

OFFICERS

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

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

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

BOARD OF DIRECTORS

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

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

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

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

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

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

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

BANKER

Alberta Treasury Branches
Calgary, Alberta

AUDITOR

KPMG LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services Inc.
Vancouver, British Columbia

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta
Harper Grey LLP
Vancouver, British Columbia

INDEPENDENT ENGINEER

McDaniel Associates & Consultants Ltd.
Calgary, Alberta

Hemisphere Energy Corporation
Suite 501, 905 West Pender Street, Vancouver, British Columbia V6C 1C6
www.hemisphereenergy.ca TSX-V: HME