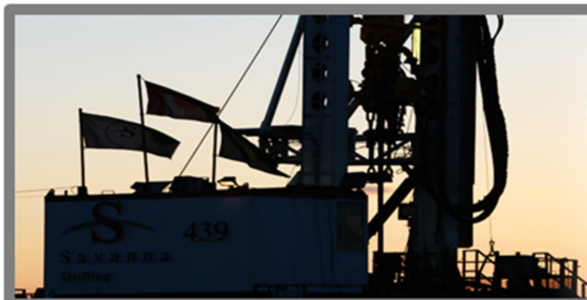

# Q2 2017 Hemisphere energy corporation

TSX-V: HME
www.hemisphereenergy.ca

## Q2 2017 HIGHLIGHTS

- Achieved quarterly average production of 600 boe/d (92% oil), a 22% increase over the second quarter of 2016.
- Increased revenue by 67% to $2.4 million compared to $1.4 million for the second quarter of 2016.
- Increased operating netbacks, including gains on commodity contracts, to $20.09/boe, an increase of 55% from the second quarter of 2016.
- Generated funds flow from operations of $598,078 ($0.01/share), an increase of 274% over the second quarter of 2016.
- Constructed a pipeline at the Atlee Buffalo F pool to allow better distribution of produced water to all of the injectors at the Company's waterflood project.
- Renewed the Company's credit facility with no changes to covenants and applicable margins on borrowing costs.
- Raised $1.1 million of development flow-through equity to drill up to two additional wells in Atlee Buffalo by year-end.
- Achieved a Corporate Liability Management Ratio ("LMR") with the Alberta Energy Regulator of 4.84 at the end of the second quarter 2017.

## CORPORATE UPDATE

Hemisphere continued its cost effective optimization during the second quarter of 2017 by completing facility upgrades, including adding a new tank and constructing a pipeline to allow better distribution of produced water to all of the injectors within its waterflood project at the Atlee Buffalo F pool. Despite a loss in production due to maintenance turnarounds and work completed at both facilities in Jenner and Atlee Buffalo, the Company increased its average production to 600 boe/d (92% oil) during the quarter which is a 22% increase over the same period last year. Subsequent to the end of the second quarter, production through July averaged approximately 700 boe/d (95% oil). Stable production in Jenner and increasing production due to waterflood success in Atlee Buffalo have brought Hemisphere's corporate production to higher levels than have been achieved since the second quarter of 2015 despite drilling only one well since the end of 2014.

During the quarter, the Company successfully raised $1.1 million of development flow-through equity which will be used to drill up to two additional Atlee Buffalo wells to further grow reserves and production in this area by year-end. Hemisphere has spent the last two years implementing its enhanced oil recovery projects in Atlee Buffalo and currently 6.5% of the total original-oil-in-place from the Atlee Buffalo Upper Mannville F and G pools, as mapped by McDaniel and Associates Consultants Ltd. ("McDaniel") for the purposes of its independent reserve report dated effective as of December 31, 2016 (the "Reserve Report"), is currently captured on a proved reserve basis in the Reserve Report, with 8% captured on a proved plus probable basis. The Suffield Upper Mannville N2N and YYY producing waterflood pools, located 30 kilometres west of Hemisphere's Atlee Buffalo pools, are seen by management as direct analogues to this play with total oil-in-place of 44 MMbbl (as mapped by Alberta Energy Regulator in 2015) and recovery factors (based on production as of May 2017) of 14% and 23%, respectively.

Hemisphere underwent its annual credit facility review in May 2017 which was subsequently renewed with no changes to the covenants and applicable margins on borrowing costs. The Company's mid-year review is scheduled for November 30, 2017. As at June 30, 2017, the Company had $10.6 million in net debt and $10.5 million drawn on its $12.5 million credit facility.

Hemisphere's corporate strategy is to continue to achieve organic production and reserve growth while preserving financial flexibility. With continued success of its waterfloods and planned capital expenditures, the Company expects to see sustained increases in production and reserves through the year. Management believes the Company has considerable growth upside through development of these exceptional assets.

## Q2 2017 FINANCIAL AND OPERATING HIGHLIGHTS

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **FINANCIAL** | | | | |
| Petroleum and natural gas revenue | **$ 2,419,666** | $ 1,448,722 | **$ 4,712,412** | $ 2,384,557 |
| Operating netback[(1)] | **1,096,412** | 580,876 | **2,054,688** | 706,932 |
| Funds flow from operations[(2)] | **598,078** | 159,894 | **1,103,409** | (87,620) |
| Per share, basic and diluted | **0.01** | 0.00 | **0.01** | (0.00) |
| Net income (loss) | **(206,724)** | (580,725) | **(345,402)** | (1,647,281) |
| Per share, basic and diluted | **(0.00)** | (0.01) | **(0.00)** | (0.02) |
| Capital expenditures | **661,307** | 204,407 | **917,821** | 549,083 |
| Net debt[(3)] | **10,605,594** | 11,062,899 | **10,605,594** | 11,062,899 |
| Bank indebtedness | **$ 10,463,948** | $ 10,983,696 | **$ 10,463,948** | $ 10,983,696 |
| **OPERATING** | | | | |
| **Average daily production** | | | | |
| Oil (bbl/d) | **549** | 407 | **539** | 408 |
| Natural gas (Mcf/d) | **296** | 499 | **303** | 540 |
| NGL (bbl/d) | **2** | 2 | **2** | 2 |
| Combined (boe/d) | **600** | 492 | **591** | 500 |
| Oil and NGL weighting | **92%** | 83% | **91%** | 82% |
| **Average sales prices** | | | | |
| Oil ($/bbl) | **$ 46.85** | $ 37.59 | **$ 46.57** | $ 29.97 |
| Natural gas ($/Mcf) | **2.73** | 1.13 | **2.77** | 1.52 |
| NGL ($/bbl) | **46.30** | 26.73 | **46.64** | 23.16 |
| Combined ($/boe) | **$ 44.34** | $ 32.34 | **$ 44.02** | $ 26.19 |
| **Operating netback ($/boe)** | | | | |
| Petroleum and natural gas revenue | **$ 44.34** | $ 32.34 | **$ 44.02** | $ 26.19 |
| Royalties | **7.19** | 2.38 | **6.46** | 2.37 |
| Operating costs | **16.20** | 12.18 | **16.79** | 11.81 |
| Transportation costs | **2.81** | 4.81 | **2.94** | 4.25 |
| Operating field netback[(4)] | **18.14** | 12.97 | **17.83** | 7.76 |
| Realized commodity hedging gain (loss) | **1.96** | - | **1.37** | - |
| Operating netback[(1)] | **$ 20.09** | $ 12.97 | **$ 19.19** | $ 7.76 |

*Notes:*

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

*(2) 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.*

*(3) Net debt is a non-IFRS measure calculated as current assets minus current liabilities including bank indebtedness and excluding fair value of financial instruments and any flow-through share premium.*

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

| | As at June 30 | |
|---|---|---|
| | **2017** | 2016 |
| **SHARE CAPITAL** | | |
| Common shares outstanding | **89,793,302** | 81,095,998 |
| Stock options outstanding | **2,985,000** | 4,535,000 |
| Weighted-average shares outstanding – basic and diluted | **86,946,216** | 75,952,866 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at August 22, 2017

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three and six months ended June 30, 2017 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the unaudited interim condensed financial statements and related notes for the three and six months ended June 30, 2017, and the audited annual financial statements and related notes for the year ended December 31, 2016. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.

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

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

### Business Overview

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

**Jenner, Alberta**

Hemisphere has a 100% working interest in 23,810 net acres and has continued to build a land position in the Jenner area through Crown land sales and strategic acquisitions. The property is accessible year-round and is located east of Brooks in southeastern Alberta.

**Atlee Buffalo, Alberta**

The Company operates 100% of its wells in the Atlee Buffalo area. The property is accessible year-round and is located 30 kilometres east of the Company's Jenner property in southeastern Alberta. Hemisphere has a 100% working interest in 7,040 net acres and has been building a land position in Atlee Buffalo through Crown land sales and strategic acquisitions since 2013.

### Operating Results

The Company generated funds flow from operations of $598,078 ($0.01/share) during the second quarter of 2017, as compared to a funds flow from operations of $159,894 ($0.00/share) during the second quarter of 2016. Funds flow for the six months ended June 30, 2017 increased to $1,103,409

($0.01/share) from negative $87,620 ($0.00/share) for the same period in 2016. These improvements are due to the Company's increased revenues, increases in production rates and commodity prices, as well as the realized commodity hedging gains.

For the three and six months ended June 30, 2017, the Company reported net losses of $206,724 ($0.00/share) and $345,402 ($0.00/share), respectively, compared to net losses of $580,725 ($0.01/share) and $1,647,281 ($0.02/share) for the three and six months ended June 30, 2016, respectively.

### Production

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| **By product:** | **2017** | 2016 | **2017** | 2016 |
| Oil (bbl/d) | **549** | 407 | **539** | 408 |
| Natural gas (Mcf/d) | **296** | 499 | **303** | 540 |
| NGL (bbl/d) | **2** | 2 | **2** | 2 |
| Total (boe/d) | **600** | 492 | **591** | 500 |
| Oil and NGL weighting | **92%** | 83% | **91%** | 82% |

In the second quarter of 2017, the Company's average daily production was 600 boe/d (92% oil and NGL) representing a 22% increase over the comparable quarter in 2016 despite a loss in volumes due to turnaround and facility work during the quarter. For the six months ended June 30, 2017, the Company's average daily production was 591 boe/d (91% oil and NGL), representing an 18% increase from 500 boe/d (82% oil and NGL) for the same period in 2016. These production increases are attributed to the Company's continued successes of its waterfloods in the Upper Mannville F and G pools in Atlee Buffalo and stable production at Jenner despite drilling only one well in the third quarter of 2016.

### Average Benchmark and Realized Prices

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Benchmark prices** | | | | |
| WTI ($US/bbl)(1) | **$ 48.27** | $ 45.59 | **$ 50.09** | $ 39.52 |
| Exchange rate (1 $US/$C) | **1.3440** | 1.2882 | **1.3336** | 1.3289 |
| WTI ($C/bbl) | **64.88** | 58.73 | **66.79** | 52.52 |
| WCS ($C/bbl)(2) | **49.96** | 41.61 | **49.68** | 33.95 |
| AECO natural gas ($/Mcf)(3) | **2.79** | 1.42 | **2.74** | 1.62 |
| | | | | |
| **Average realized prices** | | | | |
| Crude oil ($/bbl) | **46.85** | 37.59 | **46.57** | 29.97 |
| Natural gas ($/Mcf) | **2.73** | 1.13 | **2.77** | 1.52 |
| NGL ($/bbl) | **46.30** | 26.73 | **46.64** | 23.16 |
| Combined ($/boe) | **$ 44.34** | $ 32.34 | **$ 44.02** | $ 26.19 |

*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 37% from $32.34/boe during the three months ended June 30, 2016 to $44.34/boe during three months ended June 30, 2017. The Company's combined average realized price increased by 68% from $26.19/boe during the six months ended June 30, 2016 to $44.02/boe during six months ended June 30, 2017. These increases are the result of higher oil prices during the three and six months ended June 30, 2017 which are reflected in the respective $9.25/bbl and $16.60/bbl increases from the Company's average realized crude oil price during the same periods in 2016.

The Company's average realized natural gas price also increased in the three and six months ended June 30, 2017 by $1.60/Mcf and $1.25/Mcf, respectively, over the comparable periods in 2016.

At June 30, 2017, the Company held derivative commodity contracts as follows:

| Product | Type | Notional Volumes | $Cdn Price | Index | Term |
|---|---|---|---|---|---|
| Crude oil | Swap | 100 bbl/day | $72.15 | WTI-NYMEX | January 1, 2017 to June 30, 2017 |
| Crude oil | Swap | 100 bbl/day | $69.50 | WTI-NYMEX | February 1, 2017 to July 31, 2017 |

At June 30, 2017, the commodity contracts were fair valued as an asset of $30,130 recorded on the balance sheet, and an unrealized gain of $30,130 was recorded for the six months ended June 30, 2017.

## Revenue

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Oil | **$ 2,339,123** | $ 1,391,769 | **$ 4,546,817** | $ 2,225,547 |
| Natural gas | **73,724** | 51,201 | **151,475** | 149,522 |
| NGL | **6,819** | 5,752 | **14,119** | 9,488 |
| Total | **$ 2,419,666** | $ 1,448,722 | **$ 4,712,412** | $ 2,384,557 |

Revenue for the three and six months ended June 30, 2017 increased by 67% and 98%, respectively, from the comparable periods in 2016. These increases are attributed to the $12.00/boe and $17.83/boe increases in the Company's combined average realized prices, and increases in production by 22% and 18% during the periods, respectively.

## Operating Netback

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Operating netback** | | | | |
| Revenue | **$ 2,419,666** | $ 1,448,722 | **$ 4,712,412** | $ 2,384,557 |
| Royalties | **392,620** | 106,759 | **691,737** | 215,878 |
| Operating costs | **884,279** | 545,568 | **1,797,820** | 1,075,246 |
| Transportation costs | **153,086** | 215,520 | **314,349** | 386,501 |
| Operating field netback[1] | **$ 989,681** | $ 580,876 | **$ 1,908,505** | $ 706,932 |
| Realized commodity hedging gain (loss) | **106,731** | - | **146,183** | - |
| Operating netback[2] | **$ 1,096,412** | $ 580,876 | **$ 2,054,688** | $ 706,932 |
| **Operating netback ($/boe)** | | | | |
| Revenue | **$ 44.34** | $ 32.34 | **$ 44.02** | $ 26.19 |
| Royalties | **7.19** | 2.38 | **6.46** | 2.37 |
| Operating costs | **$ 16.20** | $ 12.18 | **$ 16.79** | $ 11.81 |
| Transportation costs | **2.81** | $ 4.81 | **2.94** | $ 4.25 |
| Operating field netback[1] | **$ 18.14** | $ 12.97 | **$ 17.83** | $ 7.76 |
| Realized commodity hedging gain (loss) | **1.96** | - | **1.37** | - |
| Operating Netback[2] | **$ 20.09** | $ 12.97 | **$ 19.19** | $ 7.76 |

*Notes:*

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

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

Royalties for the three months ended June 30, 2017 were $7.19/boe, representing a 202% increase from the three months ended June 30, 2016. Royalties for the six months ended June 30, 2017 were $6.46/boe, representing a 172% increase from the same period in 2016. These increases were the result of higher oil prices which directly impacted the Crown royalty par price, the end of the royalty holiday period for some of the Company's remaining eligible wells, and wells subject to higher royalty percentages due to increased oil rates produced from the Company's waterflood project in the Atlee Buffalo F pool.

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 and six months ended June 30, 2017 increased on an absolute basis by 62% and 67%, respectively, and on a per boe basis by $4.02 and $4.98, respectively, over the same periods in 2016.

The increase to operating costs during the three months ended June 30, 2017 is the result of maintenance turnarounds at both the Jenner and Atlee Buffalo facilities. Harsh winter weather and a number of workovers also contributed to the increased operating costs during the six months ended June 30, 2017. With maintenance turnarounds completed and weather having much improved, reduced operating costs are expected for the latter half of 2017.

Transportation costs include all costs incurred to transport emulsion and oil and gas sales to processing and distribution facilities. Transportation costs were $2.81/boe during the second quarter of 2017, which is a $2.00/boe decrease from the comparable quarter in 2016. Transportation costs were $2.94/boe for the six months ended June 30, 2017, which represents a $1.31/boe decrease from the same period in 2016. These decreases are attributable to reduced trucking rates, closer sales points, and the result of eliminating trucking of water to a third-party from the Atlee Buffalo F pool with the construction of a facility to separate and re-inject water in the fourth quarter of 2016.

Operating netback for the three and six months ended June 30, 2017 were significantly higher than the comparable periods in 2016 at $20.09/boe and $19.19/boe, respectively. These increases are mainly due to the 37% and 68% increases in the Company's combined average realized prices and higher production rates for the respective periods as discussed above. In addition, the Company held derivative commodity contracts during the three and six months ended June 30, 2017 which resulted in realized hedging gains of $1.96/boe and $1.37/boe, respectively.

### 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 June 30, 2017 and 2016 were $14,995 and $14,995, respectively. For the three and six months ended June 30, 2017 and 2016, exploration and evaluation expenses were $24,290 and $24,927, respectively.

### Depletion and Depreciation

| | | Three Months Ended June 30 | | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|---|---|
| | | **2017** | | 2016 | | **2017** | | 2016 |
| Depletion expense | **$** | **712,112** | $ | 686,251 | **$** | **1,396,006** | $ | 1,370,689 |
| Depreciation expense | | **1,844** | | 2,489 | | **3,688** | | 4,977 |
| Total | **$** | **713,956** | $ | 688,740 | **$** | **1,399,694** | $ | 1,375,666 |
| $ per boe | **$** | **13.08** | $ | 15.37 | **$** | **13.07** | $ | 15.11 |

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

Depletion and depreciation expenses for the three months ended June 30, 2017 decreased to $13.08/boe from $15.37/boe for the same period in 2016. For the six months ended June 30, 2017, depletion and depreciation expenses decreased to $13.07/boe from $15.11/boe for the same period in 2016. The decreases in depletion expenses for the three and six months ended June 30, 2017 as compared to the same periods in 2016 are due to amortization of production over a larger reserve base from the Company's December 31, 2016 independent engineers evaluation report as prepared by McDaniel and Associates Consultants Ltd.

### Capital Expenditures

| | | Three Months Ended June 30 | | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|---|---|
| | | **2017** | | 2016 | | **2017** | | 2016 |
| Land and lease | **$** | **2,016** | $ | 2,016 | **$** | **12,704** | $ | 9,576 |
| Geological and geophysical | | **81,421** | | 64,637 | | **153,649** | | 120,021 |
| Drilling and completions | | **81,828** | | 49,289 | | **159,577** | | 325,431 |
| Facilities and infrastructure | | **496,042** | | 88,466 | | **591,891** | | 94,056 |
| Total capital expenditures[1] | **$** | **661,307** | $ | 204,407 | **$** | **917,821** | $ | 549,083 |

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

The development capital spent during the first six months of 2017 included installation of a large downhole pump in a producing well, installation of a transfer pump to further reduce operating costs, some wellsite electrification work, addition of a new tank and burner system, and survey and environmental work for future 2017 capital projects.

### General and Administrative

| | Three Months Ended June 30 | | Three Months Ended June 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Gross general and administrative | **$ 445,784** | $ 341,958 | **$ 824,622** | $ 651,104 |
| Capitalized general and administrative | **(86,492)** | (57,423) | **(159,403)** | (115,770) |
| Total | **$ 359,292** | $ 284,535 | **$ 665,219** | $ 535,333 |
| $ per boe | **$ 6.58** | $ 6.35 | **$ 6.21** | $ 5.88 |

Gross general and administrative expenses for the three and six months ended June 30, 2017 increased by $103,826 and $173,518, respectively, over the same periods in 2016 due to increased salaries and wages, as well as increased consulting and management fees.

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 and six months ended June 30, 2017, capitalized general and administrative expenses increased by $29,069 and $43,633, respectively, from the comparable periods in 2016.

For the three and six months ended June 30, 2017, the Company realized increases of $0.23/boe and $0.33/boe in total general and administrative costs, repectively, from the same periods in 2016 which correlates with the increase in expenses for the periods in 2017.

### Share-based Payments

For the three months ended June 30, 2017 and 2016, the Company recorded share-based payments of $nil and $1,093, respectively. For the six months ended June 30, 2017 and 2016, the Company recorded share-based payments of $1,093 and $87,484, respectively. The Company did not grant any stock options during the six months ended June 30, 2017, but recorded the $1,093 from the vesting of the 25% balance of the 75,000 stock options granted to a company performing investor relations. When applicable, all share-based payments are considered to be part of the Company's general and administrative expenses and a portion is capitalized as noted above.

### Finance Expense

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Finance expense | | | | |
| Interest expense | **$ 139,043** | $ 136,446 | **$ 289,061** | $ 259,219 |
| Part XII.6 tax | **-** | - | **-** | - |
| Accretion expense | **26,931** | 35,792 | **53,863** | 71,583 |
| Total | **$ 165,974** | $ 172,238 | **$ 339,924** | $ 330,802 |
| $ per boe | **$ 3.04** | $ 3.84 | **$ 3.18** | $ 3.63 |

Finance expense for the three months ended June 30, 2017 decreased by 4% from the second quarter in 2016 due to a decrease in accretion expense.

Finance expense for the six months ended June 30, 2017 increased by 3% from the same period in 2016. This slight increase is a result of the interest expense incurred on the Company's outstanding bank debt which was higher in the first quarter of 2017, and offset by a decrease in accretion expense.

Accretion expense represents the adjusted present value of the Company's decommissioning obligations which include the abandonment and reclamation costs associated with wells and facilities. In the three and six months ended June 30, 2017, accretion expense decreased by 25% for both periods from the comparable periods in 2016 due to a decrease in the total value of abandonment and reclamation obligations year-over-year, and a reduced discount rate.

**Tax Pools**

As at December 31, 2016, the Company had approximately $48 million of tax pools available to be applied against future income for tax purposes. Based on available pools and current commodity prices, the Company does not expect to pay current income tax in 2017. Taxes payable beyond 2017 will primarily be a function of commodity prices, capital expenditures, and production volumes.

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

## Summary of Quarterly Results

| | **2017** | | 2016 | | | | 2015 | |
|---|---|---|---|---|---|---|---|---|
| | **Jun. 30 Q2(1)** | Mar. 31 Q1(2) | Dec. 31 Q4(2) | Sep. 30 Q3(3) | Jun. 30 Q2(4) | Mar. 31 Q1(5) | Dec. 31 Q4(6) | Sep. 30 Q3(7) |
| Average daily production (boe/d) | **600** | 583 | 590 | 518 | 492 | 508 | 588 | 678 |
| Petroleum and natural gas revenue | **2,419,666** | 2,292,746 | 2,206,835 | 1,630,105 | 1,448,722 | 935,834 | 1,493,313 | 2,043,781 |
| Petroleum and natural gas netback (excluding hedging) | **989,681** | 918,824 | 860,849 | 779,966 | 580,876 | 126,056 | 458,240 | 1,094,625 |
| Funds flow from/used in operations | **598,078** | 505,331 | 273,181 | 345,007 | 159,894 | (247,514) | (103,531) | 714,505 |
| Per share, basic and diluted | **0.01** | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | (0.00) | 0.01 |
| Net income (loss) | **(206,724)** | (138,678) | (620,027) | (413,340) | (580,725) | (1,066,556) | (2,333,468) | (4,755,531) |
| Per share, basic and diluted | **(0.00)** | (0.00) | (0.01) | (0.00) | (0.01) | (0.01) | 0.03) | (0.06) |
| Combined average realized price ($/boe) | **44.34** | 43.68 | 40.63 | 34.19 | 32.34 | 20.24 | 27.59 | 32.74 |
| Operating netback ($/boe) | **20.09** | 18.26 | 15.85 | 16.36 | 12.97 | 2.73 | 8.47 | 17.54 |

*Notes:*

*(1) 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.*

*(2) 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.*

*(3) Revenues in this quarter increased as a result of a 14% increase in the Company's production and a 19% increase in the combined average realized price from the third quarter of 2016.*

*(4) The increase in revenue and netbacks, and the resulting reduced loss in this quarter over the previous quarter is due primarily to a reduction in operating costs as well as an increase in production and a slight improvement in commodity prices.*

(5) *The increase in revenue and netbacks, and the resulting reduced loss in this quarter over the previous quarter is due primarily to an improvement in commodity prices.*
(6) *The decreases in net income, funds flow from operations and petroleum and natural gas netbacks for this quarter can be attributed to the decrease in the Company's combined average realized price resulting from the decline in commodity prices, and lower production volumes.*
(7) *A significant portion of the loss in this quarter is due to the $2,702,925 recorded in property impairment and an increase in depletion expense as a result of a change in the Company's depletion accounting policy.*
(8) *Funds flow from operations and petroleum and natural gas netback decreased in this quarter as a result of a 54% reduction in the Company's combined average realized price. The Company does not anticipate its deferred tax asset will be realized in the near future; as a result it has provided for it in the amount of $1,236,816 in the third quarter of 2015. A significant portion of the net loss in this quarter is the result of an impairment charge of $3,012,561 against the Company's petroleum and natural gas properties.*
(9) *Funds flow from operations and petroleum and natural gas netbacks have shown a slight improvement over the first quarter of 2015 due to a 30% increase in the Company's combined average realized price, but have remained low compared to 2014 as a result of the decline in commodity prices. Due to taxable income generated in excess of tax pools from lower capital expenditures, the Company utilized deferred tax assets resulting in a deferred tax expense of $405,100 for the third quarter of 2015.*

## Outstanding Share Capital

| | August 22, 2017 | **June 30, 2017** | December 31, 2016 |
|---|---|---|---|
| Fully diluted share capital | | | |
| Common shares issued and outstanding | 89,793,302 | **89,793,302** | 85,745,102 |
| Stock options | 2,985,000 | **2,985,000** | 4,385,000 |
| Total fully diluted | 92,778,302 | **92,778,302** | 90,130,102 |

On April 27, 2017, the Company closed a non-brokered private placement offering and issued 4,048,200 flow-through shares at a price of $0.28 per share, which were issued on a Canadian Development Expense flow-through basis pursuant to the provisions of the *Income Tax Act* for gross proceeds of Company of $1,133,496.

The Company has the following stock options that are outstanding and exercisable as at August 22, 2017:

| Exercise Price | Expiry Date | Balance Outstanding August 22, 2017 | Balance Exercisable August 22, 2017 |
|---|---|---|---|
| $0.24 | January 29, 2020 | 1,075,000 | 1,075,000 |
| $0.39 | March 1, 2020 | 100,000 | 100,000 |
| $0.08 | February 11, 2021 | 1,685,000 | 1,685,000 |
| $0.08 | February 12, 2021 | 125,000 | 125,000 |
| | | 2,985,000 | 2,985,000 |
| Weighted-average exercise price | | $0.15 | $0.15 |

## Liquidity and Capital Management

The Company's net debt as at June 30, 2017 and December 31, 2016 were $10,605,594 and $11,827,170, respectively, representing a decrease in net debt of $1,221,576.

a) Financing

The Company's cash provided by financing activities during the six months ended June 30, 2017 and 2016 were $1,035,986 and $1,011,911, respectively. On April 27, 2017, 4,048,200 flow-through shares were issued at a price of $0.28 per share through a non-brokered private placement offering for a gross proceeds of $1,133,496.

b) Capital Resources

The Company has a demand operating credit facility in the amount of $12.5 million with Alberta Treasury Branches ("ATB"), which was reaffirmed in the annual review in May 2017. The facility is secured by a general security agreement and a floating charge on all lands of the Company. The facility bears interest at the bank's prime rate plus 2.50%, as well as a standby charge for any undrawn funds. As the available lending limits of the facilities are based on the bank's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of available facilities that will be determined at each scheduled review. The next review is scheduled for November 30, 2017.

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

At June 30, 2017, the Company had drawn a total of $10,463,948 from its credit facility (December 31, 2016 - $11,247,537) and had a working capital ratio of 2.8, which is in compliance with the above financial covenant.

The Company manages its capital with the following objectives:

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

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

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

## Commitment

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

| | 2017 | 2018 |
|---|---|---|
| Rental commitment | $ 96,730 | $ 80,609 |

The Company has a commitment to expend $1,133,496 from the Canadian Development Expense flow-through financing, which closed basis on April 27, 2017, pursuant to the provisions of the *Income Tax Act*. The funds must be expended by December 31, 2017, and as at June 30, 2017 the Company has an unexpended balance of $838,425.

## Off-Balance Sheet Arrangements

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

## Proposed Transactions

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

## Critical Accounting Estimates and Judgements

The Company's significant accounting estimates, judgements and policies are set out in Notes 2 and 3 of the audited annual financial statements for the year ended December 31, 2016 and have been consistently followed in the preparation of the unaudited interim condensed financial statements.

The preparation of the unaudited interim condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. A discussion of specific estimates and judgements employed in the preparation of the Company's unaudited interim condensed financial statements is included in the Company's audited annual financial statements for the year ended December 31, 2016.

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

## Newly Adopted Accounting Standards

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

a) In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales contracts with customers to determine the extent of the impact, if any, that this standard will have on the consolidated financial statements.

b) In July 2014, the IASB finalized the remaining elements of IFRS 9 – Financial Instruments, which includes new requirements for the classification and measurement of financial assets, amends the impairment model and outlines a new general hedge accounting standard. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the consolidated financial statements and does not anticipate material changes to the valuation of its financial assets.

c) In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The Company is currently identifying contracts that will be identified as leases and evaluating the impact of the standard on the consolidated financial statements.

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

## 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 June 30, 2017, the Company's financial instruments include accounts receivable, reclamation deposits, bank indebtedness, accounts payable and accrued liabilities.

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

## Risks

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

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

**Business Risk**

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

**Credit risk**

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

The maximum exposure to credit risk is as follows:

| | As at | |
|---|---|---|
| | **June 30, 2017** | December 31, 2016 |
| Accounts receivable | | |
| Trade receivables | **$ 726,322** | $ 863,115 |
| Receivables from joint venture | **85,639** | 45,088 |
| Reclamation deposits | **115,535** | 115,535 |
| Total | **$ 927,497** | $ 1,023,738 |

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

**Liquidity risk**

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

At June 30, 2017, the Company had net debt of $10,605,594 (December 31, 2016 - $11,827,170), which includes bank indebtedness of $10,463,948 (December 31, 2016 - $11,247,537). The Company funds its operations through production revenue and a demand operating credit facility. All of the Company's financial liabilities have contractual maturities of less than 90 days.

**Market risk**

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

*Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Borrowings under the Company's credit facilities are subject to variable interest rates. A one percent change in interest rates would not have a material effect on net income (loss) and comprehensive income (loss).

*Foreign currency risk*

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

*Commodity price risk*

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

*Other price risk*

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

## Non-IFRS Measures

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

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

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Cash provided by operating activities | **$ 612,221** | $ (74,079) | **$ 793,063** | $ (413,187) |
| Less: Change in non-cash working capital | **14,143** | (233,974) | **(310,346)** | (325,567) |
| Funds flow from operations | **$ 598,078** | $ 159,894 | **$ 1,103,409** | $ (87,620) |
| Per share, basic and diluted | **$ 0.01** | $ 0.00 | **$ 0.01** | $ (0.00) |

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

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

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

The following table outlines the Company calculation of net debt:

| | As at | |
|---|---|---|
| | **June 30, 2017** | December 31, 2016 |
| Current assets(1) | **$ 919,890** | $ 1,078,020 |
| Current liabilities(2) | **(1,061,536)** | (1,657,652) |
| Bank indebtedness | **(10,463,948)** | (11,247,537) |
| Net debt | **$ (10,605,594)** | $ (11,827,170) |

*Notes:*

*(1) Excluding fair value of financial instruments and flow-through premium.*

*(2) Excluding bank indebtedness.*

## Boe Conversion

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

## Forward-Looking Statements

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

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

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

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

## MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

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

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

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

Vancouver, British Columbia
August 22, 2017

| | |
|---|---|
| (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 | | June 30, 2017 | | December 31, 2016 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Accounts receivable | | $ | **811,962** | $ | 908,203 |
| Prepaid expenses | | | **107,928** | | 169,817 |
| Fair value of financial instruments | | | **30,130** | | - |
| | | | **950,020** | | 1,078,020 |
| **Non-current assets** | | | | | |
| Reclamation deposits | 7 | | **115,535** | | 115,535 |
| Exploration and evaluation assets | 5 | | **3,397,737** | | 3,260,407 |
| Property and equipment | 6 | | **34,598,551** | | 35,242,044 |
| **Total assets** | | $ | **39,061,843** | $ | 39,696,006 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | | $ | **1,061,856** | $ | 1,657,652 |
| Bank indebtedness | 9 | | **10,463,948** | | 11,247,537 |
| Flow-through premium liability | | | **161,928** | | - |
| | | | **11,687,412** | | 12,905,189 |
| **Non-current liabilities** | | | | | |
| Decommissioning obligations | 7 | | **4,950,544** | | 4,896,681 |
| | | | **16,637,956** | | 17,801,870 |
| **Shareholders' Equity** | | | | | |
| Share capital | 10 | | **54,712,681** | | 53,838,621 |
| Contributed surplus | | | **318,199** | | 1,192,106 |
| Deficit | | | **(32,606,993)** | | (33,136,591) |
| Total shareholders' equity | | | **22,423,887** | | 21,894,136 |
| **Total liabilities and shareholders' equity** | | $ | **39,061,843** | $ | 39,696,006 |

Commitment (Note 11)

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

## CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

*(Expressed in Canadian dollars)*
*(Unaudited)*

| | Note | Three Months Ended June 30 2017 | Three Months Ended June 30 2016 | Six Months Ended June 30 2017 | Six Months Ended June 30 2016 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Oil and natural gas revenue | | **$ 2,419,666** | $ 1,448,722 | **$ 4,712,412** | $ 2,384,557 |
| Royalties | | **(392,620)** | (106,759) | **(691,737)** | (215,878) |
| | | **2,027,046** | 1,341,963 | **4,020,675** | 2,168,679 |
| Realized gain on financial instruments | | **106,731** | - | **146,183** | - |
| Unrealized (loss) gain on financial instruments | | **(48,919)** | - | **30,130** | - |
| **Net revenue** | | **2,084,858** | 1,341,963 | **4,196,988** | 2,168,679 |
| | | | | | |
| **Expenses** | | | | | |
| Production and operating | | **1,037,364** | 761,088 | **2,112,169** | 1,461,747 |
| Exploration and evaluation | 5 | **14,995** | 14,995 | **24,290** | 24,927 |
| Depletion and depreciation | 6 | **713,956** | 688,740 | **1,399,694** | 1,375,666 |
| General and administrative | | **359,292** | 284,535 | **665,219** | 535,333 |
| Share-based payments | 10(b) | **-** | 1,093 | **1,093** | 87,484 |
| | | **2,125,607** | 1,750,450 | **4,202,465** | 3,485,158 |
| **Results from operating activities** | | **(40,750)** | (408,487) | **(5,478)** | (1,316,479) |
| Finance expense | 8 | **(165,974)** | (172,238) | **(339,924)** | (330,802) |
| **Net loss and comprehensive loss for the period** | | **$ (206,724)** | $ (580,725) | **$ (345,402)** | $ (1,647,281) |
| Net loss per share | | | | | |
| Basic and diluted | 10(d) | **$ (0.00)** | $ (0.01) | **$ (0.00)** | $ (0.02) |

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

## CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*(Expressed in Canadian dollars)*
*(Unaudited)*

| | Note | Number of common shares | | Capital stock | | Contributed Surplus | | Deficit | | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2015** | | **75,803,498** | **$** | **52,083,070** | **$** | **2,461,870** | **$** | **(31,832,108)** | **$** | **22,712,832** |
| Non-flow-through share | | 6,496,604 | | 1,234,355 | | - | | - | | 1,234,355 |
| Flow-through share issuance | | 3,270,000 | | 686,700 | | - | | - | | 686,700 |
| Share issuance costs | | - | | (124,306) | | - | | - | | (124,306) |
| Flow-through share premium | | - | | (65,400) | | - | | - | | (65,400) |
| Exercise of stock options | | 175,000 | | 24,203 | | (10,203) | | - | | 14,000 |
| Share-based payments | | - | | - | | 116,604 | | - | | 116,604 |
| Expiry of stock options | | - | | - | | (1,376,165) | | 1,376,165 | | - |
| Net loss for the year | | - | | - | | - | | (2,680,648) | | (2,680,648) |
| **Balance, December 31, 2016** | | **85,745,102** | **$** | **53,838,621** | **$** | **1,192,106** | **$** | **(33,136,591)** | **$** | **21,894,136** |
| | | | | | | | | | | |
| **Balance, December 31, 2016** | | **85,745,102** | **$** | **53,838,621** | **$** | **1,192,106** | **$** | **(33,136,591)** | **$** | **21,894,136** |
| Non-flow-through share | | - | | - | | - | | - | | - |
| Flow-through share issuance | | 4,048,200 | | 1,133,496 | | - | | - | | 1,133,496 |
| Share issuance costs | | - | | (97,508) | | - | | - | | (97,508) |
| Flow-through share premium | | - | | (161,928) | | - | | - | | - |
| Exercise of stock options | | - | | - | | - | | - | | - |
| Share-based payments | 10(b) | - | | - | | 1,093 | | - | | 1,093 |
| Expiry of stock options | | - | | - | | (875,000) | | 875,000 | | - |
| Net loss for the period | | - | | - | | - | | (345,402) | | (345,402) |
| **Balance, June 30, 2017** | | **89,793,302** | **$** | **54,712,681** | **$** | **318,199** | **$** | **(32,606,993)** | **$** | **22,423,887** |

*Comparison with six months ended June 30, 2016:*

| | Note | Number of common shares | | Capital stock | | Contributed Surplus | | Deficit | | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2015** | | **75,803,498** | **$** | **52,083,070** | **$** | **2,461,870** | **$** | **(31,832,108)** | **$** | **22,712,832** |
| Non-flow-through share | | 2,449,500 | | 465,405 | | - | | - | | 465,405 |
| Flow-through share issuance | | 2,743,000 | | 576,030 | | - | | - | | 576,030 |
| Share issuance costs | | - | | (29,524) | | - | | - | | (29,524) |
| Flow-through share premium | | - | | - | | - | | - | | - |
| Exercise of stock options | | 100,000 | | 13,830 | | (5,830) | | - | | 8,000 |
| Share-based payments | | - | | - | | - | | - | | - |
| Expiry of stock options | | - | | - | | (1,364,195) | | 1,364,195 | | 114,376 |
| Net loss for the period | | - | | - | | 114,376 | | (1,647,281) | | (343,174) |
| **Balance, June 30, 2016** | | **81,095,988** | **$** | **53,108,812** | **$** | **1,206,221** | **$** | **(32,115,194)** | **$** | **22,199,839** |

*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 June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Operating activities** | | | | |
| Net income (loss) for the period | **$ (206,724)** | $ (580,725) | **$ (345,402)** | $ (1,647,281) |
| Items not affecting cash: | | | | |
| Depletion and depreciation | **713,956** | 688,740 | **1,399,694** | 1,375,666 |
| Accretion | **26,931** | 35,792 | **53,863** | 71,583 |
| Exploration and evaluation expense | **14,995** | 14,995 | **24,290** | 24,927 |
| Share-based payments | **-** | 1,092 | **1,093** | 87,484 |
| Unrealized loss (gain) on financial instruments | **48,919** | - | **(30,130)** | - |
| **Funds flow from (used in) operations** | **598,078** | 159,894 | **1,103,409** | (87,620) |
| Changes in non-cash working capital | **14,143** | (233,974) | **(310,346)** | (325,567) |
| **Cash provided by operating activities** | **612,221** | (74,079) | **793,063** | (413,187) |
| **Investing activities** | | | | |
| Property and equipment expenditures | **(572,910)** | (118,999) | **(756,201)** | (415,039) |
| Exploration and evaluation expenditures | **(88,396)** | (85,408) | **(161,619)** | (134,042) |
| Changes in non-cash working capital | **172,082** | (191,459) | **(127,640)** | (213,298) |
| **Cash used in investing activities** | **(489,224)** | (395,866) | **(1,045,460)** | (762,379) |
| **Financing activities** | | | | |
| Shares issued for cash, net of issue costs | **1,035,987** | 1,011,911 | **1,035,987** | 1,011,911 |
| Shares issued for stock options | **-** | 8,000 | **-** | 8,000 |
| Change in bank indebtedness | **(1,158,982)** | (549,965) | **(783,589)** | 155,656 |
| **Cash provided by (used in) financing activities** | **(122,995)** | 469,947 | **252,398** | 1,175,568 |
| Net change in cash | - | - | - | - |
| Cash, beginning of period | **-** | - | **-** | - |
| **Cash , end of period** | **$ -** | $ - | **$ -** | $ - |

Supplemental cash flow information (Note 12)

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2017 and 2016

*(Expressed in Canadian Dollars)*

### 1. Nature and Continuance of Operations

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

### 2. Basis of Presentation

(a) Statement of compliance

These unaudited interim condensed financial statements ("Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2016.

These financial statements were authorized for issuance by the Board of Directors on August 22, 2017.

(b) Basis of presentation

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

(e) Summary of significant accounting policies

These financial statements have been prepared in accordance with IFRS and follow the same accounting policies as described in Note 3 of the Company's audited annual financial statements for the year ended December 31, 2016. There have been no changes to the Company's accounting policies since the Company's audited annual financial statements for the year ended December 31, 2016 were issued.

(f) Future Accounting Pronouncements

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

i) In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales contracts with customers to determine the extent of the impact, if any, that this standard will have on the consolidated financial statements.

ii) In July 2014, the IASB finalized the remaining elements of IFRS 9 – Financial Instruments, which includes new requirements for the classification and measurement of financial assets, amends the impairment model and outlines a new general hedge accounting standard. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the consolidated financial statements and does not anticipate material changes to the valuation of its financial assets.

iii) In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The Company is currently identifying contracts that will be identified as leases and evaluating the impact of the standard on the consolidated financial statements.

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

## 3. Financial Risk Management

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

(a) Credit risk

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

The maximum exposure to credit risk is as follows:

| | | **June 30, 2017** | | December 31, 2016 |
|---|---|---|---|---|
| Accounts receivable | **$** | **726,322** | $ | 863,115 |
| Trade receivables | | **85,639** | | 45,088 |
| Reclamation deposits | | **115,535** | | 115,535 |
| | **$** | **927,497** | $ | 1,023,738 |

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

(b) Liquidity risk

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

At June 30, 2017, the Company had net debt (current assets less current liabilities) of $10,605,594 (December 31, 2016 - $11,827,170), which includes bank indebtedness of $10,463,948 (December 31, 2016 - $11,247,537). The Company has a demand operating credit facility in the amount of $12,500,000 with Alberta Treasury Branches (Note 9).

The Company funds its operations through production revenue and a demand operating credit facility (Note 9). All of the Company's financial liabilities have contractual maturities of less than 90 days.

(c) Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

(iii) Commodity price risk

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

At June 30, 2017, the Company held derivative commodity contracts as follows:

| Product | Type | Notional Volumes | $Cdn Price | Index | Term |
|---|---|---|---|---|---|
| Crude oil | Swap | 100 bbl/day | $72.15 | WTI-NYMEX | January 1, 2017 to June 30, 2017 |
| Crude oil | Swap | 100 bbl/day | $69.50 | WTI-NYMEX | February 1, 2017 to July 31, 2017 |

At June 30, 2017 the commodity contracts were fair valued as an asset of $30,130 recorded on the balance sheet, and an unrealized gain of $30,130 recorded as revenue for the six months ended June 30, 2017.

(iv) Other price risk

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

## 4. Capital Management

The Company manages its capital with the following objectives:

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

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

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

## 5. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of Proved and Probable reserves. A transfer from exploration and evaluation assets to property and equipment is made when reserves are assigned or the exploration project has been completed. For the six months ended June 30, 2017, the Company had $nil transfers (December 31, 2016 - $99,012) to property and equipment, capitalized general and administrative expenses of $123,896 (December 31, 2016 - $206,160) to exploration and evaluation assets, and recognized exploration and evaluation expense of $24,290 (December 31, 2016 - $135,308).

| **Cost** | | |
|---|---|---|
| Balance, December 31, 2015 | $ | 3,100,937 |
| Additions | | 504,877 |
| Exploration and evaluation expense | | (246,393) |
| Transfer to property and equipment | | (99,012) |
| Balance, December 31, 2016 | $ | 3,260,407 |
| Additions | | 161,619 |
| Exploration and evaluation expense | | (24,290) |
| Transfer to property and equipment | | - |
| **Balance, June 30, 2017** | **$** | **3,397,737** |

## 6. Property and Equipment

| **Cost** | | Petroleum and Natural Gas | | Other Equipment | | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2015 | $ | 66,010,862 | $ | 114,492 | $ | 66,125,354 |
| Additions | | 2,217,499 | | - | | 2,217,499 |
| Increase in decommissioning obligations | | (1,211,718) | | - | | (1,211,718) |
| Capitalized share-based payments | | 26,893 | | - | | 26,893 |
| Transfer from exploration and evaluation assets | | 99,012 | | - | | 99,012 |
| Balance, December 31, 2016 | $ | 67,142,548 | $ | 114,492 | $ | 67,257,040 |
| Additions | | 756,201 | | - | | 756,201 |
| Transfer from exploration and evaluation assets | | - | | - | | - |
| **Balance, June 30, 2017** | **$** | **67,898,750** | **$** | **114,492** | **$** | **68,013,242** |
| **Accumulated Depletion, Depreciation, Amortization and Impairment Losses** | | | | | | |
| Balance, December 31, 2015 | | 29,142,289 | | 75,362 | | 29,217,651 |
| Depletion and depreciation for the year | | 2,787,391 | | 9,954 | | 2,797,345 |
| Impairment | | - | | - | | - |
| **Balance, December 31, 2016** | **$** | **31,929,680** | **$** | **85,316** | **$** | **32,014,996** |
| Depletion and depreciation for the period | | 1,396,006 | | 3,689 | | 1,399,694 |
| **June 30, 2017** | **$** | **33,325,686** | **$** | **89,005** | **$** | **33,414,691** |
| **Net Book Value** | | | | | | |
| December 31, 2016 | $ | 35,212,868 | $ | 29,176 | $ | 35,242,044 |
| **June 30, 2017** | **$** | **34,573,064** | **$** | **25,487** | **$** | **34,598,551** |

The Company's additions for property and equipment included capitalized general and administrative expenses of $35,507 for the period ended June 30, 2017.

The calculation of depletion at June 30, 2017 includes estimated future development costs of $22,049,600 (December 31, 2016 - $22,049,600) associated with the development of the Company's Proved plus Probable reserves.

## 7. Decommissioning Obligations

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

The Company estimates the total undiscounted and inflated amount of cash flows required to settle its decommissioning obligations as at June 30, 2017 is $45,818,088 (December 31, 2016 - $5,818,088). These payments are expected to be made over the next 37 years with the majority of costs to be incurred between 2025 and 2054. The discount factor, being the risk-free rate related to the liability, is 2.20% (December 31, 2016 - 2.20%). Inflation of 1.40% (December 31, 2016 – 1.40%) has also been factored into the calculation. The Company also has $115,535 (December 31, 2016 - $115,535) in various reclamation bonds for its properties held by the Alberta Energy Regulator and British Columbia Ministry of Energy, Mines and Petroleum Resources.

| | | | June 30, 2017 | | December 31, 2016 |
|---|---|---|---|---|---|
| Decommissioning obligations, beginning of period | discounted | $ | 4,896,681 | $ | 5,965,233 |
| Increase in estimated future obligations | | | - | | 66,998 |
| Change in estimate | | | - | | (1,278,716) |
| Decommissioning obligation expenditures | | | - | | - |
| Accretion expense | | | 53,863 | | 143,166 |
| Decommissioning obligations, end of period | discounted | $ | 4,950,544 | $ | 4,896,681 |

## 8. Finance Income and Expense

| | | Three Months Ended June 30 | | | | Six Months Ended June 30 | | |
|---|---|---|---|---|---|---|---|---|
| | | **2017** | | 2016 | | **2017** | | 2016 |
| Finance expense: | | | | | | | | |
| Interest expense | **$** | **139,043** | $ | 136,447 | **$** | **286,061** | $ | 259,218 |
| Accretion expense | | **26,931** | | 35,792 | | **53,863** | | 71,583 |
| Total | **$** | **165,974** | $ | 172,238 | **$** | **339,924** | $ | 330,802 |

## 9. Bank Indebtedness

At June 30, 2017, the Company had a demand operating credit facility in the amount of $12,500,000 with Alberta Treasury Branches ("ATB") which was reaffirmed at its annual review completed in May 2017.

The facility is secured by a general security agreement and a floating charge on all lands of the Company. The facility bears interest at the bank's prime rate plus 2.5%, as well as a standby charge for any undrawn funds. As the available lending limits of the facilities are based on the bank's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of available facilities that will be determined at each scheduled review.

Pursuant to the terms of the credit facility, the Company has provided a financial covenant that at all times its working capital ratio shall not be less than 1.0. The working capital ratio is defined under the terms of the credit facilities as current assets including the undrawn portion of the revolving operating demand line credit facility ($12.5 million), to current liabilities, excluding any current bank indebtedness.

At June 30, 2017, the Company has drawn a total of $10,463,948 from its credit facility (December 31, 2016 - $11,247,537) and had a working capital ratio of 2.8, which is in compliance with the above financial covenant.

## 10. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at June 30, 2017, the Company had 89,793,302 common shares issued and outstanding.

On April 27, 2017, the Company closed a non-brokered private placement offering and issued 4,048,200 flow-through shares at a price of $0.28 per share, which were issued on a Canadian Development Expense flow-through basis pursuant to the provisions of the *Income Tax Act* for gross proceeds of Company of $1,133,496.

(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 June 30, 2017 are as follows:

| | | | Changes in the Period | | | | |
|---|---|---|---|---|---|---|---|
| Exercise Price | Expiry Date | Balance Outstanding December 31, 2016 | Granted | Exercised | Expired/ Cancelled | Balance Outstanding June 30, 2017 | Balance Exercisable June 30, 2017 |
| $0.70 | 8-Feb-17 | 1,400,000 | - | - | (1,400,000) | - | - |
| $0.24 | 29-Jan-20 | 1,075,000 | - | - | - | 1,075,000 | 1,075,000 |
| $0.39 | 1-Mar-20 | 100,000 | - | - | - | 100,000 | 100,000 |
| $0.08 | 11-Feb-21 | 1,685,000 | - | - | - | 1,685,000 | 1,685,000 |
| $0.08 | 12-Feb-21 | 125,000 | - | - | - | 125,000 | 125,000 |
| | | 4,385,000 | - | - | (1,400,000) | 2,985,000 | 2,985,000 |
| Weighted-average exercise price | | $0.32 | - | - | $0.70 | $0.15 | $0.15 |

For the three months ended June 30, 2017 and 2016, the Company recorded share-based payments of $nil and $1,093, respectively. For the six months ended June 30, 2017 the Company recorded share-based payments of $1,093 (June 30, 2016 – $87,484) from the vesting of the 25% balance of the 75,000 stock options granted to a company performing investor relations. The Company did not grant any stock options during the six months ended June 30, 2017. When applicable, all share-based payments are considered to be part of the Company's general and administrative expenses and a portion is capitalized as noted above.

(c) Share purchase warrants

As at June 30, 2017, the Company had no outstanding share purchase warrants.

(d) Loss per share

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Loss for the period | **$ (206,724)** | $ (580,725) | **$ (345,402)** | $ (1,647,281) |
| Weighted average number of common shares outstanding, basic | **86,946,216** | 75,952,866 | **88,361,894** | 75,878,418 |
| Dilutive stock options | **-** | - | **-** | - |
| Weighted average number of common shares outstanding, diluted | **86,946,216** | 75,952,866 | **88,361,894** | 75,878,182 |
| Loss per share, basic and diluted | **$ (0.00)** | $ (0.01) | **$ (0.00)** | $ (0.02) |

For the three and six months ended June 30, 2017, the Company incurred a loss; therefore, dilutive stock options were nil (three and six months ended June 30, 2016 – nil).

## 11. Commitment

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

| | **2017** | 2018 |
|---|---|---|
| Rental commitment | **$ 96,730** | $ 80,609 |

The Company has a commitment to expend $1,133,496 from the Canadian Development Expense flow-through financing, which closed basis on April 27, 2017, pursuant to the provisions of the *Income Tax Act*. The funds must be expended by December 31, 2017, and as at June 30, 2017 the Company has an unexpended balance of $838,425.

## 12. Supplemental Cash Flow Information

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Provided by (used in): | | | | |
| Accounts receivable | **$ 8,518** | $ (460,962) | **$ 96,242** | $ (529,602) |
| Prepaid expenses | **30,027** | 23,448 | **61,888** | 46,922 |
| Accounts payable and accrued liabilities | **147,678** | 12,080 | **(596,116)** | (56,185) |
| Total changes in non-cash working capital | **$ 186,225** | $ (425,433) | **$ (437,986)** | $ (538,865) |
| Provided by (used in): | | | | |
| Operating activities | **$ 14,143** | $ (233,974) | **$ (310,346)** | $ (325,567) |
| Investing activities | **172,082** | (191,459) | **(127,640)** | (213,298) |
| Total changes in non-cash working capital | **$ 186,225** | $ (425,433) | **$ (437,986)** | $ (538,865) |

Interest paid on the Company's bank loan during the three months ended June 30, 2017 were $139,043 compared to $136,445 for the three months ended June 30, 2016. For the six months ended June 30, 2017 and 2016, interest paid on the Company's bank loan were $286,061 and $259,218, respectively.

# 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*

## LEGAL COUNSEL

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

## AUDITOR

**KPMG LLP**
*Vancouver, British Columbia*

## INDEPENDENT ENGINEER

**McDaniel Associates & Consultants Ltd.**
*Calgary, Alberta*

## TRANSFER AGENT

**Computershare Investor Services Inc.**
*Vancouver, British Columbia*

## INVESTOR RELATIONS

**Scott Koyich, Brisco Capital**
*Calgary, Alberta*

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