

Hemisphere

energy corporation

MESSAGE TO SHAREHOLDERS

Dear Fellow Shareholders,

Despite another very challenging year for the oil and gas industry, Hemisphere remained cost conscious and dedicated to creating and maintaining long term shareholder value.

In 2016, while enduring one of the worst oil price environments in recent history, Hemisphere focused on reserve growth. The Company increased its proved plus probable reserves by 16% to 4.6 million barrels of oil equivalent (96% oil) and saw the net present value discounted at 10% of these reserves increase by 36% to \$65.9 million.

During the year, Hemisphere raised almost \$2 million in equity to implement two key projects in its Atlee Buffalo property, which included drilling the Company's first producing oil well in the Upper Mannville G Pool to prove its production capability, and adding our own processing facility in the Upper Mannville F Pool to lower operating costs by reducing trucking and eliminating third party fees. These projects were pivotal in the final step of testing the viability of enhanced oil recovery through waterflood in Atlee Buffalo and have positioned the Company for full scale development of this property in the coming years. Due to the low cost nature of the play, economics are attractive even at US \$50 per barrel WTI pricing with expected rates of return of over 100% and anticipated payouts of approximately one year. Hemisphere owns 100% of its properties at both Jenner and Atlee Buffalo, and has full control over capital allocation and the pace of development.

The Company is pleased with the results thus far of all its Atlee Buffalo waterflood pilots. The performance of its new G Pool well, drilled in 2016, demonstrates the success of waterflood in reinvigorating a low pressure pool that was shut-in during the 1980s after only 3% of its estimated original oil in place was produced. Meanwhile, the wells drilled in 2014 in the Atlee F pool are continuing to show improvement in oil production rates and declines in gas-to-oil ratios at all three pilot projects implemented in late 2015 and early 2016. Hemisphere has identified numerous drilling locations across these pools, and is working towards the design and implementation of a development plan that management believes could lead to recovery of up to 30% of the estimated 66 MMBbl of original oil in place, as mapped by McDaniel & Associates Consultants Ltd. ("McDaniel"), Hemisphere's independent engineers, for the purposes of its preparation of the independent reserve report dated effective December 31, 2016 (the "2016 Reserve Report"). Several analogues for heavy oil horizontal well waterflood projects at various stages of development already exist in the area with oil recoveries to date of between 10% and 40%, which highlights the potential reserve growth of our Atlee Buffalo pools that have current recovery factors of only 3-4% due to their early stages of waterflood implementation.

Hemisphere believes that going forward, companies with lower operating costs, higher quality assets, and diligent capital spending strategies will outperform their competitors. Hemisphere's assets, with large estimated accumulations of fully delineated oil in place, current low recovery factors, and de-risked production showing proof of concept, provide an excellent opportunity for low risk growth

through the bread-and-butter approach of horizontal development wells and enhanced recovery through waterflooding that has been used since the very early days of oil and gas development.

As we put 2016 behind us and move into 2017 with excitement, I would like to express my gratitude to the Hemisphere Team for their continued hard work, dedication, and commitment to the Company, which remained resilient and successful during one of the most challenging years seen in our industry in decades. I would also like to personally thank all our shareholders for their continued support and confidence in Hemisphere as we continue to develop our 100% owned and operated high quality assets that provide significant future growth opportunities even at current oil prices. Hemisphere has carefully treaded water for two years, while cautiously testing its assets and bringing them to the brink of full scale de-risked development. Management firmly believes in the validity of its organic growth strategy in Atlee Buffalo and Jenner, and will ensure that the Company will be in a position to monetize on its proved assets as the market improves.

Best regards,

(Signed) "Don Simmons"

Don Simmons, P.Geol.

President & Chief Executive Officer

April 19, 2017

Please refer to the attached Management's Discussion and Analysis for Reader Advisories regarding, among other matters, forward-looking information, non-IFRS and additional IFRS measures, analogous information and reserves advisories. This Message to Shareholders should be read in conjunction with the audited annual financial statements of Hemisphere Energy Corporation together with Management's Discussion and Analysis for the year ended December 31, 2016, which can be found on SEDAR at www.sedar.com and is subject to the same cautionary statements as set out therein.