Hemisphere energy corporation

2012 ANNUAL REPORT

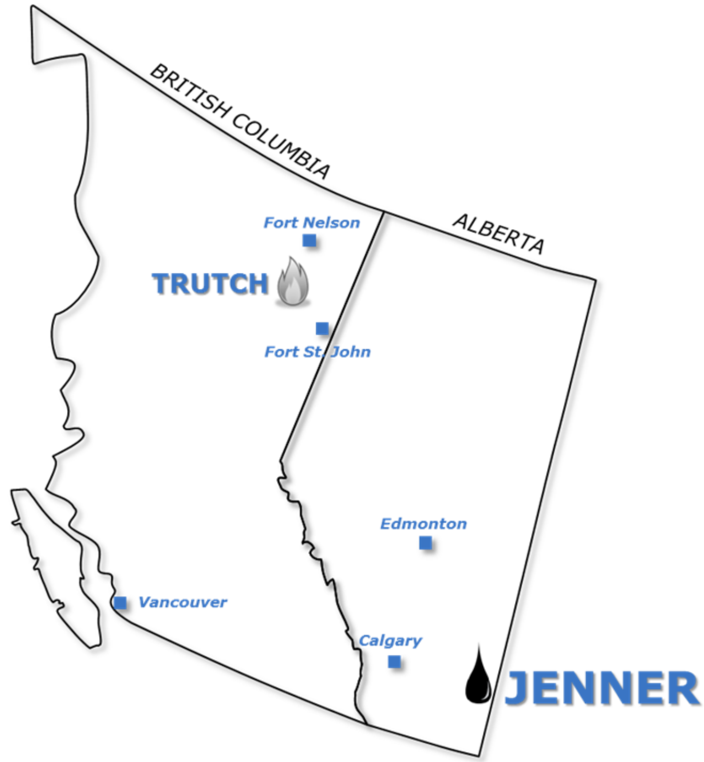
Jenner, looking east, 02/12-36 Hz September 2012.

www.hemisphereenergy.ca

TSX-V: HME

Corporate Summary

Hemisphere Energy Corporation is an exploration and production oil and gas company focused on developing core areas that provide low to medium risk drilling opportunities to increase production, reserves and cash flow. The company's core oil producing property is in Jenner, southeast Alberta and core liquids rich natural gas property is in Trutch, northeast British Columbia. Hemisphere's continued growth plan is through drilling existing prospects and executing strategic acquisitions and farm-ins. Hemisphere trades on the TSX Venture Exchange under the symbol "HME".



2013 Annual General Meeting of the Shareholders

June 10, 2013 at 9:00 am Pacific Daylight Time
Terminal City Club, Walker Room
837 Hastings Street West, Vancouver, British Columbia

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2012 FINANCIAL AND OPERATING HIGHLIGHTS

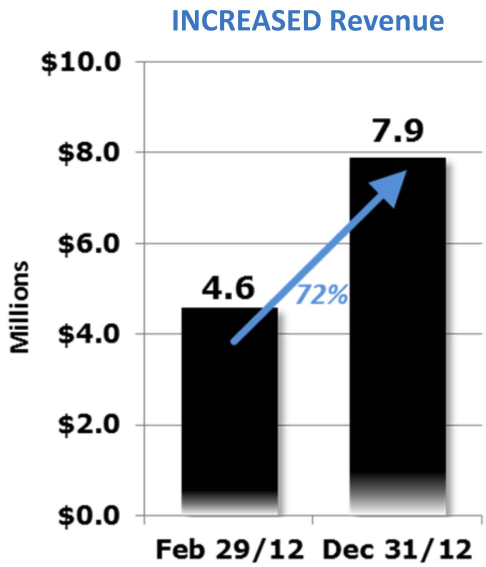
		10 Months Ended December 31, 2012		12 Months Ended February 29, 2012
FINANCIAL				
Petroleum and natural gas revenue	**$**	**7,875,723**	$	4,590,608
Petroleum and natural gas netback		**4,657,308**		2,942,544
Funds flow from operating activities		**3,265,657**		1,963,505
Income (loss) before tax		**543,818**		(451,879)
Per share, basic and diluted		**0.01**		(0.01)
Net income (loss) after tax		**61,361**		942,665
Capital expenditures		**11,888,398**		13,807,836
Working capital (deficiency) at end of period		**(3,927,595)**		2,363,944
Net debt at end of period	**$**	**1,035,000**	$	-

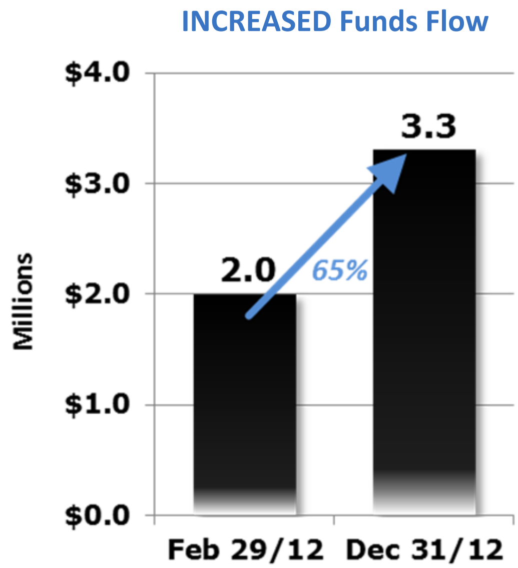
Note:

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

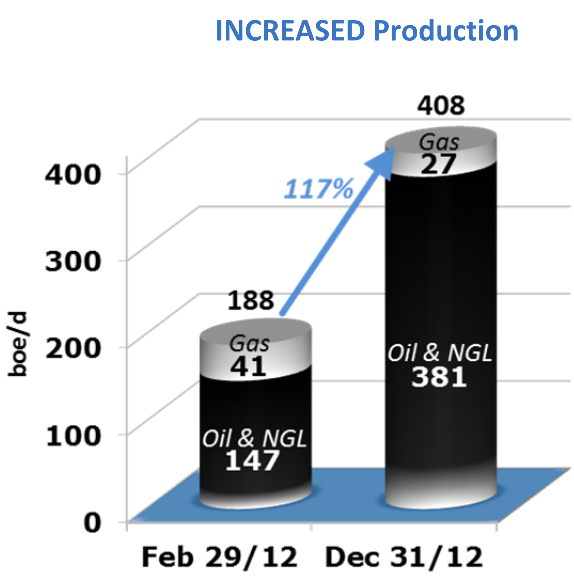
OPERATING				
Average daily production				
Oil (bbl/d)		**378**		144
Natural gas (mcf/d)		**161**		246
NGL (bbl/d)		**3**		3
Combined (boe/d)		**408**		188
Oil and NGL weighting		**93%**		78%
Average sales prices				
Oil ($/bbl)	**$**	**66.76**	$	80.08
Natural gas ($/mcf)		**2.07**		3.28
NGL ($/bbl)		**60.87**		67.49
Combined ($/boe)	**$**	**63.15**	$	66.71
Operating netback ($/boe)				
Petroleum and natural gas revenue	**$**	**63.15**	$	66.71
Royalties		**11.00**		10.21
Operating costs		**11.79**		11.09
Transportation costs		**3.02**		2.65
Operating netback	**$**	**37.33**	$	42.76

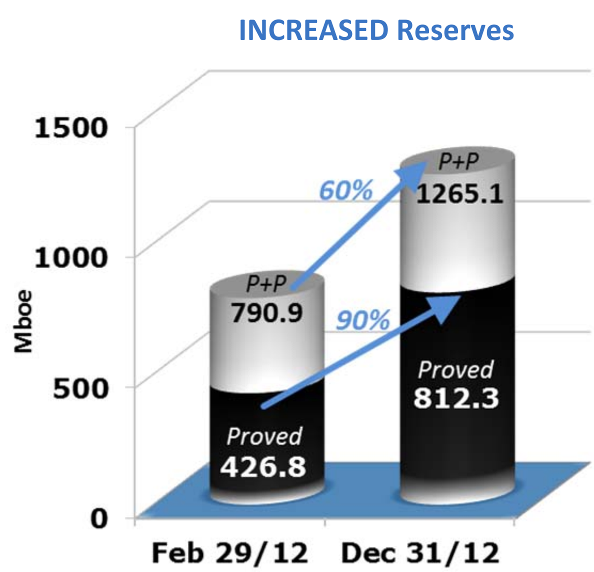
	As at December 31, 2012	February 29, 2012
RESERVES		
Proved (Mboe)	**812.3**	426.8
Proved plus Probable (Mboe)	**1,265.1**	790.9
COMMON SHARES		
Common shares outstanding	**53,961,048**	50,374,701
Warrants outstanding	**8,139,295**	9,351,976
Stock options outstanding	**4,745,000**	4,250,000
Weighted-average shares outstanding - basic	**50,888,868**	34,211,904
Weighted-average shares outstanding - diluted	**52,308,563**	34,947,858





Hemisphere...a GROWTH story





MESSAGE TO SHAREHOLDERS

Dear Fellow Shareholders,

In pursuit of optimizing our shareholders' value, we were dedicated to Hemisphere's growth story in 2012 by increasing production, reserves, and cash flow. We kicked off the calendar year closing a significant acquisition in the Jenner area of southeast Alberta that was directly adjacent to our existing operations and included two producing wells, associated production facilities, and 8.5 net sections (5,380 acres) of land, of which a significant portion was covered with 3D seismic. This strategic acquisition opened the doors to many new opportunities in our core Jenner property and an exciting year ahead.

As we continued to focus the Hemisphere team and company geographically in Jenner, we entered into two farm-in agreements where we drilled four earning wells throughout 2012 and earned 670 acres of highly prospective land. Under the terms of the agreements, there is potential to earn an additional 3,800 acres of land.

During the fiscal year, we applied our proven expertise in horizontal drilling and achieved 100% success in seven horizontal oil-producing wells at Jenner. I am pleased to report we have more than doubled our production to 408 boe/d (93% oil and NGL) since the year ended February 29, 2012.

In order to accommodate our increased operations, we completed upgrades to our existing facilities and added a water disposal well, water injection pump and a heated free-water-knockout separator for greater fluid handling and reduced operating costs.

As a result of our achievements during 2012, we increased our Proved reserves by 90% to 812.3 Mboe and our Proved plus Probable reserves by 60% to 1,265.1 Mboe in just ten months. We also increased both our revenue by 72% to $7.9 million and our funds flow from operating activities by 66% to $3.3 million over the prior fiscal year.

Hemisphere's successes thus far are the direct reflection of our experienced and dedicated team. I would like to thank our employees, consultants and Board of Directors for their hard work and continued support. I am very proud of the leaps we have made over the past year and look forward to the future as we continue to increase shareholder value.

Best regards,

(Signed) *"Don Simmons"*

Don Simmons, P.Geol.
President & Chief Executive Officer
April 5, 2013

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 Annual Report 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 Annual Report 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 Annual Report, 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 Annual Report, 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 Annual Report, 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 Annual Report speak only as of the date of this Annual Report. 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 Annual Report are expressly qualified by this cautionary statement.

Barrels of oil equivalent

A barrel of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl (barrel) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, as the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indicated value.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at April 5, 2013

The following discussion and analysis is a review of the current financial position and operating results of Hemisphere Energy Corporation ("Hemisphere" or the "Company") for the ten months ended December 31, 2012, with comparatives for the twelve months ended February 29, 2012, and should be read in conjunction with the audited annual financial statements and related notes for the ten months ended December 31, 2012. These documents are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.

Please note that Hemisphere has changed its fiscal year-end from February 28 to December 31. As a result, the current fiscal year ended December 31, 2012 is a ten month period with comparatives to the twelve months ended February 29, 2012. The current fiscal quarter ended December 31, 2012 is a one month period with comparatives to the three months ended February 29, 2012 and may not provide accurate comparisons.

The information in this report is based on the audited annual financial statements which were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Forward-Looking Statements

This document contains "forward-looking statements" that are based on Hemisphere's current expectations, estimates, forecasts and projections. These forward-looking statements include statements regarding Hemisphere's outlook for its future operations, plans and timing for the commencement or advancement of exploration and development activities on its properties, and other expectations, intention and plans that are not historical fact. The words "estimates", "projects", "expects", "intends", "believes", "plans", or their negatives or other comparable words and phrases are intended to identify forward-looking statements. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Many of these factors are beyond the control of Hemisphere. Consequently, all forward-looking statements made in this document are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by Hemisphere will be realized. For the reasons set forth above, investors should not place undue reliance on such forward-looking statements. Hemisphere disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise.

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.

Non-IFRS Measurements

This document contains the terms "funds flow from operating activities" and "operating netback" that are not recognized measures under IFRS. The Company's management considers these to be key measures that demonstrate the Company's ability to generate the funds flow necessary to support future growth through capital investment and to repay debt, if any. Funds flow from operating activities represents net income or loss before depletion, depreciation, accretion, share-based payments and any deferred tax adjustments. Operating netback is a benchmark used in the oil and natural gas industry and represents the profit margin associated with the production and sale of oil and natural gas sales, following the deduction of royalties, operating expenses and transportation costs. These terms should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income as determined in accordance with IFRS as an indicator of the Company's performance.

Business Overview

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

Jenner, Alberta

The Jenner property, operated by Hemisphere, is accessible year-round and is located east of Brooks in southeastern Alberta. Hemisphere has a working interest in approximately 16,146 net acres (6,534 ha) and has continued to build a land position in the Jenner area through Crown land sales and strategic acquisitions and farm-ins.

During the year, Hemisphere successfully drilled eight oil wells (7 horizontal and 1 vertical). The Company also expanded its landholdings through Crown land sales acquiring 2.25 sections (1,440 acres) in southeast Alberta. Existing facilities at Jenner were upgraded adding a heated free-water-knockout separator for greater fluid handling capacity and reduction of operating costs.

The Company continues to evaluate the oil development opportunities on the property on an ongoing basis.

Trutch, British Columbia

Hemisphere has varying working interests from 30% to 100% in approximately 34,788 net acres (14,078 ha) of the Trutch property which is located approximately 200 kilometres northwest of Fort St. John in British Columbia. Hemisphere currently has production from the unconventional liquids rich Halfway formation in Trutch and recognizes potential in the Montney and Slave Point formations. Competitors to the southeast of the Trutch area have been actively exploring and developing the prolific Tommy Lakes Halfway unconventional gas field for a number of years and have recently began using horizontal wells and multi-stage frac completions for development.

Operating Results (Annual and Fourth Quarter Analysis)

The Company generated funds flow from operating activities of $3,265,657 ($0.06/share) for the ten months ended December 31, 2012, as compared to $1,963,505 ($0.06/share) for the twelve months ended February 29, 2012. For the one month ended December 31, 2012, the Company generated a negative funds flow from operating activities of $75,268 ($0.00/share) as compared to a positive funds flow of $1,355,098 ($0.03/share) for the three months ended February 29, 2012.

The Company reported net income of $61,361 ($0.00/share), which included a deferred tax expense of $482,457, for the ten months ended December 31, 2012. This is compared to a net income of $942,665 ($0.03/share) for the twelve months ended February 29, 2012, which included a deferred tax recovery of $1,394,544. For the one month ended December 31, 2012, the Company reported a net loss of $803,821 ($0.02/share), which included a deferred tax expense of $482,457. This is compared to a net income of $730,504 ($0.02/share) for the three months ended February 29, 2012, which included a deferred tax recovery of $1,394,544.

With the exclusion of the deferred tax adjustments in the current and prior fiscal years, the Company incurred net income of $543,818 ($0.01/share) for the ten months ended December 31, 2012 as compared to a net loss of $451,879 (-$0.01/share) for the twelve months ended February 29, 2012. For the one month ended December 31, 2012 and three months ended February 29, 2012, the Company incurred a net operating loss of $321,364 ($0.01/share) and $664,040 ($0.02/share), respectively, excluding the deferred tax expense and recovery.

Production

	1 Month Ended December 31, 2012	3 Months Ended February 29, 2012	**10 Months Ended December 31, 2012**	12 Months Ended February 29, 2012
Oil (bbl/d)	**405**	363	**378**	144
Natural gas (Mcf/d)	**139**	258	**161**	246
NGL (bbl/d)	**2**	4	**3**	3
Total (boe/d)	**430**	410	**408**	188
Oil and NGL weighting	**95%**	90%	**93%**	78%

The Company's production for the one month and ten months ended December 31, 2012 is higher than comparable periods due to the drilling of new wells in the Jenner area. For the ten months ended December 31, 2012, the Company achieved a 117% increase in its average production rate to 408 boe per day ("boe/d") with an oil and NGL weighting of 93%. For the one month ended December 31, 2012, the Company also had an increase in production of 5% to 430 boe/d.

Revenue

	1 Month Ended December 31, 2012	3 Months Ended February 29, 2012	**10 Months Ended December 31, 2012**	12 Months Ended February 29, 2012
Oil	**$ 674,861**	$ 2,682,465	**$ 7,715,127**	$ 4,218,120
Natural gas	**14,938**	59,190	**102,009**	294,917
NGL	**4,878**	21,909	**58,587**	77,571
Total	**$ 694,677**	$ 2,763,564	**$ 7,875,723**	$ 4,590,608

Total revenue increased by $3,285,115 or 72% to $7,875,723 for the ten months ended December 31, 2012. This significant increase in revenue is consistent with the growth in oil production volumes as a result of the Company's drilling programs in the Jenner area.

Average Benchmark and Realized Prices

	1 Month Ended December 31, 2012	3 Months Ended February 29, 2012	**10 Months Ended December 31, 2012**	12 Months Ended February 29, 2012
Benchmark Prices				
WTI (US$/bbl)[(1)]	**$ 88.29**	$ 100.33	**$ 92.81**	$ 96.93
Exchange rate (1 US$/Cdn$)	**0.9915**	1.0133	**1.0003**	0.9937
WTI (C$/bbl)	**87.54**	101.66	**92.83**	96.32
AECO natural gas ($/Mcf)[(2)]	**3.11**	2.59	**2.36**	3.32
Average realized prices				
Crude oil ($/bbl)	**53.82**	81.28	**66.76**	80.08
Natural gas ($/Mcf)	**3.47**	2.49	**2.07**	3.28
NGL ($/bbl)	**64.06**	62.42	**60.87**	67.49
Combined ($/boe)	**$ 52.10**	$ 74.05	**$ 63.15**	$ 66.71

Notes:
(1) WTI represents posting prices of West Texas Intermediate Oil.
(2) Represents the AECO daily posting.

The Company experienced decreases in its combined average realized price for the one month and ten months ended December 31, 2012 of $21.95/boe and $3.56/boe, respectively, from its comparable periods. The decreases can be attributed to lower WTI benchmark pricing as well as increased price differentials between Canadian heavy crude oil and WTI during the period. Oil differentials have increased due to pipeline constraints and supply and demand factors resulting in a lower realized crude oil price. The Company's realized crude oil sales price is for the sale of heavy oil, which is subject to a heavy oil differential to West Texas Intermediate pricing.

Operating Netback

	1 Month Ended December 31, 2012	3 Months Ended February 29, 2012	**10 Months Ended December 31, 2012**	12 Months Ended February 29, 2012
Netback				
Revenue	**$ 694,677**	$ 2,763,564	**$ 7,875,723**	$ 4,590,608
Royalties	**129,690**	447,419	**1,371,883**	702,345
Operating costs	**166,491**	390,417	**1,469,449**	763,390
Transportation costs	**33,189**	129,542	**377,083**	182,329
Operating netback	**$ 365,307**	$ 1,796,187	**$ 4,657,308**	$ 2,942,544
Netback ($/boe)				
Revenue	**$ 52.10**	$ 74.05	**$ 63.15**	$ 66.71
Royalties	**9.73**	11.99	**11.00**	10.21
Operating costs	**12.49**	10.46	**11.79**	11.09
Transportation costs	**2.49**	3.47	**3.02**	2.65
Operating netback	**$ 27.40**	$ 48.13	**$ 37.33**	$ 42.76

Royalties for the ten months ended December 31, 2012 increased by $669,538 ($0.79/boe) to $1,371,883 ($11.00/boe) and can be attributed to the new oil wells drilled on the Jenner property which are subject to Alberta Crown royalties and gross overriding royalties. For the one month ended December 31, 2012 and three months ended February 29, 2012, royalties were $129,690 ($9.73/boe) and $447,419 ($11.99/boe), respectively.

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 one month and ten months ended December 31, 2012 increased by $2.03/boe and $0.70/boe, respectively, from its comparable periods. This increase in operating costs can be attributed to the fuel and power required to run the Company's operations, higher contract operating costs, and a scheduled maintenance turnaround for the Company's main facility in the Jenner area.

Transportation costs include all costs incurred to transport oil and gas sales to processing and distribution facilities. Transportation costs for the ten months ended December 31, 2012 increased by $194,754 ($0.37/boe) to $377,083 ($3.02/boe) from $182,329 ($2.65/boe) for the twelve months ended February 29, 2012. For the one month ended December 31, 2012, transportation costs were $33,189 ($2.49/boe) as compared to $129,542 ($3.47/boe) for the three months ended February 29, 2012. The increase in transportation costs can be attributed to new oil wells coming on production that have not yet been tied in to the Company's facilities.

Operating netback for the ten months ended December 31, 2012 decreased by $5.43/boe from its comparable period. This decrease is in large part due to the decrease in the Company's combined average realized price and increases in transportation and operating costs per boe.

Depletion and Depreciation

	1 Month Ended December 31, 2012	3 Months Ended February 29, 2012	**10 Months Ended December 31, 2012**	12 Months Ended February 29, 2012
Depletion expense	**$ 59,207**	$ 857,653	**$ 2,234,638**	$ 1,065,657
Depreciation expense	**520**	1,141	**5,068**	4,552
Total	**$ 59,727**	$ 858,794	**$ 2,239,706**	$ 1,070,207
$ per boe	**$ 4.48**	$ 23.01	**$ 17.96**	$ 15.55

The depletion rate is calculated using the unit-of-production method on proved and probable oil and natural gas reserves, taking into account the future development costs to produce the reserves. Depletion and depreciation expense for the ten months ended December 31, 2012 increased by $1,169,497 ($2.41/boe) to $2,239,706 ($17.96/boe). This increase in depletion is relative to the Company's property acquisitions and development of producing wells during the current fiscal period.

For the one month ended December 31, 2012 and three months ended February 29, 2012, depletion and depreciation were $59,727 ($4.48/boe) and $858,794 ($23.01/boe), respectively.

Capital Expenditures

	1 Month Ended December 31, 2012	3 Months Ended February 29, 2012	**10 Months Ended December 31, 2012**	12 Months Ended February 29, 2012
Land and lease	**$ -**	$ 12,105	**$ 19,648**	$ 30,143
Geological and geophysical	**38,808**	4,707	**251,605**	203,987
Drilling and completions	**1,646,415**	864,116	**6,946,744**	3,695,782
Investment in facilities	**372,823**	1,473,867	**4,478,757**	2,429,092
Development capital	**2,058,046**	2,354,795	**11,696,754**	6,359,004
Property acquisitions	**-**	6,106,771	**191,644**	7,448,832
Total capital expenditures	**$ 2,058,046**	$ 8,461,567	**$ 11,888,398**	$ 13,807,836

The development capital spent during the ten months ended December 31, 2012 includes $6,946,744 on drilling and completing eight wells and $4,478,757 on building infrastructure in the Company's core Jenner area. This infrastructure included pipelines for new wells and upgrading the Company's main production facility with a new water disposal pump and a heated free-water-knockout separator to allow for greater fluid handling capacity.

Share-based Payments

Share-based payments for the ten months ended December 31, 2012 were $282,872 as compared to $1,089,738 for the twelve months ended February 29, 2012. For the one month ended December 31, 2012 and three months ended February 29, 2012, share based payments were $nil and $907,950, respectively. This decrease in share-based payments is attributed to lesser stock options granted during the ten months ended December 31, 2012.

General and Administrative

General and administrative expenses for the ten months ended December 31, 2012 increased to $1,244,633 from $977,461 during the twelve months ended February 29, 2012. During the one month ended December 31, 2012 and three months ended February 29, 2012, general and administrative expenses were $313,231 and $445,304, respectively.

The increase in general and administrative costs can be attributed to the Company's engagement of investor relations services, the relocation of the Company's office, and the increased travel and personnel costs as required under the Company's ongoing expansion.

Finance Income and Expense

	1 Month Ended December 31, 2012	3 Months Ended February 29, 2012	**10 Months Ended December 31, 2012**	12 Months Ended February 29, 2012
Finance expense				
Interest expense	**$ 6,468**	$ -	**$ 22,903**	$ -
Interest income	**-**	-	**(90)**	(865)
Part XII.6 tax	**(7)**	(4,219)	**3,323**	2,442
Accretion of provision	**1,432**	1,005	**14,323**	4,046
Total finance expense	**$ 7,893**	$ (3,214)	**$ 40,459**	$ 5,623

The increases in finance expense for both the one month and ten months ended December 31, 2012 can be attributed to monthly interest charged on the Company's bank debt, as well as the increase in accretion expense. Accretion expense represents the time value change of the Company's decommissioning liability which has increased as a result of the addition of eight new oil wells in the current ten month period.

Selected Annual Information

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

	10 Months Ended December 31, 2012	12 Months Ended February 29, 2012	12 Months Ended February 28, 2011
Income (loss) before income tax	**$ 543,818**	$ (451,879)	$ (1,486,455)
Net income (loss)	**61,361**	942,665	(1,486,455)
Income (loss) per share	**0.00**	0.03	(0.07)
Total assets	**25,375,435**	18,914,071	3,248,901
Total liabilities	**5,415,053**	1,456,802	316,978
Working capital (deficiency)	**(3,927,595)**	2,363,944	1,729,423
Capitalized acquisition, exploration and development costs	**9,101,851**	13,075,574	535,013
Share-based payments	**282,872**	1,089,738	423,932
Shares issued for cash, net of issue costs	**2,158,879**	12,457,943	2,212,542
General and administrative costs	**1,244,633**	977,461	574,689

Summary of Quarterly Results

			2012				2011	
	Dec. 31 Q4[(1)]	Nov. 30 Q3	Aug. 31 Q2	May 31 Q1	Feb. 29 Q4	Nov. 30 Q3	Aug. 31 Q2	May. 31 Q1
Total revenue	**694,677**	2,730,244	2,029,230	2,421,663	2,763,564	1,273,677	297,526	256,706
Income (loss) before other items	**(313,471)**	716,566	(131,587)	312,770	(667,254)	597,456	(72,317)	(304,141)
Basic income (loss) per share	**(0.01)**	0.01	(0.00)	0.01	(0.02)	0.02	(0.00)	(0.01)
Diluted income (loss) per share	**(0.01)**	0.01	(0.00)	0.01	(0.02)	0.02	(0.00)	(0.01)
Net income (loss)	**(803,821)**	695,833	(136,556)	305,905	730,504	596,509	(75,583)	(308,764)
Basic income (loss) per share	**(0.02)**	0.01	(0.00)	0.01	0.02	0.02	(0.00)	(0.01)
Diluted income (loss) per share	**(0.02)**	0.01	(0.00)	0.01	0.02	0.02	(0.00)	(0.01)

Note:

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

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

Share Capital and Financing Activities

During the ten months ended December 31, 2012, the Company issued 3,586,347 common shares which increased the Company's total common shares outstanding to 53,961,048. The following occurred during the ten months ended December 31, 2012:

(a) On December 20, 2012, the Company closed a private placement consisting of 1,829,300 units at a price of $0.65 per unit for gross proceeds of $1,189,045. Each unit consisted of one common share and one-half of one non-transferrable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at the price of $0.90 until December 20, 2013.

In conjunction with the closing of the private placement, $82,643 in finders' fees and legal fees were paid and 114,191 finders' warrants were issued. Each warrant entitles the holder to purchase one common share at a price of $0.90 until December 20, 2013.

(b) The Company received $1,051,228 through the exercise of 1,752,047 common share purchase warrants. Additionally, $1,250 was received through the exercise of 5,000 stock options.

The following occurred during the twelve months ended February 29, 2012:

(a) On April 29, 2011, the Company closed a private placement consisting of 2,575,350 units at a price of $0.40 per unit for gross proceeds of $1,030,140. Each unit consisted of one common share and one-half of one non-transferrable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.60 until October 29, 2012.

In the same private placement, the Company issued 1,380,000 flow-through units at a price of $0.45 per flow-through common share for gross proceeds of $621,000. Each flow-through unit consists of one flow-through common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional non-flow-through common share at a price of $0.60 until October 29, 2012.

As part of the finders' fee agreement, $119,074 cash was paid. Additionally, 240,247 share purchase warrants ("finders' warrants") were issued to the agents with each finder's warrant having the same terms as the placement warrants described above.

(b) On November 10, 2011, the Company closed a non-brokered private placement consisting of 2,200,000 flow-through shares at a price of $0.65 per share for gross proceeds of $1,430,000.

Under the terms of the financing, $68,705 in finders' fees were paid and 132,650 finders' warrants were issued. Each warrant entitles the holder to purchase one common share at a price of $0.80 until November 10, 2012.

(c) On November 21, 2011, the Company closed the acquisition of an additional working interest in its Trutch property in northeast British Columbia. Total consideration for the acquisition was $250,000 in cash and the issuance of 100,000 shares. The shares were issued at $0.35 per share, for total share consideration of $35,000.

(d) On January 27, 2012, the Company closed a brokered private placement that consisted of 12,323,157 units sold at $0.70 for aggregate subscription proceeds of $8,626,210. Each unit consisted of one common share and one-half of one transferable share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of $0.95 until January 27, 2014.

The Company paid commissions and fees totaling $603,835, and issued 862,620 agent warrants. Each agent warrant entitled the holder to purchase one common share at a price of $0.70 until January 27, 2014.

Additionally, 172,512 Corporate Finance units were issued, each having the same terms as the units sold pursuant to the brokered private placement. These units were measured at $0.70, for total consideration of $120,758. Share issuance costs in the same amount were recorded.

(e) The Company received $1,666,815 through the exercise of 5,447,000 common share purchase warrants and $27,050 through the exercise of 105,000 stock options.

Stock Options

Exercise Price	Expiry Date	Balance Outstanding February 29, 2012	Granted	Exercised	Expired/ Cancelled	Balance Outstanding December 31, 2012	Balance Exercisable December 31, 2012
$0.27	28-Sep-14	445,000	-	-	-	445,000	445,000
$0.25	8-Mar-15	490,000	-	(5,000)	-	485,000	485,000
$0.26	30-Sep-15	520,000	-	-	-	520,000	520,000
$0.30	23-Dec-15	425,000	-	-	-	425,000	425,000
$0.30	27-Jan-16	200,000	-	-	-	200,000	200,000
$0.38	9-Feb-16	50,000	-	-	-	50,000	50,000
$0.40	26-May-16	520,000	-	-	-	520,000	520,000
$0.48	5-Jul-16	50,000	-	-	-	50,000	50,000
$0.70	8-Feb-17	1,550,000	-	-	-	1,550,000	1,487,500
$0.65	24-Apr-17	-	75,000	-	-	75,000	75,000
$0.61	5-Jul-17	-	425,000	-	-	425,000	425,000
		4,250,000	500,000	(5,000)	-	4,745,000	4,682,500
Weighted-average exercise price		$0.45	$0.62	$0.25	-	$0.47	$0.46

For the ten months ended December 31, 2012, the Company recognized $282,872 in share-based payments as compared to $1,089,738 for the twelve months ended February 29, 2012. This expense can be attributed to the issuance of 500,000 options to consultants and employees of the Company. The fair value was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	December 31, 2012	February 29, 2012
Expected life (years)	**3.75**	5.00
Interest rate	**1.18%**	1.54%
Volatility	**137.48%**	139.72%
Dividend yield	**0.00%**	0.00%

The weighted-average grant date fair value for stock options granted during the ten months ended December 31, 2012 was $0.62 (twelve months ended February 29, 2012 - $0.62). The forfeiture rate has been estimated at 0% (February 29, 2012 – 0%).

Included in share-based payments were 250,000 stock options granted to a company performing investor relations services (February 29, 2012 – 250,000). These options were granted on February 8, 2012, have an exercise price of $0.70 per share and expire on February 8, 2017. The options vest 25% at each three-month interval from the grant date. The total number of options that remain unvested at December 31, 2012 is 62,500 (February 29, 2012 – 250,000).

Share Purchase Warrants

Exercise Price	Expiry Date	Balance Outstanding & Exercisable February 29,2012	Issued	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable December 31, 2012
$0.60	29-Oct-12	2,108,872	-	(1,752,047)	(356,825)	-
$0.80	10-Nov-12	132,650	-	-	(132,650)	-
$0.90	20-Dec-13	-	914,650	-	-	914,650
$0.90	20-Dec-13	-	114,191	-	-	114,191
$0.95	27-Jan-14	6,161,578	-	-	-	6,161,578
$0.95	27-Jan-14	86,256	-	-	-	86,256
$0.70	27-Jan-14	862,620	-	-	-	862,620
		9,351,976	1,028,841	(1,752,047)	(489,475)	8,139,295
Weighted-average exercise price		$0.85	$0.90	$0.60	$0.65	$0.92

	April 5, 2013	**December 31, 2012**	February 29, 2012
Fully diluted share capital			
Common shares issued and outstanding	54,047,948	**53,961,048**	50,374,701
Share purchase warrants	8,183,445	**8,139,295**	9,351,976
Stock options	4,995,000	**4,745,000**	4,250,000
Total fully diluted	67,226,393	**66,845,343**	63,976,677

Subsequent to December 31, 2012, the Company closed the second and final tranche of its non-brokered private placement, as previously announced on December 6, 2012, whereby 86,900 units were issued at a price of $0.65 per unit for gross proceeds of $56,485. Additionally, the Company issued 250,000 incentive stock options exercisable at $0.50 each to a consultant in March 2013.

Liquidity and Capital Management

	December 31, 2012	February 29, 2012
Shareholders' equity	**$ 19,960,382**	$ 17,457,269
Undrawn component of bank credit facilities	**4,465,000**	5,000,000
Total capital	**$ 24,425,382**	$ 22,457,269

As at December 31, 2012, the Company has total credit facilities of $5,500,000 (February 29, 2012 – $5,000,000). The credit facilities are comprised of a revolving operating demand loan of $4,000,000 and a non-revolving acquisition and development demand loan of $1,500,000. As at December 31, 2012, the Company has drawn $100,000 from the revolving operating demand loan and $935,000 from the non-revolving acquisition and development demand loan for a total bank indebtedness of $1,035,000 (February 29, 2012 - $nil). The Company's next annual review is scheduled to occur on or before April 30, 2012.

The Company manages its capital with the following objectives:

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

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

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

Related Party Transactions

During the ten months ended December 31, 2012, Hemisphere paid $33,333 in management fees charged by a director of the Company. During the prior fiscal year, the Company paid $115,000 in management fees of which a portion was charged by a director of the Company and the remainder charged by a managing consultant who transitioned to full-time employment in January 2012.

During the one month ended December 31, 2012, the Company paid management fees of $3,333 compared to $40,000 during the quarter ended February 29, 2012.

Compensation paid to Hemisphere's officers is as follows:

	1 Month Ended December 31, 2012	3 Months Ended February 29, 2012	**10 Months Ended December 31, 2012**	12 Months Ended February 29, 2012
Short-term benefits	**$ 154,583**	$ 204,583	**$ 507,083**	$ 358,333
Share-based payments	**-**	336,820	**196,386**	431,148

Short-term benefits, which are primarily salaries and wages, have increased during the ten months ended December 31, 2012 as the result of a managing consultant who transitioned to full-time employment in January 2012 and a technical consultant who transitioned to full-time employment in July 2012.

Corporate Internal Controls

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2012 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported, as required. Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management believes the design to be sufficient and appropriate to provide such reasonable assurance.

Off-Balance Sheet Arrangements

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

Proposed Transactions

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

Critical Accounting Estimates

The Company's significant accounting estimates and policies are set out in Notes 2 and 3 of the audited annual financial statements for the ten months ended December 31, 2012 and have been consistently followed in the preparation of the annual financial statements.

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

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

Significant areas requiring the use of estimates include the collectability of accounts receivable, the recoverability of petroleum and natural gas interest costs, the fair value of financial instruments, balance of accrued liabilities, determination of decommissioning and environmental obligations, the rates of depletion and accretion of petroleum and natural gas interests, assumptions used in the calculation of fair value of share-based and finder's warrants, and the recoverability of deferred income tax assets. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

Reserve estimates impact a number of the areas referred to above, in particular the valuation of petroleum and natural gas interests, determination of decommissioning and environmental obligation, and the calculation of depletion.

Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they may be subject to future adjustment. Changes in assumptions can significantly affect estimated fair values. At December 31, 2012, the Company's financial instruments include cash, accounts receivable, reclamation deposits, bank indebtedness, accounts payable and accrued liabilities.

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

Risks

The Company's activities expose it to a variety of risks that arise as a result of its exploration, development, production and financing activities. The following provides information about the

Company's exposure to any risks associated with the oil and gas industry as well as the Company's objectives, policies and processes for measuring and managing risk.

Business Risk

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its payment obligations. This risk arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers, its cash balance and its reclamation deposits. Any risk associated with accounts receivable is minimized substantially by the financial strength of the Company's joint venture partners, operators and marketers. The credit risk associated with cash, and reclamation deposits is mitigated by ensuring these financial assets are placed with major financial institutions with strong investment-grade ratings by a primary ratings agency. The Company does not anticipate any default.

Liquidity risk

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

Market risk

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

Interest rate risk

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

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

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

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. Independent auditors appointed by the shareholders have examined the financial statements. Their report is presented with the financial statements. The Audit Committee, consisting of independent members of the Board of Directors, has reviewed financial statements with management and the independent auditors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Vancouver, British Columbia
April 5, 2013

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hemisphere Energy Corporation:

We have audited the accompanying financial statements of Hemisphere Energy Corporation, which comprise the statements of financial position as at December 31, 2012 and February 29, 2012, and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the ten months ended December 31, 2012 and the twelve months ended February 29, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Hemisphere Energy Corporation as at December 31, 2012 and February 29, 2012, and its financial performance and its cash flows for the ten months ended December 31, 2012 and the twelve months ended February 29, 2012 in accordance with International Financial Reporting Standards.

Smythe Ratcliffe LLP

Chartered Accountants
Vancouver, British Columbia
April 5, 2013

STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	Note		**December 31, 2012**		February 29, 2012
Assets					
Current assets					
Cash	5(b)	**$**	**-**	$	2,183,898
Accounts receivable			**904,454**		1,252,385
Prepaid expenses			**115,769**		26,035
			1,020,223		3,462,318
Non-current assets					
Reclamation deposits	9		**100,535**		151,977
Exploration and evaluation assets	7		**3,189,762**		2,161,743
Deferred tax asset	17		**912,087**		1,394,544
Property and equipment	8		**20,152,828**		11,743,489
Total assets		**$**	**25,375,435**	$	18,914,071
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**3,912,818**	$	1,098,374
Bank indebtedness	11		**1,035,000**		-
			4,947,818		1,098,374
Non-current liabilities					
Decommissioning obligations	9		**467,235**		358,428
			5,415,053		1,456,802
Shareholders' Equity					
Capital stock	12		**38,805,193**		36,719,485
Share-based payment reserve	12(c)		**2,214,325**		1,931,453
Warrant reserve	12(d)		**183,572**		110,400
Deficit			**(21,242,708)**		(21,304,069)
			19,960,382		17,457,269
Total liabilities and shareholders' equity		**$**	**25,375,435**	$	18,914,071

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

On Behalf of the Board of Directors

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

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)

	Note		Ten Months Ended December 31, 2012		Twelve Months Ended February 29, 2012
Oil and natural gas revenue		**$**	**7,875,723**	$	4,590,608
Royalties			**(1,371,883)**		(702,345)
Total oil and natural gas revenue			**6,503,840**		3,888,263
Expenses					
Production and operating			**1,846,532**		945,719
Exploration and evaluation	7		**120,882**		-
Depletion and depreciation	8		**2,239,706**		1,070,207
Share-based payments	12(c)		**282,872**		1,089,738
General and administrative			**1,244,633**		977,461
Impairment of property and equipment	8		**184,938**		251,394
			5,919,563		4,334,519
Results from operating activities			**584,277**		(446,256)
Finance expense	10		**(40,459)**		(5,623)
Income (loss) before income taxes			**543,818**		(451,879)
Deferred tax (expense) recovery	17		**(482,457)**		1,394,544
Net income and comprehensive income for the period		**$**	**61,361**	$	942,665
Income per share					
Basic and diluted	12(e)	**$**	**0.00**	$	0.03

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

STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

		Ten Months Ended December 31, 2012		Twelve Months Ended February 29, 2012
Operating activities				
Net income for the period	**$**	**61,361**	$	942,665
Items not affecting cash				
Depletion, depreciation and accretion		**2,254,029**		1,074,252
Impairment of property and equipment		**184,938**		251,394
Deferred tax expense (recovery)		**482,457**		(1,394,544)
Share-based payments		**282,872**		1,089,738
		3,265,657		1,963,505
Changes in non-cash working capital				
Accounts receivable		**347,931**		(1,227,432)
Prepaid expenses		**(89,734)**		(14,432)
Accounts payable and accrued liabilities		**148,778**		141,612
Cash provided by operating activities		**3,672,632**		863,253
Investing activities				
Acquisition of property and equipment		**(5,527,940)**		(11,501,424)
Reclamation deposits		**51,442**		(3,893)
Exploration and evaluation expenditures		**(3,573,912)**		(1,574,150)
Cash used in investing activities		**(9,050,410)**		(13,079,467)
Financing activities				
Shares issued for cash, net of issue costs		**2,158,880**		12,457,943
Proceeds from bank indebtedness		**1,035,000**		-
Cash provided by financing activities		**3,193,880**		12,457,943
Inflow (outflow) of cash		**(2,183,898)**		241,729
Cash, beginning of period		**2,183,898**		1,942,169
Cash, end of period	**$**	**-**	$	2,183,898

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

Supplemental cash flow information (Note 15)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

	Note	Number of common shares	Capital stock	Share-based payment reserve	Warrant reserve	Deficit	Total Equity
Balance March 1, 2011		**26,071,682**	**$ 24,678,806**	**$ 507,276**	**$ -**	**$ (22,254,159)**	**$ 2,931,923**
Non-flow-through share issuance	12(b)	14,898,507	9,656,350	-	-	-	9,656,350
Flow-through share issuance	12(b)	3,580,000	1,940,600	-	110,400	-	2,051,000
Warrant exercises	12(b)	5,447,000	1,691,990	(25,175)	-	-	1,666,815
Stock option exercises	12(b)	105,000	49,636	(22,586)	-	-	27,050
Share issuance costs	12(b)	-	(943,272)	-	-	-	(943,272)
Finder's units issued	12(b)	172,512	120,758	-	-	-	120,758
Corporate finance expense	12(b)	-	(120,758)	-	-	-	(120,758)
Finder's warrants issued	12(b)	-	(389,625)	389,625	-	-	-
Shares issued on property acquisition	12(b)	100,000	35,000	-	-	-	35,000
Share-based payments	12(c)	-	-	1,089,738	-	-	1,089,738
Expiry of stock options	12(c)	-	-	(7,425)	-	7,425	-
Net income for the year		-	-	-	-	942,665	942,665
Balance, February 29, 2012		**50,374,701**	**36,719,485**	**1,931,453**	**110,400**	**(21,304,069)**	**17,457,269**
Warrant exercises	12(b)	1,752,047	1,051,228	-	-	-	1,051,228
Stock option exercises	12(b)	5,000	1,250	-	-	-	1,250
Share-based payments	12(c)	-	-	282,872	-	-	282,873
Share issuance	12(b)	1,829,300	1,115,873	-	73,172	-	1,189,045
Share issuance costs	12(b)	-	(82,643)	-	-	-	(82,643)
Net income for the period		-	-	-	-	61,361	61,361
Balance, December 31, 2012		**53,961,048**	**$ 38,805,193**	**$ 2,214,325**	**$ 183,572**	**$ (21,242,708)**	**$ 19,960,382**

NOTES TO THE FINANCIAL STATEMENTS

For the ten months ended December 31, 2012 and twelve months ended February 29, 2012
(Expressed in Canadian dollars)

1. Nature and Continuance of Operations

Hemisphere Energy Corporation (the "Company") is a publicly listed company and 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 and its shares are listed on the TSX Venture Exchange under the symbol "HME". The Company's head office is located at 570-789 West Pender Street, Vancouver, British Columbia, Canada V6C 1H2.

The Company generated net income for the ten months ended December 31, 2012 of $61,361 (twelve months ended February 29, 2012 - $942,665). As at December 31, 2012, the Company had a negative working capital of $3,927,595 as compared to a positive working capital of $2,363,944 as at February 29, 2012. The Company also had an accumulated deficit of $21,242,708 (February 29, 2012 - $21,304,069) as at December 31, 2012.

These annual financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Depending on the results of current drilling operations, the Company may require additional equity financing to meet its administrative overhead costs, and to continue exploration and development work on its petroleum and natural gas interests in the ensuing year.

2. Basis of Presentation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issuance by the Board of Directors on April 5, 2013.

(b) Basis of presentation

On August 20, 2012, the Company announced that it would be changing its fiscal year-end date from February 28 to December 31. In accordance with relevant legislation, the Company has prepared its first annual audited financial statements as at and for the ten months ended December 31, 2012 with comparative information as at and for the twelve months ended February 29, 2012.

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

(c) Functional and presentation currency

These annual financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

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

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

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

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

3. Significant Accounting Policies

(a) Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: held-to-maturity, fair value through profit or loss ("FVTPL"), loans and receivables, and available-for-sale ("AFS"). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Held-to-maturity

Held-to-maturity financial assets are recognized on a trade-date basis and are initially measured at fair value using the effective interest rate method. The Company has no assets classified as held-to-maturity.

Financial assets at fair value through profit or loss

Financial assets at FVTPL are initially recognized at fair value with changes in fair value recorded through profit or loss. Cash is included in this category of financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment. Loans and receivables are comprised of accounts receivable and reclamation deposits.

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity.

Management assesses the carrying value of any AFS financial assets at least annually and any impairment charges are also recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit or loss. The Company does not have any financial instruments classified as AFS.

(ii) Financial liabilities

Borrowings and other financial liabilities

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities are comprised of accounts payable and accrued liabilities and bank indebtedness.

(iii) Fair value hierarchy

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Additional disclosure on the measurement of financial instruments is provided in Note 4.

(b) Revenue

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party and is based on volumes delivered to customers at contractual delivery points and rates, and collectability is reasonably assured. The costs associated with delivery, including operating and maintenance costs, transportation and production-based royalty expenses, are recognized during the same period in which the related revenue is earned and recorded.

(c) Joint interest operations

The Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(d) Property and equipment and exploration and evaluation assets

(i) Pre-exploration expenditures

Expenditures made by the Company before acquiring the legal right to explore in a specific area do not meet the definition of an asset and therefore are expensed as incurred.

(ii) Exploration and evaluation expenditures

Costs incurred once the legal right to explore has been acquired are capitalized as exploration and evaluation assets. These costs include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, drilling costs directly attributable to an identifiable well, and directly attributable general and administrative costs. These costs are accumulated in cost centers by property and are not subject to depletion until technical feasibility and commercial viability has been determined.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped together with developing and producing assets and are tested at an aggregated cash-generating unit ("CGU") level.

The technical feasibility and commercial viability is considered to be determinable when proved and probable reserves are determined to exist. A review of each exploration license or field is carried out, at each reporting date, to ascertain whether proved and probable reserves have been discovered. Upon determination of proved and probable reserves, exploration and evaluation assets attributable to those reserves are tested for impairment and reclassified from exploration and evaluation assets to petroleum and natural gas properties.

(iii) Developing and production costs

Items of property and equipment, which include petroleum and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Gains and losses on disposal of an item of property and equipment, including petroleum and natural gas properties, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

(iv) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas properties only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas properties generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(v) Depletion and depreciation

Depletion of petroleum and natural gas properties is determined using the unit-of-production method based on production volumes in relation to total estimated proved reserves as determined annually by independent engineers and determined in accordance with National Instrument 51-101. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil.

The calculation of depletion and depreciation of production equipment is based on total capitalized costs plus estimated future development costs of proved and undeveloped reserves less the estimated net realizable value of production equipment and facilities after the proved reserves are fully produced.

Proved reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proved component of proved and probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them. Such intention is based upon:

- A reasonable assessment of the future economics of such production;
- A reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- Evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proved if supported by either actual production or conclusive formation tests. The area of reservoir considered proved includes (a) that portion delineated by drilling and defined by as-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves that can be produced economically through application of improved recovery techniques such as fluid injection are only included in the proved classification when successful testing by a pilot project, the operation of an installed program in the reservoir or other reasonable evidence (such as, experience of the dame techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

Depreciation of other equipment is provided for on a 20-30% declining balance basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(vi) Impairment

Exploration and evaluation assets are assessed for impairment when they are reclassified to developing and producing assets, as petroleum and natural gas properties, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Fair value less costs to sell is determined to be the amount for which the asset could be sold in an arm's length transaction. Fair value less costs to sell can be determined by using an observable market or by using discounted future net cash flows of proved and probable reserves using forecasted prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Exploration and evaluation assets are grouped together with the Company's CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (petroleum and natural gas properties).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of goodwill, if any, allocated to the units and then to reduce carrying amounts of other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(e) Decommissioning obligations

Decommissioning obligations are measured at the present value of management’s best estimate of expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision.

(f) Share-based payments

The Company has a stock option plan that is described in Note 12(c). Share-based payments to employees are measured at the fair value of the instruments issued and are amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as capital stock and the related share-based payments reserve is transferred to capital stock. Charges for options that are forfeited before vesting are reversed from share-based payments reserve. For those options that expire or are forfeited after vesting, the recorded value is transferred to deficit.

(g) Equity units

The Company uses the residual value method with respect to the measurement of equity units. The proceeds from the issue of units is allocated between common shares and share purchase warrants on a residual value basis, wherein the fair value of the common shares is based on the market close on the date the units are issued; the balance, if any, is allocated to the attached warrants. Share issue costs are netted against share proceeds.

(h) Flow-through shares and units

The Company may, from time to time, issue flow-through common shares to finance its petroleum and natural gas exploration activities. Canadian income tax law permits the Company to renounce to the flow-through shareholders the income tax attributes of certain petroleum and natural gas exploration and evaluation costs financed by such shares. A liability is recognized for any premium on the flow-through shares and is subsequently reversed as the Company incurs qualifying Canadian exploration expenses.

The effect of renouncement of the qualifying expenditures is to reduce future income tax deductions, which is considered to be a cost of operations that is charged to profit or loss and a corresponding increase in deferred income tax liability. When flow-through expenditures are renounced, a portion of the deferred income tax assets that were not previously recognized are recognized as a recovery of income taxes in profit or loss.

In circumstances where the Company has issued flow-through shares by way of a unit offering, the proceeds are allocated first to common shares based on the market close at the time the units are priced, and any residual value is allocated next to the warrants reserve based on the fair value of the warrant component using the Black-Scholes option pricing model on grant date. Any remaining residual value is then recognized as a liability for the premium on the flow-through shares.

(i) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow other than where their release is subject to the passage of time are excluded from the computation of loss per share until the conditions for their release are satisfied.

(k) Future accounting pronouncements

(i) IFRS 9 *Financial Instruments* (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from International Accounting Standards ("IAS") 39 *Financial Instruments: Recognition and Measurement.*

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at FVTPL; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

Applicable to the Company’s annual periods beginning on or after January 1, 2013. This standard supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2013, the Company may early-adopt IFRS 9 (2009) instead of applying this standard.

(ii) IFRS 11 *Joint Arrangements*

This standard replaces IAS 31 Interests in Joint Ventures. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly).

- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures* (2011). Unlike IAS 31, the use of "proportionate consolidation" to account for joint ventures is not permitted.

Applicable to annual reporting periods beginning on or after January 1, 2013.

(iii) IFRS 12 *Disclosure of Interests in Other Entities*

This standard requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

Significant judgments and assumptions – such as how control, joint control, significant influence has been determined.

Interests in subsidiaries – including details of the structure of the group, risks associated with structured entities, changes in control, and so on.

Interests in joint arrangements and associates – the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information).

Interests in unconsolidated structured entities – information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12 lists specific examples and additional disclosures that further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

Applicable to annual reporting periods beginning on or after January 1, 2013.

(iv) IFRS 13 *Fair Value Measurement*

This standard replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a “fair value hierarchy” based on the nature of the inputs:

Level 1 – quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

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

Level 3 – unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

This standard is applicable to annual reporting periods beginning on or after January 1, 2013.

(v) *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1)

This amendment to IAS 1 Presentation of Financial Statements revises the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together, i.e., either as a single "statement of profit or loss and comprehensive income", or a separate "statement of profit or loss' and a 'statement of comprehensive income" – rather than requiring a single continuous statement as was proposed in the exposure draft.

- Require entities to group items presented in other comprehensive income based on whether they are potentially re-classifiable to profit or loss subsequently, i.e., those that might be reclassified and those that will not be reclassified.

- Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

This amendment is applicable to annual reporting periods beginning on or after January 1, 2013.

4. Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they may be subject to future adjustment. Changes in assumptions can significantly affect estimated fair values. At December 31, 2012, the Company's financial instruments include cash, accounts receivable, reclamation deposits, bank indebtedness, and accounts payable and accrued liabilities.

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

5. Financial Risk Management

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its payment obligations. This risk arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers, and from its cash balance and reclamation deposits. The credit risk associated with cash and reclamation deposits is minimized substantially by ensuring these financial assets are placed with major financial institutions with strong investment-grade ratings by a primary ratings agency. The credit risk associated with accounts receivable is mitigated as the Company monitors monthly balances to limit the risk associated with collections. The Company does not anticipate any default. The maximum exposure to credit risk is as follows:

	December 31, 2012	February 29, 2012
Cash	**$ -**	$ 2,183,898
Accounts receivable	**904,454**	1,252,385
Reclamation deposits	**100,535**	151,977
	$ 1,004,989	$ 3,588,260

(b) Liquidity risk

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

The Company has a cash balance at December 31, 2012 of $nil (February 29, 2012 - $2,183,898) and accounts receivable of $904,454 (February 29, 2012 - $1,252,385). At December 31, 2012, the Company had accounts payable and accrued liabilities of $3,912,818 (February 29, 2012 –$1,098,374) and a negative working capital of $3,927,595 (February 29, 2012 - working capital of $2,363,944). 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, commodity prices and interest rates will affect the value of the financial instruments. Market risk is comprised of three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

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

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

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

6. Capital Management

The Company manages its capital with the following objectives:

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

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the 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 or other financial or equity-based instruments, adjusting capital spending or disposing of assets. The capital structure is reviewed on an ongoing basis.

The Company's capital structure as at December 31, 2012 and February 29, 2012 is as follows:

	December 31, 2012	February 29, 2012
Shareholders' equity	**$ 19,960,382**	$ 17,457,269
Undrawn component of bank credit facilities	**4,465,000**	5,000,000
Total capital	**$ 24,425,382**	$ 22,457,269

As at December 31, 2012, the Company had total available credit facilities of $5,500,000 (February 29, 2012 - $5,000,000) of which the Company had drawn $1,035,000 (February 29, 2012 - $nil).

7. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of proved reserves. For the ten months ended December 31, 2012, the Company transferred $3,642,159 (twelve months ended February 29, 2012 - $nil) to property and equipment.

Cost		
Balance February 28, 2011	$	473,527
Additions		1,688,216
Balance, February 29, 2012		2,161,743
Additions		4,791,060
Exploration and evaluation expense		(120,882)
Transfer to property and equipment		(3,642,159)
Balance, December 31, 2012	$	3,189,762

8. Property and Equipment

		Petroleum and Natural Gas		Other Equipment		Total
Cost						
Balance, February 28, 2011	$	3,188,325	$	57,323	$	3,245,648
Additions		12,406,326		10,199		12,416,525
Balance, February 29, 2012		15,594,651		67,522		15,662,173
Additions		7,191,824		-		7,191,824
Transfer from exploration property and evaluation assets		3,642,159		-		3,642,159
Balance December 31, 2012	**$**	**26,428,634**	**$**	**67,522**	**$**	**26,496,156**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance, February 28, 2011	$	2,556,722	$	40,361	$	2,597,083
Charge for year		1,065,656		4,551		1,070,207
Impairment loss		251,394		-		251,394
Balance, February 29, 2012		3,873,772		44,912		3,918,684
Charge for period		2,234,638		5,068		2,239,706
Impairment loss		184,938		-		184,938
Balance December 31, 2012	**$**	**6,293,348**	**$**	**49,980**	**$**	**6,343,328**
Net Book Value						
February 29, 2012		11,720,879		22,610		11,743,489
December 31, 2012	**$**	**20,135,286**	**$**	**17,542**	**$**	**20,152,828**

(a) Property acquisitions for the ten months ended December 31, 2012:

On August 8, 2012, the Company purchased property for total expenditures of $189,274 in a land sale offered through the Alberta Department of Energy. This property is located in the Company’s core Jenner area.

(b) Property acquisitions for the twelve months ended February 29, 2012:

(i) Property acquisitions constituting a business combination

On March 25, 2011, the Company closed the acquisition of the oil-producing Jenner property in southeast Alberta. The Company acquired a 100% working interest in land and tangible assets in the Jenner property for total cash consideration of $1,101,638 (net of February 2011 net production revenue). The acquisition was made to increase the Company’s land position and oil production in the Jenner area. The acquisition-date fair value of the assets acquired consisted of oil production equipment of $220,000 and petroleum and natural gas interests of

$881,638. The fair value of the assets acquired was equal to the cash consideration paid, and no goodwill or bargain purchase gain was recorded in the transaction.

On January 27, 2012, the Company closed the acquisition of an additional oil-producing property and oil processing equipment in the Jenner area of southeastern Alberta. The Company acquired land in Jenner, which included wells and associated production facilities for total cash consideration of $6,027,227. The acquisition was made to increase the Company's land position and oil production in the Jenner area. The acquisition-date fair value of the assets acquired consisted of oil production equipment of $1,200,000 and petroleum and natural gas interests of $4,827,227. The fair value of the assets acquired was equal to the consideration paid, and no goodwill or bargain purchase gain was recorded in the transaction.

(ii) Property acquisitions not constituting a business combination

On November 21, 2011, the Company closed the acquisition of a liquids-rich natural gas producing Trutch Property in northeast British Columbia. The acquisition increased the Company's production and working interest in the property by 10.5% to 30%. Total consideration of the acquisition was $250,000 in cash and 100,000 of the Company's common shares at a price of $0.35 per share.

On January 25, 2012, the Company entered into a farm-in agreement to earn a 100% working interest in lands in the Jenner area. Under the agreement, the Company can earn a 100% interest in one of two blocks of lands by solely funding the drilling and completion of a horizontal test well with a minimum vertical depth of 940 metres and horizontal reach of 150 metres by March 31, 2012 (completed). Within 60 days of completing the test well, the Company may elect to drill an additional well, to the same specifications as the test well, on the other block of lands to earn a 100% working interest in the remaining block (completed). The Company will be the primary operator on both wells and will pay a sliding-scale overriding royalty on production from the lands ranging from 5% to 12.5%.

During the ten months ended December 31, 2012, the Company performed an impairment test on its petroleum and natural gas interests. It was determined that the carrying amount of two CGUs exceeded their recoverable amount. Accordingly, the Company recognized an impairment charge of $184,938 (twelve months ended February 29, 2012 – $251,394). The impairment test was performed by comparing the estimated net present value of future cash flows from wells classified as proved and probable against their respective carrying amounts. The discounted cash flows was estimated using a discount rate of 5% (February 29, 2012 – 5%) with escalating prices and future development costs as obtained from the reserve report. The prices used are those used by independent reserve engineers.

9. Decommissioning Obligations

The Company's decommissioning obligations result from its ownership interest in petroleum and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at December 31, 2012 is $728,000. These payments are expected to be made over the next 26 years with the majority of costs to be incurred between 2019 and 2028. The discount factor, being the risk-free rate related to the liability, is 2.52% (February 29, 2012 - 2.54%). Inflation of 1.00% (February 29, 2012 - 2.20%) has also been factored into the calculation. The Company also has $100,535 (February 29, 2012 - $151,977) in various reclamation bonds for its properties held by the British Columbia Ministry of Energy, Mines and Petroleum Resources.

		December 31, 2012		February 29, 2012
Decommissioning obligations, beginning of period	**$**	**358,428**	$	67,676
Increase in estimated future obligations		**94,484**		286,708
Accretion expense		**14,323**		4,044
Decommissioning obligations, end of period	**$**	**467,235**	$	358,428

10. Finance Income and Expenses

		Ten Months Ended December 31, 2012		Twelve Months Ended February 29, 2012
Finance expense:				
Interest expense	**$**	**22,903**	$	-
Interest income		**(90)**		(865)
Part XII.6 tax		**3,323**		2,442
Accretion of provision		**14,323**		4,046
Net finance expenses	**$**	**40,459**	$	5,623

11. Bank Indebtedness

At December 31, 2012, the Company had total authorized credit facilities to borrow up to $5,500,000. The credit facilities are comprised of a revolving operating demand loan of $4,000,000 and a non-revolving acquisition and development demand loan of $1,500,000. Advances under the operating demand loan are payable on demand and are available by way of prime rate loans with an interest rate of 1.5% over the lender's prime lending rate. Advances under the acquisition and development demand loan are payable on demand and available by way of prime rate loans subject to prior engineering review by the bank with an interest rate of 2.0% over the lender's prime lending rate. The credit facilities are secured by a first floating charge debenture, a revolving credit agreement and general assignment of book debts.

As at December 31, 2012, the Company has drawn $100,000 from the revolving operating demand loan and $935,000 from the non-revolving acquisition and development demand loan for a total bank indebtedness of $1,035,000 (February 29, 2012 - $nil).

12. Capital Stock

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

The following occurred during the ten months ended December 31, 2012:

(i) On December 20, 2012, the Company closed a private placement consisting of 1,829,300 units at a price of $0.65 per unit for gross proceeds of $1,189,045. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at the price of $0.90 until December 20, 2013.

Using the residual value method to value the units, the fair value of the common shares is $1,115,873 and the remaining balance of $73,172 is allocated to the share purchase warrants.

In conjunction with the closing of the private placement, $82,643 in finders' fees and legal fees were paid and 114,191 finders' warrant issued. Each warrant entitles the holder to purchase one common share at a price of $0.90 until December 20, 2013.

(ii) The Company received $1,051,228 through the exercise of 1,752,047 common share purchase warrants. Additionally, $1,250 was received through the exercise of 5,000 stock options.

The following occurred during the twelve months ended February 29, 2012:

(iii) On April 29, 2011, the Company closed a private placement consisting of 2,575,350 units at a price of $0.40 per unit for gross proceeds of $1,030,140. Each unit consists of one common share and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.60 until October 29, 2012.

In the same private placement, the Company issued 1,380,000 flow-through units at a price of $0.45 per flow-through unit for gross proceeds of $621,000. Each flow-through unit consists of one flow-through common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional non-flow-through common share at a price of $0.60 until October 29, 2012.

The units were determined to be issued at a premium of $110,400 over the fair value of the shares. This was allocated to the warrant portion of the units, which were valued using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life (years)	1.5
Interest rate	1.70%
Volatility	115.93%
Dividend yield	0.00%

As part of the finders' fee agreement, cash finders' fees of $119,074 were paid in conjunction with the financing. Additionally, 240,247 share purchase warrants ("finder's warrants") were issued to the agents with each finder's warrant having the same terms as the placement warrants described above. These finder's warrants were valued at $36,638 using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life (years)	1.5
Interest rate	1.70%
Volatility	115.93%
Dividend yield	0.00%

(iv) On November 10, 2011, the Company closed a private placement consisting of 2,200,000 flow-through shares at a price of $0.65 per share for gross proceeds of $1,430,000.

In conjunction with the closing of this private placement, $68,705 in finder's fees were paid and 132,650 finder's warrants issued. Each warrant entitles the holder to purchase one common share at a price of $0.80 until November 10, 2012. These finder's warrants were valued at $9,924 using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life (years)	1.0
Interest rate	1.09%
Volatility	98.30%
Dividend yield	0.00%

(v) On November 21, 2011, the Company closed the acquisition of an additional working interest in its Trutch property in northeast British Columbia. Total consideration for the acquisition was $250,000 in cash and issuance of 100,000 shares (Note 8). The shares were measured at $0.35 per share, for total fair value of $35,000.

(vi) On January 27, 2012, the Company closed a brokered private placement that consisted of 12,323,157 units sold at $0.70 for aggregate subscription proceeds of $8,626,210. Each unit consisted of one common share and one-half of one transferable share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at a price of $0.95 until January 27, 2014.

In conjunction with this brokered private placement, the Company paid commissions and fees of $603,835, and issued 862,620 agent warrants, each agent warrant entitling the holder to purchase one common share at a price of $0.70 until January 27, 2014. These warrants were valued at $343,063 using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life (years)	2
Interest rate	0.95%
Volatility	112.93%
Dividend yield	0.00%

Further, 172,512 Corporate finance units were also issued in conjunction with the brokered private placement, each having the same terms as the units sold pursuant to the brokered private placement. These units were measured at $0.70, for total fair value of $120,758. Share issuance costs in the same amount were recorded.

(vii) Throughout the twelve months ended February 29, 2012, $1,666,815 was received through the exercise of 5,447,000 common share purchase warrants; $25,175 was reallocated to capital stock from the share-based payment reserve to capital stock for these share purchase warrants. Additionally, $27,050 was received through the exercise of 105,000 stock options; $22,586 was reallocated to capital stock from the share-based payment reserve for these stock options.

In conjunction with the private placements described in (i), (ii) and (vi) above, the Company incurred $151,658 in other share issuance costs.

(c) Stock options

The Company has a stock option plan in place and is authorized to grant stock options to officers, directors, employees and consultants whereby the aggregate number of shares reserved for issuance may not exceed 10% of the issued shares at the time of grant and 5% of the issued shares to each optionee. Stock options are non-transferable, subject to a four-month holding period, 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/contract and one year in the case of retirement/death/disability. The grant price may not be less than the last closing price of the Company’s shares and not less than $0.10 per share.

Details of the Company's stock options as at December 31, 2012 and February 29, 2012 are as follows:

		Changes in the Period					
Exercise Price	Expiry Date	Balance Outstanding February 29, 2012	Granted	Exercised	Expired/ Cancelled	Balance Outstanding December 31, 2012	Balance Exercisable December 31, 2012
$0.27	28-Sep-14	445,000	-	-	-	445,000	445,000
$0.25	8-Mar-15	490,000	-	(5,000)	-	485,000	485,000
$0.26	30-Sep-15	520,000	-	-	-	520,000	520,000
$0.30	23-Dec-15	425,000	-	-	-	425,000	425,000
$0.30	27-Jan-16	200,000	-	-	-	200,000	200,000
$0.38	9-Feb-16	50,000	-	-	-	50,000	50,000
$0.40	26-May-16	520,000	-	-	-	520,000	520,000
$0.48	5-Jul-16	50,000	-	-	-	50,000	50,000
$0.70	8-Feb-17	1,550,000	-	-	-	1,550,000	1,487,500
$0.65	24-Apr-17	-	75,000	-	-	75,000	75,000
$0.61	5-Jul-17	-	425,000	-	-	425,000	425,000
		4,250,000	500,000	(5,000)	-	4,745,000	4,682,500
Weighted-average exercise price		$0.45	$0.62	$0.25	-	$0.47	$0.46

		Changes in the Year					
Exercise Price	Expiry Date	Balance Outstanding February 28, 2011	Granted	Exercised	Expired/ Cancelled	Balance Outstanding February 29, 2012	Balance Exercisable February 29, 2012
$0.75	9-Sep-11	50,000	-	-	(50,000)	-	-
$0.27	28-Sep-14	470,000	-	(25,000)	-	445,000	445,000
$0.25	8-Mar-15	540,000	-	(50,000)	-	490,000	490,000
$0.26	30-Sep-15	520,000	-	-	-	520,000	520,000
$0.26	6-Oct-15	30,000	-	(30,000)	-	-	-
$0.30	23-Dec-15	425,000	-	-	-	425,000	425,000
$0.30	27-Jan-16	200,000	-	-	-	200,000	200,000
$0.38	9-Feb-16	50,000	-	-	-	50,000	50,000
$0.40	26-May-16	-	520,000	-	-	520,000	520,000
$0.48	5-Jul-16	-	50,000	-	-	50,000	50,000
$0.70	8-Feb-17	-	1,550,000	-	-	1,550,000	1,300,000
		2,285,000	2,120,000	(105,000)	(50,000)	4,250,000	4,000,000
Weighted-average exercise price		$0.28	$0.62	$0.26	$0.75	$0.45	$0.45

For the ten months ended December 31, 2012, the Company recognized $282,872 (twelve months ended February 29, 2012 - $1,089,738) in share-based payment expense from the granting of 500,000 (twelve months ended February 29, 2012 - 2,120,000) options to directors, officers, consultants and employees of the Company. The fair value was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2012	February 29, 2012
Expected life (years)	**3.75**	5.00
Interest rate	**1.18%**	1.54%
Volatility	**137.48%**	139.72%
Dividend yield	**0.00%**	0.00%

The weighted average grant date fair value for stock options granted during the ten months ended December 31, 2012 was $0.62 (twelve months ended February 29, 2012 - $0.62). The forfeiture rate has been estimated at 0% (February 29, 2012 - 0%).

Included in share-based payments expense at December 31, 2012 were 250,000 (February 29, 2012 - 250,000) stock options granted to an individual performing investor relations services. These options were granted on February 8, 2012, have an exercise price of $0.70 per share and expire February 8, 2017. The options vest at 25% at each three-month interval from the grant date. The total number of options that remain unvested at December 31, 2012 is 62,500 (February 29, 2012 - 250,000).

Throughout the ten months ended December 31, 2012, the Company removed $nil (twelve months ended February 29, 2012 - $7,425) from the share-based payment reserve and recorded a corresponding recovery in deficit for expired stock options.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(d) Share purchase warrants

Details of the Company's share purchase warrants as at December 31, 2012 and February 29, 2012 are as follows:

		Changes in the Period				
Exercise Price	Expiry Date	Balance Outstanding & Exercisable February 29, 2012	Issued	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable December 31, 2012
$0.60	29-Oct-12	2,108,872	-	(1,752,047)	(356,825)	-
$0.80	10-Nov-12	132,650	-	-	(132,650)	-
$0.90	20-Dec-13	-	914,650	-	-	914,650
$0.90	20-Dec-13	-	114,191	-	-	114,191
$0.95	27-Jan-14	6,161,578	-	-	-	6,161,578
$0.95	27-Jan-14	86,256	-	-	-	86,256
$0.70	27-Jan-14	862,620	-	-	-	862,620
		9,351,976	1,028,841	(1,752,047)	(489,475)	8,139,295
Weighted-average exercise price		$0.85	$0.90	$0.60	$0.65	$0.92

		Changes in the Year				
Exercise Price	Expiry Date	Balance Outstanding & Exercisable February 28, 2011	Issued	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable February 29, 2012
$0.30	25-Aug-11	5,337,950	-	(5,337,950)	-	-
$0.60	29-Oct-12	-	2,217,922	(109,050)	-	2,108,872
$0.80	10-Nov-12	-	132,650	-	-	132,650
$0.95	27-Jan-14	-	6,161,578	-	-	6,161,578
$0.95	27-Jan-14	-	86,256	-	-	86,256
$0.70	27-Jan-14	-	862,620	-	-	862,620
		5,337,950	9,461,026	(5,447,000)	-	9,351,976
Weighted-average exercise price		$0.30	$0.84	$0.30	-	$0.85

(e) Income (loss) per share

		Ten Months Ended December 31, 2012		Twelve Months Ended February 29, 2012
Net income for the period	$	61,361	$	942,665
Weighted average number of common shares outstanding, basic		50,888,868		34,211,904
Dilutive stock options and share purchase warrants		1,419,695		735,954
Weighted average number of common shares outstanding, fully diluted		52,308,563		34,947,858
Income per share, basic	$	0.00	$	0.03
Income per share, fully diluted	$	0.00	$	0.03

For the ten months ended December 31, 2012, 1,625,000 stock options (February 29, 2012 – 1,550,000) and 8,139,295 share purchase warrants were excluded from the fully diluted weighted-average common shares outstanding calculation because their exercise price was higher than the average market price for the period.

13. Commitment

The Company has a commitment to make monthly rental payments pursuant to an office rental agreement. The agreement expires July 31, 2014 and will require total payments in the remaining fiscal years of $89,317 for December 31, 2013 and $52,102 for December 31, 2014.

14. Related Party Transactions

For the ten months ended December 31, 2012, the Company paid management fees of $33,333 (twelve months ended February 29, 2012 - $115,000) that were charged by a director of the Company. Salaries and wages of key executive personnel, consisting of the Company's officers and directors, was awarded as follows for the ten months ended December 31, 2012 and twelve months ended February 29, 2012:

		Ten Months Ended December 31, 2012		Twelve Months Ended February 29, 2012
Short-term benefits	$	507,083	$	358,333
Share-based payments	$	196,386	$	431,148

During the periods ended December 31, 2012 and February 29, 2012, no long-term benefits were paid to related parties.

15. Supplemental Cash Flow Information

		Ten Months Ended December 31, 2012		Twelve Months Ended February 29, 2012
Non-cash transactions				
Increase in decommissioning obligations charged to property and equipment	**$**	**94,484**	$	286,707
Property and equipment expenses included in accounts payable		**2,206,153**		636,753
Exploration and evaluation expenses included in accounts payable		**1,210,332**		114,066
Common shares issued for acquisition of petroleum and natural gas interests	**$**	**-**	$	35,000

16. Subsequent Events

a) On January 25, 2013, the Company closed the second and final tranche of its non-brokered private placement whereby 86,900 units were issued at a price of $0.65 per unit for gross proceeds of $56,485.
b) In March 2013, the Company issued 250,000 incentive stock options to a consultant, exercisable at $0.50 a share.

17. Income Taxes

Effective January 1, 2011, the Canadian federal corporate tax rate decreased from 18.0% to 16.5% and the British Columbia provincial tax rate decreased from 10.5% to 10.0%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rates from 28.5% to 26.5%.

The reconciliation of income tax computed at the statutory tax rate of 25.0% (February 29, 2012 – 26.5%) to income tax (recovery) expense is:

		December 31, 2012	February 29, 2012
Income (loss) before income taxes	**$**	**543,818**	(451,879)
Statutory income tax rate		**25.0%**	26.5%
Expected income tax expense (recovery)		**135,955**	(119,748)
Non-deductible items		**74,299**	288,781
Over (under) provided in prior periods		**-**	(79,721)
Temporary differences of property and equipment and evaluation and exploration assets		**272,203**	101,942
Effect of change in tax rate		**-**	9,351
Recognized tax benefits		**-**	(1,595,149)
Deferred tax expense (recovery)	**$**	**482,457**	(1,394,544)

The tax effected items that give rise to significant portions of the deferred tax asset at December 31, 2012 and February 28, 2012 are presented below:

	December 31, 2012	February 29, 2012
Deferred tax assets		
Non-capital losses	**$ 1,133,375**	$ 855,172
Exploration and evaluation assets	**3,795,028**	2,611,169
Share issue costs	**183,126**	213,699
Other	**146,658**	114,015
	5,258,187	3,794,055
Deferred income tax liability		
Property and equipment	**(4,346,100)**	(2,399,511)
	$ 912,087	$ 1,394,544

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

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

As at December 31, 2012, the Company has non-capital losses of approximately $4,534,000 that may be applied to reduce future Canadian taxable income, expiring as follows:

Available to	
2014	$ 502,000
2025	547,000
2026	341,000
2027	216,000
2028	312,000
2029	323,000
2030	557,000
2031	623,000
2032	1,113,000
	$ 4,534,000

Hemisphere
energy corporation

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President & Chief Executive Officer

Dorlyn Evancic, CGA
Chief Financial Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

Ian Duncan, P.Eng.
Vice President, Engineering

BOARD OF DIRECTORS

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

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

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

Don Simmons, P.Geol.(4)

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

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

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