Hemisphere energy corporation

Financial Statements

For the Three Months Ended May 31, 2012

(Expressed in Canadian dollars)

HEMISPHERE ENERGY CORPORATION
Statements of Financial Position

(Unaudited - Prepared by Management)

(Expressed in Canadian dollars)

	Note	May 31, 2012	February 29, 2012
Assets			
Current assets			
Cash and cash equivalent	*5(b)*	**$ 1,500,634**	$ 2,183,898
Accounts receivable		**1,059,465**	1,252,385
Prepaid expenses		**16,907**	26,035
		2,577,006	3,462,318
Non-current assets			
Reclamation deposits	*9*	**151,977**	151,977
Exploration and evaluation assets	*7*	**2,080,894**	2,161,743
Deferred tax asset	*17*	**1,394,544**	1,394,544
Property and equipment	*8, 9*	**13,947,366**	11,743,489
		20,151,787	18,914,071
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**1,950,712**	1,098,373
Non-current liabilities			
Decommissioning obligations	*9*	**369,533**	358,428
		2,320,246	1,456,801
Shareholders' Equity			
Capital stock	*12*	**36,743,445**	36,719,484
Share-based payment reserve		**1,975,858**	1,931,456
Warrant reserve		**110,400**	110,400
Deficit		**(20,998,163)**	(21,304,069)
		17,831,540	17,457,270
		$ 20,151,787	$ 18,914,071

See accompanying notes to the condensed financial statements

On Behalf of the Board
Signed:

"C.N. O'Sullivan" Director
Charles N. O'Sullivan

"Don Simmons" Director
Don Simmons

HEMISPHERE ENERGY CORPORATION
Statements of Operations
(Unaudited - Prepared by Management)
(Expressed in Canadian Dollars)

	Note	Three Months Ended May 31, 2012	2011
Oil and natural gas revenue		**$ 2,421,663**	$ 255,863
Less: royalties		**(434,644)**	(44,287)
Total oil and natural gas revenue		**1,987,019**	211,576
Expenses			
Production and operating expenses		**619,546**	122,606
Depletion and depreciation	*8*	**713,903**	54,710
Share-based payments	*12(c)*	**44,403**	166,273
General and administrative expenses		**296,397**	172,129
		1,674,249	515,718
Results from operating activities		**312,770**	(304,142)
Finance income		**-**	843
Finance expense		**(6,865)**	(5,465)
Net finance expense	*10*	**(6,865)**	(4,622)
Income (loss) and comprehensive income (loss) for the year		**305,905**	(308,764)
Income (loss) per share:			
Basic and diluted	*12(e)*	**$ 0.01**	$ (0.01)

See accompanying notes to the condensed financial statements

HEMISPHERE ENERGY CORPORATION
Statements of Cash Flows
(Unaudited - Prepared by Management)
(Expressed in Canadian dollars)

	Note	Three Months Ended May 31, 2012	2011
Operating activities			
Net income (loss)		**$ 305,906**	$ (308,765)
Items not involving cash			
Depletion, depreciation and accretion		**718,200**	55,326
Share-based payments		**44,403**	166,273
		1,068,509	(87,166)
Changes in non-cash working capital			
Accounts receivable		**192,920**	(63,435)
Prepaid expenses		**9,128**	(14,232)
Accounts payable and accrued liabilities		**(86,626)**	26,094
		115,421	(51,573)
Cash provided by (used in) operating activities		**1,183,930**	(138,739)
Investing activities			
Acquisition of property and equipment		**(1,983,765)**	-
Reclamation deposits		**-**	47,549
Exploration and evaluation expenditures		**92,609**	(1,155,690)
Cash provided by (used in) investing activities		**(1,891,157)**	(1,108,141)
Financing activities			
Shares issued for cash, net of issue costs		**23,961**	1,533,650
Inflow of cash		**(683,264)**	286,770
Cash and cash equivalent, beginning of year		**2,183,898**	1,942,169
Cash and cash equivalent, end of year		**1,500,634**	2,228,939
Cash and cash equivalent consists of:			
Cash		**1,500,634**	2,228,939
Term deposit		**-**	-
Cash and cash equivalent		**$ 1,500,634**	$ 2,228,939

See accompanying notes to the condensed financial statements

HEMISPHERE ENERGY CORPORATION
Statements of Changes in Shareholders' Equity
(Unaudited - Prepared by Management)
(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		2,575,350	1,030,140	-		-	1,030,140
Flow-through share issuance		1,380,000	621,000	-		-	621,000
Warrant exercises		32,795	9,839	-		-	9,839
Share issuance costs		-	(127,330)	-		-	(127,330)
Finder's warrants issued		-	(36,638)	36,638		-	-
Share-based payments		-	-	166,273		-	166,273
Net loss for the year		-	-	-		(308,764)	(308,764)
Balance May 31, 2011		**30,059,827**	**26,175,817**	**710,187**	**-**	**(22,562,923)**	**4,323,081**
Balance February 29, 2012		**50,374,701**	**36,719,485**	**1,931,456**	**110,400**	**- 21,304,069**	**17,457,269**
Warrant exercises	***12(b)***	37,853	22,711	-	-	-	22,711
Stock option exercises	***12(b)***	5,000	1,250	-	-	-	1,250
Share-based payments	***12(c)***		-	44,403	-	-	44,404
Net income for the year		-	-	-	-	305,905	305,906
Balance May 31, 2012		**50,417,554**	**$ 36,743,445**	**$ 1,975,858**	**$ 110,400**	**$ (20,998,163)**	**$ 17,831,540**

See accompanying notes to the condensed financial statements

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. The Company's head office is located at 570-789 West Pender Street, Vancouver, British Columbia, Canada V6C 1H2.

The Company incurred net income for the three months ended May 31, 2012 of $305,905 (May 31, 2011 - net loss of $308,764), and as at May 31, 2012 has working capital of $626,293 (February 29, 2012 - $2,363,945), and an accumulated deficit of $20,998,163 (February 29, 2012 - $21,304,069). These unaudited condensed interim 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 unaudited condensed interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements including IAS 34 "*Interim Financial Reporting*", as issued by the International Accounting Standards Board ("IASB"). These condensed unaudited interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's February 29, 2012 annual financial statements.

The unaudited condensed interim financial statements were authorized for issue by the Board of Directors on July 19, 2012.

(b) Basis of measurement

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

(d) Use of estimates and judgments

The preparation of these unaudited condensed interim 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.

2. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgments (Continued)

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

These unaudited condensed interim financial statements have been prepared in accordance with IFRS and use the same accounting policies as described in Note 3 of the audited annual financial statements for the year ended February 29, 2012.

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 May 31, 2012, the Company's financial instruments include cash and cash equivalent, accounts receivable, reclamation deposits, and accounts payable and accrued liabilities.

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

5. FINANCIAL RISK MANAGEMENT

(a) Overview

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
- market risk.

(Expressed in Canadian dollars)

5. FINANCIAL RISK MANAGEMENT (Continued)

(a) Overview (Continued)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities on an ongoing basis.

(b) 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 and cash equivalent balance and reclamation deposits. The credit risk associated with cash, cash equivalent, 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 Company does not anticipate any default. The maximum exposure to credit risk is as follows:

	May 31, 2012	*February 29, 2012*
Cash and cash equivalent	$ 1,500,634	$ 2,183,898
Accounts receivable	1,059,465	1,252,385
Reclamation deposits	151,977	151,977
	$ 2,712,076	$ 3,588,260

(c) 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 and cash equivalent balance at May 31, 2012 of $1,500,634 (February 29, 2012 - $2,183,898) and accounts receivable of $1,059,465 (February 29, 2012 - $1,252,385). At May 31, 2012, the Company has accounts payable and accrued liabilities of $1,950,712 (February 29, 2012 - $1,098,373) and working capital of $626,293 (February 29, 2012 - $2,363,945). 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 comprises three types of risk: interest rate risk, foreign currency risk, and other price risk.

5. FINANCIAL RISK MANAGEMENT (Continued)

(i) Interest rate risk

The Company's cash and cash equivalent is held in bank accounts and due to the short-term nature of these financial instruments, fluctuations in market interest rates do not have an impact on the fair value as at May 31, 2012.

The Company manages interest rate risk by maintaining an investment policy that focuses on the preservation of capital and liquidity.

(i) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(ii) 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.

6. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence, and to sustain the future development of the business. The Company manages its capital structure and makes adjustments in light of any changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital to be all components of shareholders' equity. In order to maintain or adjust the capital structure, the Company may from time to time issue shares.

The overall objective and policy for managing capital remains unchanged to date. Although the Company has been successful at raising funds in the past through equity financing, it is uncertain whether it can continue this financing when required, due to the current economic conditions.

The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The cash equivalent is held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(Expressed in Canadian dollars)

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 three months ended May 31, 2012, $250,341 (February 29, 2012 - $nil) was transferred to property and equipment.

Cost		
Balance March 1, 2011	$	473,527
Additions		1,688,216
Balance February 29, 2012		2,161,743
Additions		169,493
Transfer to property and equipment		(250,341)
Balance May 31, 2012	**$**	**2,080,894**

8. PROPERTY AND EQUIPMENT

		Petroleum and Natural Gas		*Other Equipment*		*Total*
Cost						
Balance March 1, 2011	$	3,188,325	$	57,323	$	3,245,648
Additions		12,406,326		10,199		12,416,525
Transfer from exploration and evaluation assets		-		-		0
Balance February 29, 2012		15,594,651		67,522		15,662,173
Additions		2,917,780		-		2,917,780
Transfer from exploration and evaluation assets		-		-		-
Balance May 31, 2012	**$**	**18,512,431**	**$**	**67,522**	**$**	**18,579,953**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance March 1, 2011	$	2,556,722	$	40,361	$	2,597,083
Charge for the 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 the year		712,271		1,632		713,903
Impairment loss		-		-		-
Balance May 31, 2012	**$**	**4,586,043**	**$**	**46,544**	**$**	**4,632,587**
Net Book Value						
March 1, 2011	$	631,603	$	16,962	$	648,565
February 29, 2012		11,720,879		22,610		11,743,489
May 31, 2012	**$**	**13,926,388**	**$**	**20,978**	**$**	**13,947,366**

(Expressed in Canadian dollars)

8. PROPERTY AND EQUIPMENT (Continued)

During the year ended February 29, 2012, the Company performed an impairment test on its petroleum and natural gas interests resulting in an impairment charge of $251,394 (February 28, 2011 – $434,094) being recorded. The impairment test was based on annual data prepared by the Company's independent engineering consultant.

Although the Company believes it has title to its petroleum and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

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 has estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations of $630,000 at May 31, 2012. 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 2.54% (May 31, 2011 – 3.49%). Inflation of 2.20% (May 31, 2011 – 2.20%) has been factored into the calculation. The Company has $151,977 (May 31, 2011 - $100,535) in various reclamation bonds for its properties held by the British Columbia Ministry of Energy, Mines and Petroleum Resources.

		May 31, 2012		***February 29, 2012***
Asset retirement obligation, beginning of year	$	358,428	$	67,676
Increase in estimated future obligations		6,809		286,708
Accretion expense		4,297		4,044
Asset retirement obligation, end of year	**$**	**369,533**	**$**	**358,428**

10. FINANCE INCOME AND EXPENSES

		Three Months Ended		
		May 31, 2012		***May 31, 2011***
Finance income:				
Interest income	$	-	$	843
Finance expense:				
Interest expense		(2,568)		(4,849)
Accretion of decommissioning obligations		(4,297)		(616)
		(6,865)		(5,465)
Net finance expenses	**$**	**(6,865)**	**$**	**(4,622)**

11. CREDIT FACILITIES

On October 14, 2011, the Company entered into a Commitment letter with Canadian Western Bank ("CWB") for $950,000 in total credit facilities. The credit facilities are comprised of a revolving operating demand loan of $750,000 and a non-revolving acquisition and development demand loan of $200,000. Advances under the operating demand loan are payable on demand and are available by way of prime rate loans with an interest 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 with negative pledge, a revolving credit agreement and general assignment of book debts.

On, February 16, 2012 the Company was granted an increase in credit facilities from CWB, on the same terms as above, to $5,000,000 in total credit facilities, of which no amount was drawn at May 31, 2012. The newly increased credit facilities are comprised of a revolving operating demand loan of $4,250,000 and a non-revolving acquisition and development demand loan of $750,000.

12. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

During the three months ended May 31, 2012, $22,711 was received through the exercise of 37,853 common share purchase warrants. Additionally, $1,250 was received through the exercise of 5,000 stock options.

(c) Stock options

The Company has a stock option plan in place under which it is authorized to grant incentive stock options to officers, directors, employees and to persons in consideration for services. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance may not exceed 10% of the issued shares at the time of grant and to each individual may not exceed 5% of the issued shares. The exercise price of stock options is determined by the Board of Directors of the Company at the time of grant and may not be less than the average closing price of the Company's shares on the ten trading days immediately preceding the day on which the option is granted and publicly announced, and may not be less than $0.10 per share. Options have a maximum term of five years and terminate not later than 90 days (30 days if the optionee is engaged in providing investor relations services) following the termination of the optionee's employment, except in the case of retirement, death or disability, in which case they terminate one year after the event. Vesting of the options is determined at the time of granting of the options at the discretion of the Board of Directors. Once approved and vested, the options are exercisable at any time.

(Expressed in Canadian dollars)

12. CAPITAL STOCK (Continued)

(c) Stock options (Continued)

Details of the Company's stock options for the three months ended May 31, 2012 are as follows:

Exercise Price	Expiry Date	Balance Outstanding **February 29, 2012**	Granted	Exercised	Expired/ Cancelled	Balance Outstanding **May 31, 2012**	Balance Exercisable **May 31, 2012**
			Changes in the Year				
$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	1,362,500
$0.65	24-Apr-17	-	75,000	-	-	75,000	75,000
		4,250,000	75,000	(5,000)	-	4,320,000	4,132,500
Weighted-average exercise price		**$ 0.45**	**$ 0.65**	**$ 0.25**	**$ -**	**$ 0.45**	**$ 0.45**

For the three months ended May 31, 2012, the Company recognized $44,403 (May 31, 2011 - $166,273) in share-based payment expense from the issuance of 75,000 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:

	May 31, 2012	***May 31, 2011***
Expected life (years)	3.75	5.00
Interest rate	1.18%	1.74%
Volatility (weekly)	121.64%	143.35%
Dividend yield	0.00%	0.00%

The weighted-average grant date fair value for stock options granted during the three months ended May 31, 2012 was $0.65 (May 31, 2011 - $0.32). The forfeiture rate has been estimated at 0% (May 31, 2011 - 0%)

Included in share-based payments were 250,000 stock options granted to an individual performing investor relations services (May 31, 2011 - 30,000). 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 at 25% at each three-month interval from the grant date. The total number of options that remain unvested at May 31, 2012 is 187,500 (May 31, 2011 - nil).

(Expressed in Canadian dollars)

12. CAPITAL STOCK (Continued)

(c) Stock options (Continued)

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 for the three months ended May 31, 2012 are as follows:

Exercise Price	Expiry Date	Balance Outstanding & Exercisable **February 29, 2012**	Issued	Exercised	Expired/ Canceled	Balance Outstanding & Exercisable **May 31, 2012**
$0.60	29-Oct-12	2,108,872	-	(37,853)	-	2,071,019
$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
$0.70	27-Jan-14	862,620	-	-	-	862,620
		9,351,976	-	(37,853)	-	9,314,123
Weighted-average exercise price		**$ 0.85**	**$ -**	**$ 0.60**	**$ -**	**$ 0.84**

(e) Income (loss) per share

	Three Months Ended May 31, 2012	***May 31, 2011***
Income (loss) and comprehensive income (loss)	$ 220,361	$ (308,764)
Weighted-average number of common shares outstanding, basic	50,407,348	27,469,200
Dilutive options and warrants	1,626,581	n/a
Weighted-average number of common shares outstanding, fully diluted	52,033,929	27,469,200
Income (loss) per share, basic	**$ 0.00**	**$ (0.01)**
Income (loss) per share, fully diluted	**$ 0.00**	**$ (0.01)**

For the three months ended May 31, 2012, 1,550,000 stock options and 7,243,104 warrants were excluded from the fully diluted weighted-average common shares outstanding calculation because their exercise price is higher than the average market price for the period.

(Expressed in Canadian dollars)

13. COMMITMENT

The Company has a commitment to make monthly rental payments pursuant to an agreement to rent office space. The agreement expires July 31, 2014, and will require total payments in the remaining fiscal periods in the amounts of $85,940 for 2013 and $35,808 for 2014.

14. RELATED PARTY TRANSACTIONS

The following represents related party transactions entered into for the three months ended May 31, 2012:

(a) Management fees of $10,000 (May 31, 2011 - $25,000) were charged by a director of the Company, and

(b) Compensation of key management personnel, consisting of the Company's officers, were awarded in the following denominations:

	Three Months Ended	
	May 31, 2012	***May 31, 2011***
Salaries and wages	$ 90,417	$ 30,000
Share-based payments	-	166,273

During the three months ended May 31, 2012, no long-term benefits were paid to related parties (May 31, 2011 - $nil).

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended	
	May 31, 2012	***May 31, 2011***
Non-cash transactions		
Increase (decrease) in decommissioning obligation charged to property and equipment	$ 4,297	$ 58,695
Property and equipment expenses included in accounts payable	1,689,785	96,165
Exploration and evaluation expenses included in accounts payable	11,760	-
Common shares issued for acquisition of property and equipment	-	-

16. SUBSEQUENT EVENTS

a) On June 19, 2012 it was announced that the Company had entered into a seismic option and farm-in agreement in the Jenner area of southeast Alberta. The agreement requires Hemisphere to acquire 3D seismic on or before August 15, 2012. The Company will then have the option to drill a test well on or before November 15, 2012 subject to surface access, rig availability and regulatory approval.

b) On July 5, 2012, 425,000 incentive stock options were granted to employees of the Company with an exercise price of $0.61 and an expiry date of July 5, 2017.

(Expressed in Canadian dollars)

17. INCOME TAXES

As at February 29, 2012, the Company recorded a deferred tax recovery in the amount of $1,394,554. The tax effected items that give rise to significant portions of the deferred tax asset at February 29, 2012 and February 28, 2011 are presented below:

	February 29, 2012	*February 28, 2011*
Deferred tax assets		
Non-capital losses	$ 849,672	$ -
Property and equipment	530,709	-
Share issue cost	213,699	
Other	118,504	-
	1,712,584	-
Deferred income tax liability		-
Petroleum and natural gas assets	(318,040)	-
	$ 1,394,544	$ -

Deferred tax assets were not recognized as at February 28, 2011 as management believed that it was not probable that these assets would be realized. The Company has begun using its deferred tax assets in the year ended February 29, 2012, and believes that it will do so into the future. As such, it recognized the above deferred tax assets as at February 29, 2012.

The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset was recognized, consists of the following amounts:

	February 29, 2012	*February 28, 2011*
Non-capital losses	$ -	$ 2,797,293
Property and equipment	-	231,584
Petroleum and natural gas assets	-	3,026,468
Share issue costs	-	140,462
Other	-	184,788
	$ -	$ 6,380,595

(Expressed in Canadian dollars)

17. INCOME TAXES (Continued)

As at February 29, 2012, the Company had non-capital losses of $3,421,000 that may be applied to reduce future Canadian taxable income purposes, expiring as follows:

Available to		
2015	$	502,000
2026		547,000
2027		341,000
2028		216,000
2029		312,000
2030		323,000
2031		557,000
2032		623,000
	$	3,421,000

18. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform to the current year's presentation.