Hemisphere
energy corporation

Financial Statements

For the Nine Months Ended
November 30, 2012

(Expressed in Canadian dollars)

HEMISPHERE ENERGY CORPORATION
Condensed Interim Statements of Financial Position
(Unaudited - Prepared by Management)
(Expressed in Canadian dollars)

	Note	November 30, 2012	February 29, 2012
Assets			
Current assets			
Cash and cash equivalent		**$ -**	$ 2,183,898
Accounts receivable		**1,071,858**	1,252,385
Prepaid expenses		**70,236**	26,035
		1,142,094	3,462,318
Non-current assets			
Reclamation deposits	*9*	**151,977**	151,977
Exploration and evaluation assets	*7*	**4,006,109**	2,161,743
Deferred tax asset	*17*	**1,394,544**	1,394,544
Property and equipment	*8*	**17,583,543**	11,743,489
Total assets		**$ 24,278,267**	$ 18,914,071
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 2,965,098**	$ 1,098,373
Bank debt	*11*	**1,250,000**	-
		4,215,098	1,098,373
Non-current liabilities			
Decommissioning obligations	*9*	**405,365**	358,428
		4,620,462	1,456,801
Shareholders' Equity			
Capital stock	*12*	**37,771,962**	36,719,484
Share-based payment reserve		**2,214,328**	1,931,456
Warrant reserve		**110,400**	110,400
Deficit		**(20,438,885)**	(21,304,069)
		19,657,805	17,457,270
Total shareholders' equity and liabilities		**$ 24,278,267**	$ 18,914,071

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

On Behalf of the Board
(Signed)

"Bruce McIntyre"
Bruce McIntyre, Director

"Don Simmons"
Don Simmons, Director

HEMISPHERE ENERGY CORPORATION
Condensed Interim Statements of Comprehensive Income
(Unaudited - Prepared by Management)
(Expressed in Canadian dollars)

	Note	Three Months Ended November 30, 2012	Three Months Ended November 30, 2011	Nine Months Ended November 30, 2012	Nine Months Ended November 30, 2011
Oil and natural gas revenue		**$ 2,730,244**	$ 1,273,655	**$ 7,181,046**	$ 1,827,044
Royalties		**(365,212)**	(179,495)	**(1,242,193)**	(254,926)
Total oil and natural gas revenue		**2,365,031**	1,094,160	**5,938,853**	1,572,118
Expenses					
Production and operating expenses		**580,329**	203,619	**1,646,851**	425,761
Depletion and depreciation	***8***	**748,677**	102,057	**2,179,980**	211,415
Share-based payments	***12(c)***	**-**	-	**282,872**	181,788
General and administrative expenses		**319,460**	191,028	**931,402**	532,156
		1,648,466	496,704	**5,041,105**	1,351,120
Results from operating activities		**716,566**	597,456	**897,748**	220,998
Finance expense	***10***	**(20,733)**	(948)	**(32,566)**	(8,837)
Income and comprehensive income for the period		**$ 695,833**	$ 596,508	**$ 865,183**	$ 212,161
Income per share:					
Basic and diluted	***12(e)***	**$ 0.01**	$ 0.02	**$ 0.02**	$ 0.01

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

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

	Note	Three Months Ended November 30, 2012	Three Months Ended November 30, 2011	Nine Months Ended November 30, 2012	Nine Months Ended November 30, 2011
Operating activities					
Net income for the period		**$ 695,834**	$ 596,508	**$ 865,183**	$ 212,161
Items not affecting cash:					
Depletion, depreciation and accretion		**752,973**	103,027	**2,192,870**	214,456
Share-based payments		**-**	-	**282,872**	181,788
		1,448,807	699,535	**3,340,926**	608,407
Changes in non-cash working capital:					
Accounts receivable		**(159,013)**	(467,474)	**180,527**	(602,805)
Prepaid expenses		**5,222**	(10,881)	**(44,201)**	(71,715)
Accounts payable and accrued liabilities		**13,014**	(2,787)	**(120,519)**	(30,548)
		(140,778)	(481,141)	**15,806**	(705,067)
Cash provided by (used in) operating activities		**1,308,030**	218,394	**3,356,732**	(96,661)
Investing activities					
Acquisition of property and equipment		**(3,020,918)**	(624,837)	**(7,595,961)**	(1,861,393)
Reclamation deposits		**-**	(51,442)	**-**	(3,893)
Exploration and evaluation expenditures		**(191,378)**	(1,263,429)	**(247,147)**	(2,606,097)
Cash provided by (used in) investing activities	*15*	**(3,212,296)**	(1,939,708)	**(7,843,108)**	(4,471,383)
Financing activities					
Shares issued for cash, net of issue costs		**1,028,516**	1,406,756	**1,052,478**	4,551,202
Bank debt		**350,000**	-	**1,250,000**	-
Inflow (outflow) of cash		**(525,751)**	(314,556)	**(2,183,898)**	(16,841)
Cash and cash equivalent, beginning of period		**525,751**	2,239,883	**2,183,898**	1,942,169
Cash and cash equivalent, end of period		**$ -**	$ 1,925,328	**$ -**	$ 1,925,328

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

HEMISPHERE ENERGY CORPORATION
Condensed Interim 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		3,580,000	2,051,000	-	-	-	2,051,000
Warrant exercises		5,397,000	1,636,815	-	-	-	1,636,815
Stock option exercises		105,000	27,050	-	-	-	27,050
Share issuance costs		-	(228,802)	-	-	-	(228,802)
Finder's warrants issued		-	(46,561)	46,561	-	-	-
Shares issued on property acquisition		100,000	35,000	-	-	-	35,000
Share-based payments		-	-	181,788	-	-	181,788
Net income for the period		-	-	-	-	212,161	212,161
Balance November 30, 2011		**37,829,032**	**29,183,448**	**735,625**	**-**	**(22,041,998)**	**7,877,076**
Balance March 1, 2012		**50,374,701**	**36,719,485**	**1,931,456**	**110,400**	**(21,304,069)**	**17,457,269**
Warrant exercises	*12(b)*	1,752,047	1,051,228	-	-	-	1,051,229
Stock option exercises	*12(b)*	5,000	1,250	-	-	-	1,250
Share-based payments	*12(c)*	-	-	282,872	-	-	282,873
Net income for the period		-	-	-	-	865,183	865,183
Balance November 30, 2012		**52,131,748**	**$ 37,771,962**	**$ 2,214,328**	**$ 110,400**	**$ (20,438,886)**	**$ 19,657,804**

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

1. REPORTING ENTITY

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 recognized net income for the nine months ended November 30, 2012 of $865,183 (November 30, 2011 - $212,161). As at November 30, 2012, the Company had a negative working capital of $3,073,004 (February 29, 2012 - $2,363,944) and an accumulated deficit of $20,438,885 (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 PREPARATION

(a) Statement of compliance

These unaudited condensed interim financial statements have been 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 audited annual financial statements.

These unaudited condensed interim financial statements were authorized for issuance by the Board of Directors on January 16, 2013.

(b) Basis of presentation

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 were prepared using the accrual basis of accounting, except for cash flow information.

On August 20, 2012, the Company announced that it will be changing its fiscal year-end date from February 28 to December 31. In accordance with relevant legislation, the Company has prepared its final condensed interim financial statements under the February 28 year-end for the period ended November 30, 2012. The Company's next annual audited financial statements will be for the ten months ended December 31, 2012.

(c) Functional currency

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

2. BASIS OF PREPARATION (Continued)

(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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed interim financial statements have been prepared in accordance with IFRS and follow the same accounting policies as described in Note 3 of the Company's audited annual financial statements for the year ended February 29, 2012. There have been no changes to the Company's accounting policies since these financial statements were issued.

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 November 30, 2012, the Company's financial instruments include cash and cash equivalent, accounts receivable, reclamation deposits, bank debt, 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

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 and cash equivalent balance and reclamation deposits. The credit risk associated with cash, cash equivalent, and reclamation deposits is minimized substantially by ensuring that 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:

		November 30, 2012		*February 29, 2012*
Cash and cash equivalent	**$**	**-**	$	2,183,898
Accounts receivable		**1,071,858**		1,252,385
Reclamation deposits		**151,977**		151,977
	$	**1,223,835**	$	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 and cash equivalent balance at November 30, 2012 of $nil (February 29, 2012 - $2,183,898) and accounts receivable of $1,071,858 (February 29, 2012 - $1,252,385). At November 30, 2012, the Company has accounts payable and accrued liabilities of $2,965,098 (February 29, 2012 - $1,098,373), bank debt of $1,250,000 (February 29, 2012 - $nil) and a negative working capital of $3,073,004 (February 29, 2012 - $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

The Company's cash and cash equivalent are 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 their fair values.

5. FINANCIAL RISK MANAGEMENT (Continued)

(i) Interest rate risk (Continued)

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

(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 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 working capital, share capital, 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.

The Company's capital structure as at November 30, 2012 and November 30, 2011 are as follows:

	November 30, 2012	*November 30, 2011*
Current assets	**$ 1,142,094**	$ 2,636,403
Current liabilities	**4,215,098**	1,097,534
Working capital surplus/(deficit)	**(3,073,004)**	1,538,869
Share capital	**37,771,962**	28,969,002
Undrawn component of bank credit facility	**4,250,000**	950,000
Total capital	**$ 38,948,958**	$ 31,457,871

As at November 30, 2012, the Company had total available credit facilities of $5,500,000 (November 30, 2011 - $950,000) of which the Company had drawn $1,250,000 (November 30, 2011 - $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 nine months ended November 30, 2012, the Company transferred $714,239 (February 29, 2012 - $nil) to property and equipment.

Cost		
Balance March 1, 2011	$	473,527
Additions		1,688,216
Balance February 29, 2012		2,161,743
Additions		2,558,605
Transfer to property and equipment		(714,239)
Balance November 30, 2012	**$**	**4,006,109**

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		-		-		-
Balance February 29, 2012		15,594,651		67,522		15,662,173
Additions		7,305,795		-		7,305,795
Transfer from exploration and evaluation assets		714,239		-		714,239
Balance November 30, 2012	**$**	**23,614,684**	**$**	**67,522**	**$**	**23,682,206**
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 period		2,175,431		4,548		2,179,979
Impairment loss		-		-		-
Balance November 30, 2012	**$**	**6,049,203**	**$**	**49,460**	**$**	**6,098,663**
Net Book Value						
March 1, 2011	$	631,603	$	16,962	$	648,565
February 29, 2012		11,720,879		22,610		11,743,489
November 30, 2012	**$**	**17,565,481**	**$**	**18,062**	**$**	**17,583,543**

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 which resulted in an impairment charge of $251,394 (February 28, 2011 – $434,094) being recorded at year-end. 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 estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations of $710,000 at November 30, 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% (November 30, 2011 – 3.10%). Inflation of 2.20% (November 30, 2011 – 2.20%) has also been factored into the calculation. The Company also has $151,977 (November 30, 2011 - $151,977) in various reclamation bonds for its properties held by the British Columbia Ministry of Energy, Mines and Petroleum Resources.

	November 30, 2012	*February 29, 2012*
Asset retirement obligation, beginning of period	**$ 358,428**	$ 67,676
Increase in estimated future obligations	**34,047**	286,708
Accretion expense	**12,890**	4,044
Asset retirement obligation, end of period	**$ 405,365**	$ 358,428

10. FINANCE INCOME AND EXPENSES

	Three Months Ended November 30, 2012	*2011*	***Nine Months Ended November 30, 2012***	*2011*
Finance expense:				
Interest expense	**$ 16,436**	$ -	**$ 16,436**	$ -
Interest income	**-**	(22)	**(90)**	(865)
Part XII.6 tax	**-**	-	**3,330**	6,661
Accretion of provision	**4,297**	970	**12,890**	3,041
Total finance expense	**$ 20,733**	$ 948	**$ 32,566**	$ 8,837

10. FINANCE INCOME AND EXPENSES (Continued)

During the three and nine months ended November, 30, 2012, the Company had interest expense of $16,436 as compared to $nil in the same periods of the previous fiscal year. This increase was due to loan interest charged monthly on the Company's total outstanding bank debt.

On November 14, 2011, the Company closed a private placement which raised proceeds of $1,430,000 deemed to be spent on exploration and development expenditures. Any unspent portion of these proceeds is subject to Part XII.6 tax. During the nine months ended November 30, 2012, the Company incurred Part XII.6 tax of $3,330 on the portion of its flow-through funds that were unspent during the look-back period. As at November 30, 2012, all flow-through funds from this private placement have been spent.

11. BANK DEBT

At November 30, 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 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. The Company's next annual review is scheduled to be on or before April 30, 2013.

As at November 30, 2012, the Company had drawn $950,000 from the revolving operating demand loan and $300,000 from the non-revolving acquisition and development demand loan for a total bank debt of $1,250,000.

12. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

During the nine months ended November 30, 2012, the Company received $1,051,228 through the exercise of 1,752,047 common share purchase warrants. Of these proceeds, $1,028,516 was received during the three months ended November 30, 2012 through the exercise of 1,714,194 common share purchase warrants. Additionally, $1,250 was received through the exercise of 5,000 stock options during the nine months ended November 30, 2012.

(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 not 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.

12. CAPITAL STOCK (Continued)

(c) Stock options (Continued)

Details of the Company's stock options as at February 29, 2012 and November 30, 2012 are as follows:

Exercise Price	Expiry Date	Balance Outstanding February 29, 2012	Changes in the Period: Granted	Exercised	Expired/ Cancelled	Balance Outstanding **November 30, 2012**	Balance Exercisable **November 30, 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**	**$ 0.47**

For the three months ended November 30, 2012, the Company recognized $nil (November 30, 2011 - $nil) in share-based payment expense as there was no stock options issued during the quarter. For the nine months ended November 30, 2012, the Company recognized $282,872 (November 30, 2011 - $181,788) in share-based payments from 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:

	November 30, 2012	*November 30, 2011*
Expected life (years)	**3.75**	5.00
Interest rate (%)	**1.18**	1.72
Volatility – weekly (%)	**137.48**	143.47
Dividend yield (%)	**0.00**	0.00

The weighted-average grant date fair value for stock options granted during the nine months ended November 30, 2012 was $0.62 (November 30, 2011 - $0.41).

Included in share-based payments were 250,000 stock options granted to a company performing investor relations services (November 30, 2011 - 30,000). These options were granted on February 8, 2012, with 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 November 30, 2012 was 62,500 (November 30, 2011 - $nil).

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 as at February 29, 2012 and November 30, 2012 are as follows:

			Changes in the Period			
Exercise Price	Expiry Date	Balance Outstanding & Exercisable February 29, 2012	Issued	Exercised	Expired/ Canceled	Balance Outstanding & Exercisable **November 30, 2012**
$0.60	29-Oct-12	2,108,872	-	(1,752,047)	(356,825)	-
$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
$0.70	27-Jan-14	862,620	-	-	-	862,620
		9,351,976	-	(1,752,047)	(489,475)	7,110,454
Weighted-average exercise price		**$ 0.85**	**$ -**	**$ 0.60**	**$ 0.65**	**$ 0.92**

During the three and nine months ended November 30, 2012, 489,475 share purchase warrants expired. Of these expired share purchase warrants, 356,825 were exercisable at a price of $0.60 and 132,650 were exercisable at a price of $0.80.

(e) Income per share

	Three Months Ended November 30,		***Nine Months Ended November 30,***	
	2012	*2011*	***2012***	*2011*
Comprehensive income	**$ 695,833**	$ 596,508	**$ 865,183**	$ 212,161
Weighted average number of common shares outstanding, basic	**50,877,685**	35,921,605	**50,675,590**	31,509,484
Dilutive options and warrants	**1,546,845**	1,408,014	**1,422,722**	1,048,275
Weighted average number of common shares outstanding, fully diluted	**52,424,530**	37,329,619	**52,098,313**	32,557,759
Income per share, basic	**$ 0.01**	$ 0.02	**$ 0.02**	$ 0.01
Income per share, fully diluted	**$ 0.01**	$ 0.02	**$ 0.02**	$ 0.01

12. CAPITAL STOCK (Continued)

(e) Income per share

For the three months ended November 30, 2012, 1,550,000 stock options and 7,110,454 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. For the nine months ended November 30, 2012, 1,625,000 stock options and 7,110,454 share purchase warrants were excluded from the fully diluted weighted-average common shares outstanding calculation.

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 three months ended November 30, 2012, the Company paid management fees of $10,000 (November 30, 2011 - $25,000) that were charged by a director of the Company. For the nine months ended November 30, 2012, the Company paid management fees of $30,000 (November 30, 2011 - $75,000) which represents a decrease of $45,000 as compared to the same period of the previous year.

Compensation of key executive personnel, consisting of the Company's officers, was awarded in the following denominations for the three and nine months ended November 30, 2012 and 2011:

	Three Months Ended November 30,		***Nine Months Ended November 30,***	
	2012	*2011*	***2012***	*2011*
Salaries and wages	**$ 133,750**	$ 51,250	**$ 352,500**	$ 153,750
Share-based payments	**-**	-	**196,386**	94,328

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended November 30,	
	2012	*2011*
Non-cash transactions		
Increase (decrease) in decommissioning obligation charged to property and equipment	**$ 34,047**	$ 58,695
Property and equipment expenses included in accounts payable	**1,140,845**	922,139
Exploration and evaluation expenses included in accounts payable	**1,597,218**	-
Common shares issued for acquisition of petroleum and natural gas interests	**35,000**	-

16. SUBSEQUENT EVENTS

On December 6, 2012, the Company announced a non-brokered private placement of up to $1,625,000 at a price of $0.65 per unit. Each unit consisted of one common share and one-half of a share purchase warrant, with each whole warrant to entitle the holder to purchase one common share at the price of $0.90 per share for a period of 12 months from the closing of the private placement.

The Company closed the first tranche of this non-brokered private placement on December 20, 2012 whereby 1,839,300 units were issued for gross proceeds of $1,189,045. In conjunction with the first tranche closing, the Company also issued 114,191 finders' warrants and paid 7% in cash finders' fees on a portion of the funds raised under the private placement.

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 gave rise to significant portions of the deferred tax asset are disclosed in Note 19 of the Company's annual audited financial statements for the year ended February 29, 2012.

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.