Management's Discussion and Analysis

For the Three and Nine Months Ended November 30, 2012

(Expressed in Canadian dollars)

The following discussion and analysis of the current financial position and results of operations of Hemisphere Energy Corporation ("Hemisphere" or the "Company") for the three and nine months ended November 30, 2012 should be read in conjunction with the November 30, 2012 condensed interim financial statements and related notes. These documents are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca. The effective date of this report is January 16, 2013.

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

FORWARD-LOOKING STATEMEMENTS

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 CONVERSIONS

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 and accretion, share-based payments and future income tax. 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 16,375 net acres (6,627 ha) and has continued to build a land position in the Jenner area through crown land sales and strategic acquisitions and farm-ins.

On January 27, 2012, the Company closed a property acquisition in the Jenner area, as originally announced on December 8, 2011. The acquisition consisted of 8.5 net sections (5,380 acres) of land and operated oil production in the Jenner area directly adjacent to the Company's existing operations, with a significant portion of the land being covered with 3D seismic.

On September 9, 2012, the Company announced results from its summer drilling program which commenced in July 2012. The drilling program resulted in two horizontal wells that targeted the oil-bearing sandstones of the Glauconitic formation. The first well commenced production on August 1, 2012 averaging approximately 25 barrels of oil per day with a 5% water cut. The second well commenced production on August 11, 2012 averaging approximately 172 barrels of oil per day with a 6% water cut.

On November 16, 2012, the Company announced results from the drilling of two additional oil wells in Jenner. Hemisphere commenced the drilling of these wells in late September 2012 resulting in one horizontal well and one vertical well. The horizontal well commenced production on October 31, 2012 averaging approximated 140 barrels of oil per day with a 0% water cut. The vertical well was the Company's initial earning well under its Jenner farm-in agreement as previously announced on June 19, 2012. This well earns the Company a ¼ section and extends the rolling option to drill and earn up to a total of 6.50 sections within the Jenner area.

During the nine months ended November 30, 2012, the Company completed significant upgrades to its main production facility by adding power lines to energize well sites, a new water disposal pump and 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 working interests varying from 30% to 100% in approximately 22,837 net acres (~9,246 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

The Company reported a net income for the three months ended November 30, 2012 of $695,833 ($0.01/share) as compared to a net income of $596,508 ($0.02/share) for the three months ended November 30, 2011. The Company reported net income for the nine months ended November 30, 2012 of $865,183 ($0.02/share) as compared to a net income of $212,161 ($0.01/share) for the same period of the previous fiscal year.

For the three months ended November 30, 2012, the Company generated funds flow from operating activities of $1,448,807 ($0.03/share) as compared to $699,535 ($0.02/share) for the three months ended November 30, 2011. This represents an improvement in funds flow of $749,272.

The Company generated funds flow from operating activities of $3,340,926 ($0.07/share) for the nine months ended November 30, 2012 as compared to $608,407 ($0.02/share) for the same period of the previous fiscal year which represents an improvement in funds flow of $2,732,519.

Production

The Company's production for the three and nine months ended November 30, 2012 and 2011 are as follows:

	Three Months Ended November 30,		***Nine Months Ended November 30,***	
	2012	*2011*	***2012***	*2011*
Oil (bbl/d)	**406**	160	**375**	72
Natural gas (Mcf/d)	**132**	264	**163**	240
NGL (bbl/d)	**2**	4	**3**	3
Total (boe/d)	**430**	208	**405**	115
Oil and NGL weighting	**95%**	79%	**93%**	65%

The Company's production averaged 430 boe per day ("boe/d") for the three months ended November 30, 2012 with an oil and natural gas liquids ("NGL") weighting of 95%. This represents a 107% increase in production from 208 boe/d over the same quarter in the previous fiscal year. For the nine months ended November 30, 2012, production increased to 405 boe/d (November 30, 2011 115 boe/d) with an oil and NGL weighting of 93%. This represents a 252% increase in production over the same period in the previous fiscal year. Increases in production volume can be attributed to the drilling of new oil wells in the Jenner area.

Revenue

The Company's revenue for the three and nine months ended November 30, 2012 and 2011 are as follows:

	Three Months Ended November 30,		***Nine Months Ended November 30,***	
	2012	*2011*	***2012***	*2011*
Oil	**$ 2,693,644**	$ 1,149,888	**$7,040,266**	$ 1,535,655
Natural gas	**26,845**	91,481	**87,071**	$ 235,727
NGL	**9,754**	32,286	**53,710**	$ 55,662
Total revenue	**$ 2,730,244**	$ 1,273,655	**$7,181,046**	$ 1,827,044

Total revenue for the three months ended November 30, 2012 and 2011 was $2,730,244 and $1,273,655, respectively, which represents an increase of $1,456,589 or 107%. Revenue for the three months ended November 30, 2012 consisted of $2,693,644 in oil, $26,845 in natural gas and $9,754 in NGL.

For the nine months ended November 30, 2012, total revenue was $7,181,046 as compared to $1,827,044 in the same period of the previous fiscal year which represents an increase of $5,354,002 or 293%. Revenue for the nine months ended November 30, 2012 consisted of $7,040,266 in oil, $87,071 in natural gas and $53,710 in NGL. The increase in revenue for both the three and nine months ended November 30, 2012 is from the drilling and developing new wells in the Jenner area.

Average benchmark and realized prices for the three and nine months ended November 30, 2012 and 2011 are as follows:

	Three Months Ended November 30,		***Nine Months Ended November 30,***	
	2012	*2011*	***2012***	*2011*
Benchmark prices				
WTI (US$/bbl)(1)	**$ 90.37**	$ 89.74	**$ 93.31**	$ 95.80
Exchange rate (1 US$/Cdn$)	**0.9883**	1.0035	**1.0037**	0.9863
WTI (C$/bbl)	**89.31**	90.06	**93.66**	94.49
AECO natural gas ($/Mcf)(2)	**2.88**	3.35	**2.27**	3.59
Average realized prices				
Crude oil ($/bbl)	**72.91**	79.17	**68.34**	78.07
NGL ($/bbl)	**57.84**	86.91	**60.59**	69.72
Natural gas ($/Mcf)	**2.23**	3.81	**1.94**	3.56
Combined ($/boe)	**69.78**	67.39	**64.47**	58.02

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

The Company's combined weighted-average realized price for the three months ended November 30, 2012 increased to $69.78/boe as compared to $67.39/boe for the same quarter of the previous fiscal year. For the nine months ended November 30, 2012 and 2011, the Company's combined weighted-average realized prices were $64.47/boe and $58.02/boe, respectively. 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, and a further quality adjustment to reflect the cost of blending our heavy oil with diluents to meet pipeline specifications.

Operating Netback

The components of operating netback for the three and nine months ended November 30, 2012 and 2011 are as follows:

Netback	***Three Months Ended November 30,***		***Nine Months Ended November 30,***	
	2012	*2011*	***2012***	*2011*
Revenue	**$ 2,730,244**	$ 1,273,655	**$7,181,046**	$1,827,044
Royalties	**365,213**	179,495	**1,242,193**	254,926
Operating costs	**516,282**	160,451	**1,302,958**	372,976
Transportation costs	**64,048**	43,170	**343,893**	52,786
Operating netback	**$ 1,784,702**	$ 890,541	**$4,292,002**	$1,146,357

Netback ($/boe)				
Revenue	**$ 69.78**	$ 67.39	**$ 64.47**	$ 58.02
Royalties	**9.33**	9.50	**11.15**	8.10
Operating costs	**13.20**	8.49	**11.71**	11.84
Transportation costs	**1.64**	2.28	**3.09**	1.68
Operating netback	**$ 45.62**	$ 47.12	**$ 38.52**	$ 36.40

Royalties for the three months ended November 30, 2012 were $365,213 or $9.33/boe as compared to $179,495 or $9.50/boe for the same quarter of the previous fiscal year. For the nine months ended November 30, 2012 and 2011, royalties were $1,242,193 or $11.15/boe and $254,926 or $8.10/boe, respectively, which represents an increase of $987,267 or $3.06/boe. The increase in royalties are attributed to the new wells acquired and drilled on the Jenner property during the period, which are subject to crown royalties and gross overriding royalties.

Operating costs include all costs for gathering, processing, dehydration, compression, water processing and marketing of the oil, natural gas and NGLs, as well as additional costs incurred periodically for maintenance and repairs. Operating costs for the three months ended November 30, 2012 were $516,282 or $13.20/boe as compared to $160,451 or $8.49/boe for the same quarter of the previous fiscal year. Operating costs for the nine months ended November 30, 2012 and 2011 were $1,302,958 or $11.71/boe and $372,976 or $11.84/boe, respectively, which represents a decrease of $0.13/boe.

Transportation costs include all costs incurred to transport oil and gas sales to processing and distribution facilities. Transportation costs for the three months ended November 30, 2012 were $64,048 or $1.64/boe as compared to $43,170 or $2.28/boe for the same quarter of the previous fiscal year representing a decrease of $0.65/boe. Transportation costs for the nine months ended November 30, 2012 and 2011 were $343,893 or $3.09/boe and $52,786 or $1.68/boe, respectively. The transportation costs per boe have begun to reduce in the third quarter due to the tie-in of more wells in the Jenner area.

Operating netback for the three months ended November 30, 2012 was $1,784,702 or $45.62/boe which is an increase of $894,161 from $890,541 or $47.12/boe in the same quarter of the previous fiscal year. For the nine months ended November 30, 2012, the operating netback increased by $3,145,645 to $4,292,002 or $38.52/boe from $1,146,357 or $36.40/boe for the same period of the prior fiscal year. This represents an increase in operating netback of $2.12/boe, which is mainly attributed to the higher price realized from marketing the Company's oil.

Depletion and Depreciation

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2012	*2011*	***2012***	*2011*
Depletion expense	**$ 747,274**	$ 101,034	**$ 2,175,432**	$ 208,004
Depreciation expense	**1,403**	1,023	**4,548**	3,411
Total	**$ 748,677**	$ 102,057	**$ 2,179,980**	$ 211,415
$ per boe	**$ 19.14**	$ 5.40	**$ 19.57**	$ 6.71

Depletion and depreciation expense for the three months ended November 30, 2012 and 2011 was $748,677 or $19.14/boe and $102,057 or $5.40/boe, respectively, which represents an increase of $646,620 or $13.74/boe. For the nine months ended November 30, 2012, depletion and depreciation increased by $1,968,565 or $12.86/boe to $2,179,980 or $19.57/boe from $211,415 or $6.71/boe for the same period of the previous fiscal year.

The depletion rate is calculated on proved and probable oil and natural gas reserves, taking into account the future development costs to produce the reserves. The increase in depletion is relative to the Company's acquisitions of property and development of producing wells in the past twelve months. For the three and nine months ended November 30, 2012, depreciation has been recorded for the Company's fixed assets in the amount of $1,403 and $4,548, respectively.

Capital Expenditures

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2012	*2011*	***2012***	*2011*
Land and lease	**$ 896**	$ 9,024	**$ 19,648**	$ 18,038
Geological and geophysical	**121,878**	69,174	**212,797**	199,280
Drilling and completions	**2,782,417**	1,537,895	**5,300,329**	2,831,666
Investment in facilities	**1,000,495**	684,451	**4,105,935**	955,225
Development capital	**3,905,686**	2,300,544	**9,638,708**	4,004,209
Property acquisitions	**-**	171,453	**191,644**	1,352,527
Total capital expenditures	**$ 3,905,686**	$ 2,471,998	**$ 9,830,352**	$ 5,356,735

For the three and nine months ended November 30, 2012, expenditures on development capital were $3,905,686 and $9,638,708, respectively. This development capital includes $5,300,329 spent in the nine months ended November 30, 2012 on drilling and completing five horizontal wells on the Jenner property as well as $4,105,935 spent in building infrastructure in the Company's core Jenner area. This infrastructure included pipelines for new wells and upgrades to Jenner's main production facility by adding a new water disposal pump and a heated free-water-knockout separator, which will allow for greater fluid handling capacity.

Share-Based Payments

Share-based payments for the three months ended November 30, 2012 and 2011 were $nil. For the nine months ended November 30, 2012, share-based payments increased by $101,084 to $282,872 from $181,788 in the same period of the previous fiscal year. The increase is due to the granting of 500,000 incentive stock options to consultants and employees during the period.

General and Administrative

General and administrative expenses, before other items, for the three months ended November 30, 2012 were $319,460 as compared to $191,028 for the same quarter of the prior fiscal year which represents an increase of $128,432. For the nine months ended November 30, 2012, general and administrative expenses increased by $399,246 to $931,402 from $532,156 in the same period of the previous fiscal year.

The increase in general and administrative expenses can be attributed to the increase of salaries and wages, investor-related expenses, and office rent and expenses. Salaries and wages increased due to the addition of new technical and office staff. Investor-related expenses increased as a result of the Company's engagement in investor relations services. Office rent and expenses increased as a result of the relocation of the Company's office, and travel and personnel costs.

Finance Income and Expense

	Three Months Ended November 30,		***Nine Months Ended November 30,***	
	2012	*2011*	***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

Finance expense for the three months ended November 30, 2012 and 2011 was $20,733 and $948, respectively, representing an increase of $19,785. For the nine months ended November 30, 2012, finance expense was $32,566 which represents an increase of $23,729 from $8,837 for the same period in the previous fiscal year.

The changes in finance expense for the three and nine months ended November 30, 2012 can be attributed to monthly interest charged on the Company's total outstanding bank debt as well as the increase in accretion expense from the addition of new wells.

SELECTED ANNUAL INFORMATION

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

	Fiscal Year Ended		
	February 29, 2012 (IFRS)	***February 28, 2011 (IFRS)***	***February 28, 2010 (GAAP)***
Income (Loss) before Income Tax	$ (451,879)	$ (1,486,455)	$ (675,652)
Net Income (Loss)	942,665	(1,486,455)	(614,707)
Income (Loss) Per Share	0.03	(0.07)	(0.05)
Total Assets	18,914,071	3,248,901	2,074,329
Total Liabilities	1,456,802	316,978	359,171
Working Capital	2,363,944	1,729,423	559,483
Capitalized acquisition, exploration and development costs	13,075,574	535,013	564,222
Share-based payments	1,089,738	423,932	149,311
Shares issued for cash, net of issue costs	12,457,943	2,212,542	1,303,751
General and administration costs	977,461	574,689	733,361

SUMMARY OF QUARTERLY RESULTS

	30-Nov-12 Q3 IFRS	31-Aug-12 Q2 IFRS	31-May-12 Q1 IFRS	29-Feb-12 Q4 IFRS	30-Nov-11 Q3 IFRS	31-Aug-11 Q2 IFRS	31-May-11 Q1 IFRS	28-Feb-11 Q4 GAAP	30-Nov-10 Q3 GAAP
Total revenue	2,730,244	2,029,230	2,421,663	2,763,564	1,273,677	297,526	256,706	87,093	71,040
Income (loss) before other items	716,566	(131,587)	312,770	(667,254)	597,456	(72,317)	(304,141)	(309,654)	(287,882)
Basic income (loss) per share	0.01	(0.00)	0.01	(0.02)	0.02	(0.00)	(0.01)	(0.02)	(0.01)
Diluted income (loss) per share	0.01	(0.00)	0.01	(0.02)	0.02	(0.00)	(0.01)	(0.02)	(0.01)
Net income (loss)	695,833	(136,556)	305,905	730,504	596,509	(75,583)	(308,764)	(529,637)	(284,817)
Basic income (loss) per share	0.01	(0.00)	0.01	0.02	0.02	(0.00)	(0.01)	(0.03)	(0.01)
Diluted income (loss) per share	0.01	(0.00)	0.01	0.02	0.02	(0.00)	(0.01)	(0.03)	(0.01)

The quarterly figures above for the current and previous fiscal years are presented with the application of IFRS. Figures for the periods prior to those above are all stated in accordance with previous GAAP.

SHARE CAPITAL AND FINANCING ACTIVITIES

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. As at November 30, 2012, the Company had 52,131,748 total common shares outstanding.

During the period 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.

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**

During the three months ended November 30, 2012 and 2011, the Company had $nil in share-based payment expense. During the nine months ended November 30, 2012, the Company had $282,872 in share-based payment expense from the issuance of 500,000 options to consultants and employees of the Company. This represents an increase of $101,084 as compared to $181,788 for the nine months ended November 30, 2011. 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 as compared to $0.41 for the nine months ended November 30, 2011.

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, 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 November 30, 2012 is 62,500 (November 30, 2011 – $nil).

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.

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**

	November 30, 2012	*January 16, 2013**
Fully Diluted Share Capital		
Common shares issued and outstanding	**52,131,748**	53,971,048
Share purchase warrants	**7,110,454**	8,144,295
Stock options	**4,745,000**	4,745,000
Total Fully Diluted	**63,987,202**	68,860,343

*Subsequent to November 30, 2012, the Company announced a non-brokered private placement of up to $1,625,000 at a price of $0.65 per unit on December 6, 2012. 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.

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

The Company has total credit facilities of $5,500,000 (November 30, 2011 - $nil). 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 November 30, 2012, the Company has 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 (November 30, 2011 - $nil). The Company's next annual review is scheduled to occur on or before April 30, 2012.

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 management personnel, consisting of the Company's officers, for the three and nine months ended November 30, 2012 and 2011 are as follows:

	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

CORPORATE INTERNAL CONTROLS

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at November 30, 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 policies are set out in Notes 2 and 3 of the condensed interim financial statements for the period ended November 30, 2012 and the audited annual financial statements for the year ended February 29, 2012. The policies have been consistently followed in the preparation of the interim financial statements. There have been no changes to the Company's accounting policies since these condensed interim financial statements were issued.

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 stock-based compensation and finder's warrants, and the valuation allowance for future 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 November 30, 2012, the Company's financial instruments include cash and cash equivalent, accounts receivable, reclamation deposits, bank debt and accounts payable and accrued liabilities.

The fair values of accounts receivable, 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.

FINANCIAL RISKS

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. The following provides information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

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.

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 had 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 had 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.

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

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 November 30, 2012. The Company manages interest rate risk by maintaining an investment policy that focuses on the preservation of capital and liquidity.

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.

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.

LIST OF DIRECTORS AND OFFICERS

Charles O'Sullivan, B.Sc., Director and Chairman
Don Simmons, B.Sc., P. Geol., Director, President and CEO
Dorlyn Evancic, CGA, Chief Financial Officer
Ian Duncan, B.Sc., P. Eng., Vice President of Engineering
Andrew Arthur, M.Sc., P. Geol., Vice President of Exploration
Frank Borowicz, QC, CA (Hon), Director
Gregg Vernon, B.Sc., P. Eng., Director
Greg Sadler, P. Eng., Director
Bruce McIntyre, P. Geol., Director

ADDITIONAL INFORMATION

Additional information relating to Hemisphere, including the Company's unaudited condensed interim financial statements and accompanying notes can be found on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.