ACHIEVEMENTS AND HIGHLIGHTS

- Produced 407 boe/d with an 83% oil and NGL weighting.
- Generated $2.4 million in revenue representing an increase of 15% over the first quarter of 2013.
- Increased operating netbacks by $4.49 per boe to $34.44 per boe compared to $29.95 per boe in the first quarter of 2013.
- Achieved funds flow from operating activities of $847,459 or $0.02 per share.
- Increased net income to $241,029 as compared to $134,425 in the first quarter of 2013.
- Graduated to Tier 1 of the TSX Venture Exchange – the premier tier reserved for the most advanced issuers with the most significant financial resources on the TSX Venture Exchange.

SUBSEQUENT ACHIEVEMENTS

- Successfully drilled another horizontal development well in Jenner in August 2013 targeting the oil-bearing sandstones of the Glauconitic formation.
- August 2013 production to date averaged 523 boe/d with a 75% oil and NGL weighting.

Q2 2013 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012[1]	**June 30, 2013**	May 31, 2012[1]
FINANCIAL				
Petroleum and natural gas revenue	**$ 2,375,912**	$ 2,421,663	**$ 4,449,530**	$ 5,185,227
Petroleum and natural gas netback	**1,274,744**	1,367,474	**2,390,301**	3,163,661
Funds flow from operating activities[2]	**847,459**	1,068,509	**1,639,026**	2,423,606
Per share, basic and diluted	**0.02**	0.02	**0.03**	0.05
Income (loss) before tax	**241,029**	305,905	**375,454**	(358,134)
Per share, basic and diluted	**0.00**	0.01	**0.01**	(0.01)
Net income (loss) after tax	**241,029**	305,905	**375,454**	1,036,411
Per share, basic and diluted	**0.00**	0.01	**0.01**	0.02
Capital expenditures	**772,651**	2,830,123	**2,405,789**	11,291,689
Property development	**733,621**	2,830,123	**2,302,232**	5,184,918
Acquisitions	**39,030**	-	**103,557**	6,106,771
Working capital (deficiency) at end of period	**(4,643,327)**	626,293	**(4,643,327)**	626,293
Net debt at end of period	**$ 4,377,500**	$ -	**$ 4,377,500**	$ -
OPERATING				
Average daily production				
Oil (bbl/d)	**335**	383	**353**	373
Natural gas (mcf/d)	**412**	187	**322**	225
NGL (bbl/d)	**3**	4	**4**	4
Combined (boe/d)	**407**	418	**410**	415
Oil and NGL weighting	**83%**	93%	**87%**	91%
Average sales prices				
Oil ($/bbl)	**$ 72.99**	$ 67.08	**$ 65.74**	$ 73.93
Natural gas ($/mcf)	**3.55**	1.74	**3.50**	2.17
NGL ($/bbl)	**62.55**	71.44	**69.21**	67.05
Combined ($/boe)	**$ 64.18**	$ 62.90	**$ 59.91**	$ 68.39
Operating netback ($/boe)				
Petroleum and natural gas revenue	**$ 64.18**	$ 62.90	**$ 59.91**	$ 68.39
Royalties	**10.87**	11.29	**9.39**	11.63
Operating costs	**15.62**	11.59	**15.29**	11.03
Transportation costs	**3.26**	4.50	**3.05**	4.00
Operating netback	**$ 34.44**	$ 35.52	**$ 32.18**	$ 41.73

Notes:
(1) Hemisphere's year-end changed from February 28 to December 31.
(2) Funds flow from operating activities represents net income or loss before depletion, depreciation and accretion, share-based payments and future income tax.

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012[1]	**June 30, 2013**	May 31, 2012[1]
COMMON SHARES				
Common shares outstanding	**54,047,948**	50,417,554	**54,047,948**	50,417,554
Warrants outstanding	**8,183,445**	9,314,123	**8,183,445**	9,314,123
Stock options outstanding	**4,995,000**	4,320,000	**4,995,000**	4,320,000
Weighted-average shares outstanding - basic	**54,047,948**	50,407,348	**54,035,945**	46,414,891
Weighted-average shares outstanding - diluted	**54,984,193**	52,033,929	**55,057,091**	48,117,184

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at August 26, 2013

The following discussion and analysis is a review of the current financial position and operating results of Hemisphere Energy Corporation ("Hemisphere" or the "Company") for the three and six months ended June 30, 2013 with comparatives to the three and six months ended May 31, 2012, and should be read in conjunction with the unaudited condensed interim financial statements and related notes for the three and six months ended June 30, 2013. These documents are available on SEDAR at www.sedar.com or the Company's website at www.hemisphereenergy.ca.

Please note that Hemisphere has changed its fiscal year-end from February 28 to December 31. As a result, the three and six months ended June 30, 2013 are compared to the three and six months ended May 31, 2012, respectively, and may not provide accurate comparisons due to year-end adjustments.

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 Statements

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

Boe Conversion

Within this document, petroleum and natural gas volumes and reserves are converted to a common unit of measure, referred to as a barrel of oil equivalent ("boe"), using a ratio of 6,000 cubic feet of natural gas to one barrel of oil. Use of the term boe may be misleading, particularly if used in isolation. The conversion ratio is based on an energy equivalent method and does not necessarily represent a value equivalency at the wellhead.

Non-IFRS Measurements

This document contains the terms "funds flow from operating activities" and "operating netback" that are not recognized measures under IFRS. The Company's management considers these to be key measures that demonstrate Hemisphere's ability to generate the funds flow necessary to support future growth through capital investment and to repay debt, if any. Funds flow from operating activities represents net income or loss before depletion, depreciation, accretion, share-based payments and any deferred tax adjustments. Operating netback is a benchmark used in the oil and natural gas industry and represents the profit margin associated with the production and sale of oil and natural gas, 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 is an oil and gas, exploration and production company focused on developing its core areas that provide low to medium risk drilling opportunities to increase production, reserves and cash flow. The Company's continued growth plan is through drilling existing prospects and executing strategic acquisitions and farm-ins. Hemisphere trades on the TSX Venture Exchange as a Tier 1 issuer under the symbol "HME".

Jenner, Alberta

Hemisphere operates 90% of its wells in the Jenner area. The property is accessible year-round and is located east of Brooks in southeastern Alberta. Hemisphere has close to 100% working interest in approximately 16,300 net acres (6,596 ha) and has continued to build a land position in the Jenner area through Crown land sales and strategic acquisitions and farm-ins.

During the second quarter, Hemisphere successfully placed on production one horizontal well in Jenner. Hemisphere continues to evaluate development opportunities on an ongoing basis.

Trutch, British Columbia

Hemisphere has varying working interests from 30% to 100% in approximately 34,788 net acres (14,078 ha) in 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 are using horizontal wells and multi-stage frac completions for development.

Operating Results

For the three and six months ended June 30, 2013, the Company generated funds flow from operating activities of $847,459 ($0.02/share) and $1,639,026 ($0.03/share), respectively, compared to $1,068,509 ($0.02/share) and $2,423,606 ($0.05/share) for the three and six months ended May 31, 2012, respectively.

The Company reported net income for the three months ended June 30, 2013, of $241,029 ($0.00/share) as compared to a net income of $305,905 ($0.01/share) for the three months ended May 31, 2012.

For the six months ended June 30, 2013, the Company reported net income of $375,454 ($0.01/share). This is compared to a net income of $1,036,411 ($0.02/share) for the six months ended May 31, 2012, which included a deferred tax recovery of $1,394,544. With the exclusion of the deferred tax adjustment, the Company incurred a loss of $358,134 ($0.01/share) for the six months ended May 31, 2012.

Production

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Oil (bbl/d)	**335**	383	**353**	373
Natural gas (mcf/d)	**412**	187	**322**	225
NGL (bbl/d)	**3**	4	**4**	4
Total (boe/d)	**407**	418	**410**	415
Oil and NGL weighting	**83%**	93%	**87%**	91%

The Company's total production for the three months ended June 30, 2013, decreased by 3% to 407 boe per day ("boe/d") with an oil and NGL weighting of 83%. Gas production increased by 120% to 412 mcf per day ("mcf/d") for the three months ended June 30, 2013 as compared to 187 mcf/d for the comparable quarter of 2012.

The Company's production for the six months ended June 30, 2013 decreased by 1% to 410 boe/d with an oil and NGL weighting of 87%. For the six months ended June 30, 2013, gas production increased by 43% from the comparable period of 2012 to 322 mcf/d. These increases in gas production for the three and six months ended June 30, 2013 can be attributed to the installation of a gas sweetening tower at the Company's main facility in Jenner, Alberta as well as a new well drilled in the first quarter of 2013.

Revenue

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Oil	**$ 2,225,115**	$ 2,365,087	**$ 4,200,727**	$ 5,047,552
Natural gas	**133,213**	30,008	**204,568**	89,189
NGL	**17,584**	26,568	**44,235**	48,477
Total	**$ 2,375,912**	$ 2,421,663	**$ 4,449,530**	$ 5,185,227

Total revenue for the three months ended June 30, 2013 was $2,375,912 as compared to $2,421,663 for the three months ended May 31, 2012. This change in revenue is consistent with the slight decrease in production for the three months ended June 30, 2013.

For the six months ended June 30, 2013, total revenue decreased by 14% to $4,449,530 from $5,185,227 for the six months ended May 31, 2012. This decrease in revenue is consistent with a 12% decrease in the Company's average realized sales price per boe for the period.

Average Benchmark and Realized Prices

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Benchmark Prices				
WTI (US$/bbl)[1]	**$ 94.29**	$ 101.44	**$ 94.32**	$ 100.88
Exchange rate (1 US$/Cdn$)	**1.0257**	1.0008	**1.0182**	1.0071
WTI (C$/bbl)	**96.71**	101.52	**96.03**	101.59
AECO natural gas ($/mcf)[2]	**2.30**	1.81	**2.72**	2.16
Average realized prices				
Crude oil ($/bbl)	**72.99**	67.08	**65.74**	73.93
Natural gas ($/mcf)	**3.55**	1.74	**3.50**	2.17
NGL ($/bbl)	**62.55**	71.44	**69.21**	67.05
Combined ($/boe)	**$ 64.18**	$ 62.90	**$ 59.91**	$ 68.39

Notes:

(1) WTI represents posting prices of West Texas Intermediate Oil.

(2) Represents the AECO daily posting.

The Company's combined average realized price for the three months ended June 30, 2013 increased by $1.28/boe over the comparable quarter of 2012 to $64.18/boe. For the six months ended June 30, 2013, the Company's combined average realized price decreased by 12% from the comparable period in 2012 to $59.91/boe. This decrease can be attributed to the higher price differentials between the West Texas Intermediate pricing and the Western Canada Select heavy crude oil pricing during the period. Oil differentials had increased due to pipeline constraints and supply and demand factors resulting in a lower realized crude oil price. The oil differentials began narrowing in March 2013 which is apparent in the improvement of the combined average realized price for the three months ended June 30, 2013 and are continuing to progress favorably in the third quarter.

Operating Netback

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Netback				
Revenue	**$ 2,375,912**	$ 2,421,663	**$ 4,449,530**	$ 5,185,227
Royalties	**402,299**	434,644	**697,290**	882,063
Operating costs	**578,165**	446,176	**1,135,338**	836,592
Transportation costs	**120,704**	173,369	**226,601**	302,911
Operating netback	**$ 1,274,744**	$ 1,367,474	**$ 2,390,301**	$ 3,163,661
Netback ($/boe)				
Revenue	**$ 64.18**	$ 62.90	**$ 59.91**	$ 68.39
Royalties	**10.87**	11.29	**9.39**	11.63
Operating costs	**15.62**	11.59	**15.29**	11.03
Transportation costs	**3.26**	4.50	**3.05**	4.00
Operating netback	**$ 34.44**	$ 35.52	**$ 32.18**	$ 41.73

Royalties consist of Alberta and British Columbia Crown royalties, as well as gross overriding royalties which are dependent on production volumes and commodity prices. For the three and six months ended June 30, 2013, royalties decreased by $32,345 ($0.42/boe) and $184,773 ($2.25/boe), respectively, from the comparable periods ended May 31, 2012. These decreases can be attributed to a combination of lower production as well as a lower combined average realized price charged on royalty volumes.

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 during the three months ended June 30, 2013 increased by $131,989 ($4.03/boe) from the comparable quarter of 2012, to $578,165 ($15.62/boe). Operating costs during the six months ended June 30, 2013 increased by $298,746 ($4.25/boe) from the comparable period of 2012, to $1,135,338 ($15.29/boe). These increases in operating expenses per boe for the three and six months ended June 30, 2013 are mainly due to expenses resulting from poor weather conditions, additional staffing for field operations and a onetime process change with an oil/water interface probe at the Company’s main battery facility.

Transportation costs include all costs incurred to transport oil and gas to processing and distribution facilities. Transportation costs for the three and six months ended June 30, 2013 decreased by $52,665 ($1.24/boe) and $76,310 ($0.94/boe), respectively, from the comparable periods ended May 31, 2012. These decreases can be attributed to lower production volumes required for transportation as additional wells are being tied in to the Company’s facilities.

Operating netback for the three months ended June 30, 2013 decreased by 3% from the comparable quarter of 2012 to $34.44/boe. For the six months ended June 30, 2013, operating netback decreased by $9.54/boe from the comparable period of 2012 to $32.18/boe. These decreases are largely due to the decrease in the Company’s combined average realized price per boe as well as the increase in the Company’s operating costs per boe.

Depletion and Depreciation

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Depletion expense	**$ 606,630**	$ 712,272	**$ 1,192,812**	$ 1,569,923
Depreciation expense	**1,170**	1,632	**2,433**	2,773
Total	**$ 604,801**	$ 713,904	**$ 1,195,245**	$ 1,572,696
$ per boe	**$ 16.34**	$ 18.54	**$ 16.09**	$ 20.74

The depletion rate is calculated using the unit-of-production method on proved and probable oil and natural gas reserves, taking into account the future development costs to produce the reserves. Depletion and depreciation expense for the three months ended June 30, 2013 decreased by $109,103 ($2.20/boe) to $604,801 ($16.34/boe) over the comparable quarter of 2012. Depletion and depreciation expense for the six months ended June 30, 2013 decreased to $1,195,245 ($16.09/boe) from $1,572,696 ($20.74/boe) for the six months ended May 31, 2012. These decreases are due to the higher depletion recorded in the comparable period of 2012 which was in relation to the annual reserve report analysis for the fiscal year ended February 29, 2012.

Capital Expenditures

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Land and lease	**$ -**	$ 14,496	**$ (3,808)**	$ 26,601
Geological and geophysical	**40,357**	49,168	**129,345**	53,875
Drilling and completions	**336,485**	883,396	**1,233,564**	1,747,512
Investment in facilities	**356,778**	1,883,063	**943,131**	3,356,930
Development capital	**733,621**	2,830,123	**2,302,232**	5,184,918
Property acquisitions	**39,030**	-	**103,557**	6,106,771
Total capital expenditures	**$ 772,651**	$ 2,830,123	**$ 2,405,789**	$ 11,291,689

The development capital spent during the six months ended June 30, 2013 consists primarily of $1,233,564 on drilling and completing one new well in Jenner. The considerable decrease in capital expenditures is due to a significant acquisition in the Company's core Jenner area which closed during the six months ended May 31, 2012.

Share-based Payments

Share-based payments for the three and six months ended June 30, 2013 were $nil and $65,070, respectively, as compared to $44,403 and $952,353 for the three and six months ended May 31, 2012, respectively. These decreases in share-based payments are attributed to lesser stock options granted during the three and six months ended June 30, 2013 than the comparable periods ended May 31, 2012.

General and Administrative

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Gross G&A	**$ 458,304**	$ 298,991	**$ 740,005**	$ 749,467
Overhead recovery	**(90,659)**	(2,594)	**(91,857)**	(7,766)
Total	**$ 367,645**	$ 296,397	**$ 648,148**	$ 741,701
$ per boe	**$ 9.93**	$ 7.70	**$ 8.73**	$ 9.78

General and administrative expenses for the three months ended June 30, 2013 increased by $71,248 ($2.23/boe) to $367,645 ($9.93/boe) from the three months ended May 31, 2012. This is mainly due to increased travel and investor-related activities. Overhead recovery has been charged retroactively in the second quarter which encompasses a recovery on previously recorded capital expenditures.

For the six months ended June 30, 2013, general and administrative expenses decreased by $93,553 ($1.06/boe) to $648,148 ($8.73/boe) from the comparable period of 2012. The decrease in general and administrative costs is the result of reduced professional fees, transfer agent costs and salaries and wages associated with year-end expenses.

Finance Income and Expense

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Finance expense:				
Interest expense	**$ 47,378**	$ 2,568	**$ 78,457**	$ 2,568
Part XII.6 tax	**-**	-	**-**	(4,219)
Accretion of provision	**1,628**	4,297	**3,257**	5,302
Total finance expense	**$ 49,006**	$ 6,865	**$ 81,714**	$ 3,652

Finance expense for the three and six months ended June 30, 2013 increased by $42,141 and $78,062, respectively, from the comparable periods ended May 31, 2012. These increases in finance expense are from monthly interest charged on the Company's bank debt, which has increased over the comparable periods of 2012.

Accretion expense represents the time value change of the Company's decommissioning liability which is reported lower in both the three and six months ended June 30, 2013, due to inflated estimates in the comparable periods ended May 31, 2012.

Selected Annual Information

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

	10 Months Ended December 31, 2012	12 Months Ended February 29, 2012	12 Months Ended February 28, 2011
Average daily production (boe/d)	**408**	188	35
Petroleum and natural gas revenue	**$ 7,875,723**	$ 4,590,608	$ 289,426
Petroleum and natural gas netback	**4,657,308**	2,942,544	60,877
Funds flow from operating activities	**3,265,658**	1,963,505	(516,574)
Per share, basic and diluted	**0.06**	0.06	(0.03)
Income (loss) before tax	**543,818**	(451,879)	(1,486,455)
Per share, basic and diluted	**0.01**	(0.01)	(0.07)
Net income (loss) after tax	**61,362**	942,665	(1,486,455)
Per share, basic and diluted	**0.00**	0.03	(0.07)
Average realized price ($/boe)	**63.15**	66.71	22.66
Operating netback ($/boe)	**37.33**	42.76	4.77
Working capital	**(3,927,595)**	2,363,944	1,729,423
Capital expenditures	**11,888,398**	13,807,836	530,349
Net bank debt	**$ 1,035,000**	$ -	$ -

Summary of Quarterly Results

	2013		2012				2011	
	Jun. 30 Q2	Mar. 31 Q1	Dec. 31 Q4(1)	Nov. 30 Q3	Aug. 31 Q2	May 31 Q1	Feb. 29 Q4	Nov. 30 Q3
Average daily production (boe/d)	**407**	414	430	430	367	418	410	208
Petroleum and natural gas revenue	**2,375,912**	2,073,617	694,677	2,730,244	2,029,140	2,421,663	2,763,564	1,273,677
Petroleum and natural gas netback	**1,274,744**	1,115,557	356,307	1,784,702	1,139,827	1,367,474	1,796,187	890,541
Funds flow from operating activities	**847,459**	791,568	(75,268)	1,448,807	823,609	1,068,509	1,355,098	699,535
Per share, basic and diluted	**0.02**	0.01	0.00	0.03	0.02	0.02	0.03	0.02
Income (loss) before tax	**241,029**	134,425	(321,364)	695,833	(136,566)	305,905	(664,040)	596,509
Basic and diluted income (loss) per share	**0.00**	0.00	(0.01)	0.01	(0.00)	0.01	(0.02)	0.02
Net income (loss)	**241,029**	134,425	(803,821)	695,833	(136,556)	305,905	730,504	596,509
Basic and diluted income (loss) per share	**0.00**	0.00	(0.02)	0.01	(0.00)	0.01	0.02	0.02
Average realized price ($/boe)	**64.18**	55.66	52.10	69.78	60.10	62.90	74.05	67.39
Operating netback ($/boe)	**34.44**	29.95	27.40	45.62	33.76	35.52	48.13	47.12

Note:

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

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

Share Capital and Financing Activities

During the six months ended June 30, 2013, the Company issued 86,900 common shares, increasing the Company's total common shares outstanding to 54,047,948. On January 25, 2013, the Company closed the second and final tranche of a private placement consisting of 86,900 units at a price of $0.65 per unit for gross proceeds of $56,485. Each unit consisted of one common share and one-half of one non-transferrable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at the price of $0.90 until January 25, 2014.

In conjunction with the closing of the private placement, $456 in finders' fees and legal fees were paid and 700 finders' warrants were issued. Each warrant entitles the holder to purchase one common share at a price of $0.90 until January 25, 2014.

Stock Options

Exercise Price	Expiry Date	Balance Outstanding December 31, 2012	Granted	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable June 30, 2013
$0.27	28-Sep-14	445,000	-	-	-	445,000
$0.25	8-Mar-15	485,000	-	-	-	485,000
$0.26	30-Sep-15	520,000	-	-	-	520,000
$0.30	23-Dec-15	425,000	-	-	-	425,000
$0.30	27-Jan-16	200,000	-	-	-	200,000
$0.38	9-Feb-16	50,000	-	-	-	50,000
$0.40	26-May-16	520,000	-	-	-	520,000
$0.48	5-Jul-16	50,000	-	-	-	50,000
$0.70	8-Feb-17	1,550,000	-	-	-	1,550,000
$0.65	24-Apr-17	75,000	-	-	-	75,000
$0.61	5-Jul-17	425,000	-	-	-	425,000
$0.50	8-Mar-18	-	250,000	-	-	250,000
		4,745,000	250,000	-	-	4,995,000
Weighted-average exercise price		$0.47	$0.50	-	-	$0.47

For the six months ended June 30, 2013, the Company recognized $65,070 in share-based payments as compared to $952,353 for the six months ended May 31, 2012. This expense is from the issuance of 250,000 options to a consultant of the Company. The fair value was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	June 30, 2013	May 31, 2012
Expected life (years)	**3.75**	3.75
Interest rate	**1.25%**	1.28%
Volatility	**79.24%**	141.73%
Dividend yield	**0.00%**	0.00%

The weighted-average grant price for stock options granted during the six months ended June 30, 2013 was $0.50 (May 31, 2012 - $0.70). The forfeiture rate has been estimated at 0% (May 31, 2012 – 0%).

Included in share-based payments were 250,000 stock options granted to a company performing investor relations services (May 31, 2012 – 250,000). These options were granted on February 8, 2012, have an exercise price of $0.70 per share and expire on February 8, 2017. The options vest 25% at each three-month interval from the grant date. The total number of options that remain unvested at June 30, 2013 is nil (May 31, 2012 – 187,500).

Share Purchase Warrants

Exercise Price	Expiry Date	Balance Outstanding & Exercisable December 31, 2012	Issued	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable June 30, 2013
$0.90	20-Dec-13	914,650	-	-	-	914,650
$0.90	20-Dec-13	114,191	-	-	-	114,191
$0.90	25-Jan-14	-	43,450	-	-	43,450
$0.90	25-Jan-14	-	700	-	-	700
$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
		8,139,295	44,150	-	-	8,183,445
Weighted-average exercise price		$0.92	$0.90	-	-	$0.92

	August 26, 2013	**June 30, 2013**	December 31, 2012
Fully diluted share capital			
Common shares issued and outstanding	54,047,948	**54,047,948**	53,961,048
Share purchase warrants	8,183,445	**8,183,445**	8,139,295
Stock options	4,995,000	**4,995,000**	4,745,000
Total fully diluted	67,226,393	**67,226,393**	66,845,343

Liquidity and Capital Management

	June 30, 2013	December 31, 2012
Shareholders' equity	**$ 20,456,937**	$ 19,960,382
Undrawn component of bank credit facilities	**5,122,500**	4,465,000
Total capital	**$ 25,579,437**	$ 24,425,382

As at June 30, 2013, the Company has total credit facilities of $9,500,000 (December 31, 2012 – $5,500,000). The credit facilities are comprised of a revolving operating demand loan of $6,500,000 and a non-revolving acquisition and development demand loan of $3,000,000. As at June 30, 2013, the Company has drawn $3,900,000 from the revolving operating demand loan and $477,500 from the non-revolving acquisition and development demand loan for a total bank indebtedness of $4,377,500 (December 31, 2012 - $1,035,000).

The Company manages its capital with the following objectives:

- To ensure sufficient flexibility to achieve the Company's ongoing business objectives including the replacement of production, funding of future growth opportunities, and pursuit of accretive acquisitions; and
- To maximize shareholder return through enhancing the Company's share value.

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

Related Party Transactions

During the three months ended June 30, 2013, the Company paid $10,000 (May 31, 2012 - $10,000) in management fees charged by a director of the Company. During the six months ended June 30, 2013, the Company paid $20,000 in management fees which represents a $30,000 decrease from the comparable period of 2012. For the six months ended May 31, 2012, the Company paid $50,000 in management fees of which a portion was charged by a director of the Company and the remainder charged by a managing consultant who transitioned to full-time employment in January 2012.

Compensation paid to Hemisphere's officers is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Short-term benefits	**$ 135,000**	$ 101,250	**$ 270,000**	$ 305,833
Share-based payments	**$ -**	$ -	**$ -**	$ 336,820

Short-term benefits, primarily salaries and wages, decreased during the six months ended June 30, 2013 as compensation associated with year-end bonuses were paid during the six months ended May 31, 2012.

Corporate Internal Controls

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at June 30, 2013 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported, as required. Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management believes the design to be sufficient and appropriate to provide such reasonable assurance.

Off-Balance Sheet Arrangements

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

Proposed Transactions

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

Critical Accounting Estimates

The Company's significant accounting estimates and policies are set out in Notes 2 and 3 of the condensed interim financial statements for the three and six months ended June 30, 2013 and the audited annual financial statements for the ten months ended December 31, 2012. These policies have been consistently followed in the preparation of these financial statements.

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

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

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

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

Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they may be subject to future adjustment. Changes in assumptions can significantly affect estimated fair values. At June 30, 2013, the Company's financial instruments include any cash and cash equivalents, accounts receivable, reclamation deposits, bank indebtedness, accounts payable and accrued liabilities.

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

Risks

The Company's activities expose it to a variety of risks that arise as a result of its exploration, development, production and financing activities. The following provides information about the Company's exposure to any risks associated with the oil and gas industry as well as the Company's objectives, policies and processes for measuring and managing risk.

Business Risk

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

Credit Risk

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

Liquidity Risk

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

Market Risk

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

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

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

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

CONDENSED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)
(Unaudited)

	Note		June 30, 2013		December 31, 2012
Assets					
Current assets					
Accounts receivable		**$**	**797,128**	$	904,454
Prepaid expenses			**77,560**		115,769
			874,688		1,020,223
Non-current assets					
Reclamation deposits	9		**105,535**		100,535
Exploration and evaluation assets	7		**1,910,676**		3,189,762
Property and equipment	8		**22,667,180**		20,152,828
Deferred tax asset	17		**912,087**		912,087
Total assets		**$**	**26,470,166**	$	25,375,435
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**1,140,515**	$	3,912,818
Bank indebtedness	11		**4,377,500**		1,035,000
			5,518,015		4,947,818
Non-current liabilities					
Decommissioning obligations	9		**495,214**		467,235
			6,013,228		5,415,053
Shareholders' Equity					
Capital stock	12		**38,861,222**		38,805,193
Share-based payment reserve	12(c)		**2,279,395**		2,214,325
Warrant reserve	12(d)		**183,572**		183,572
Deficit			**(20,867,253)**		(21,242,708)
			20,456,937		19,960,382
Total liabilities and shareholders' equity		**$**	**26,470,166**	$	25,375,435

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

On Behalf of the Board of Directors

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

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

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)
(Unaudited)

	Note	Three Months Ended June 30, 2013	Three Months Ended May 31, 2012	Six Months Ended June 30, 2013	Six Months Ended May 31, 2012
Oil and natural gas revenue		**$ 2,375,912**	$ 2,421,663	**$ 4,449,530**	$ 5,185,227
Royalties		**(402,299)**	(434,644)	**(697,290)**	(882,063)
Total oil and natural gas revenue		**1,973,613**	1,987,019	**3,752,240**	4,303,164
Expenses					
Production and operating		**698,869**	619,546	**1,361,939**	1,139,504
Exploration and evaluation	7	**12,262**	-	**24,669**	-
Depletion and depreciation	8	**604,801**	713,904	**1,195,245**	1,572,696
Share-based payments	12(c)	**-**	44,403	**65,070**	952,353
General and administrative		**367,645**	296,397	**648,148**	741,701
Impairment of property and equipment	8	**-**	-	**-**	251,394
		1,683,577	1,674,249	**3,295,071**	4,657,646
Results from operating activities		**290,036**	312,770	**457,168**	(354,482)
Finance expense	10	**(49,006)**	(6,865)	**(81,714)**	(3,652)
Income (loss) before income taxes		**241,029**	305,905	**375,454**	(358,134)
Deferred tax (expense) recovery	17	**-**	-	**-**	1,394,544
Net income and comprehensive income for the period		**$ 241,029**	$ 305,905	**$ 375,454**	$ 1,036,411
Income per share					
Basic and diluted	12(e)	**$ 0.00**	$ 0.01	**$ 0.01**	$ 0.02

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

CONDENSED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Operating activities				
Net income for the period	**$ 241,029**	$ 305,905	**$ 375,454**	$ 1,036,409
Items not affecting cash				
Depletion, depreciation and accretion	**606,430**	718,200	**1,198,502**	1,577,994
Impairment of property and equipment	**-**	-	**-**	251,394
Deferred tax expense (recovery)	**-**	-	**-**	(1,394,544)
Share-based payments	**-**	44,403	**65,070**	952,353
Funds flow from operating activities	**847,459**	1,068,509	**1,639,026**	2,423,606
Changes in non-cash working capital	**(253,364)**	115,422	**(58,439)**	(279,762)
Cash provided by operating activities	**594,094**	1,183,930	**1,580,586**	2,143,844
Investing activities				
Acquisition of property and equipment	**(1,546,808)**	(2,922,731)	**(2,203,473)**	(14,252,835)
Exploration and evaluation expenditures	**774,157**	92,609	**(202,315)**	2,985,949
Reclamation deposits	**-**	-	**(5,000)**	-
Changes in non-cash working capital	**(793,943)**	938,966	**(2,578,079)**	767,646
Cash used in investing activities	**(1,566,594)**	(1,891,156)	**(4,988,868)**	(10,499,240)
Financing activities				
Shares issued for cash, net of issue costs	**-**	23,961	**56,029**	7,930,702
Proceeds from bank indebtedness	**972,500**	-	**3,342,500**	-
Changes in non-cash working capital	**-**	-	**9,750**	-
Cash provided by financing activities	**972,500**	23,961	**3,408,279**	7,930,702
Inflow (outflow) of cash	**-**	(683,264)	**-**	(424,694)
Cash, beginning of period	**-**	2,183,898	**-**	1,925,328
Cash, end of period	**$ -**	$ 1,500,634	**$ -**	$ 1,500,634

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

Supplemental cash flow information (Note 15)

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)
(Unaudited)

	Note	Number of common shares	Capital stock	Share-based payment reserve	Warrant reserve	Deficit	Total Equity
Balance, November 30, 2011		**37,829,032**	**$ 28,969,002**	**$ 735,627**	**$ -**	**$ (21,827,553)**	**$ 7,877,076**
Non-flow-through share issuance		12,323,157	8,626,210	-	-	-	8,626,210
Flow-through share issuance		-	(110,400)	-	110,400	-	-
Warrant exercises		87,853	77,886	(25,175)	-	-	52,711
Stock option exercises		5,000	23,836	(22,586)	-	-	1,250
Share issuance costs		-	(500,025)	-	-	(214,445)	(714,470)
Finder's units issued		172,512	120,758	-	-	-	120,758
Corporate finance expense		-	(120,758)	-	-	-	(120,758)
Finder's warrants issued		-	343,064	387,466	-	-	44,403
Share-based payments		-	-	907,950	-	-	907,950
Expiry of stock options		-	-	(7,425)	-	7,425	-
Net income for the period		-	-	-	-	1,036,411	1,036,411
Balance, May 31, 2012		**50,417,554**	**$ 36,743,445**	**$ 1,975,858**	**$ 110,400**	**$ (20,998,162)**	**$ 17,831,540**
Balance, December 31, 2012		**53,961,048**	**$ 38,805,193**	**$ 2,214,325**	**$ 183,572**	**$ (21,242,708)**	**$ 19,960,382**
Share-based payments	12(c)	-	-	65,070	-	-	65,070
Share issuance	12(b)	86,900	56,485	-	-	-	56,485
Share issuance costs	12(b)	-	(456)	-	-	-	(456)
Net income for the period		-	-	-	-	375,454	375,454
Balance, June 30, 2013		**54,047,948**	**$ 38,861,222**	**$ 2,279,395**	**$ 183,572**	**$ (20,867,254)**	**$ 20,456,937**

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2013 and May 31, 2012
(Expressed in Canadian dollars)
(Unaudited)

1. Nature and Continuance of Operations

Hemisphere Energy Corporation (the "Company") is a publicly listed company and was incorporated under the laws of British Columbia on March 6, 1978. The Company's principal business is the acquisition, exploration, development and production of petroleum and natural gas interests and its shares are listed on the TSX Venture Exchange under the symbol "HME". The Company's head office is located at 570-789 West Pender Street, Vancouver, British Columbia, Canada V6C 1H2.

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

2. Basis of Presentation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual financial statements for the ten months ended December 31, 2012.

The financial statements were authorized for issuance by the Board of Directors on August 26, 2013.

(b) Basis of presentation

On August 20, 2012, the Company announced that it would be changing its fiscal year-end date from February 28 to December 31. As a result, the three and six months ended June 30, 2013 will be compared to the three and six months ended May 31, 2012 which may not provide accurate comparisons due to year-end adjustments.

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

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

3. Summary of Significant Accounting Policies

These 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 ten months ended December 31, 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 June 30, 2013, the Company's financial instruments include any cash and cash equivalents, accounts receivable, reclamation deposits, bank indebtedness, and accounts payable and accrued liabilities.

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

5. Financial Risk Management

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

(a) Credit risk

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

		June 30, 2013		December 31, 2012
Accounts receivable	**$**	**797,128**	$	904,454
Reclamation deposits		**105,535**		100,535
Total	**$**	**902,663**	$	1,004,989

(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 an accounts receivable balance at June 30, 2013 of $797,128 (December 31, 2012 - $904,454). At June 30, 2013, the Company had accounts payable and accrued liabilities of $1,140,515 (December 31, 2012 – $3,912,818) and a negative working capital of $4,643,327 (December 31, 2012 – $3,927,595). All of the Company's financial liabilities have contractual maturities of less than 90 days.

(c) Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

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

6. Capital Management

The Company manages its capital with the following objectives:

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

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

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

The Company's capital structure as at June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013	December 31, 2012
Shareholders' equity	**$ 20,456,937**	$ 19,960,382
Undrawn component of bank credit facilities	**5,122,500**	4,465,000
Total capital	**$ 25,579,437**	$ 24,425,382

As at June 30, 2013, the Company had total available credit facilities of $9,500,000 (December 31, 2012 - $5,500,000) of which the Company had drawn $4,377,500 (December 31, 2012 - $1,035,000).

7. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of proved reserves. At June 30, 2013, the Company transferred $1,481,401 (December 31, 2012 - $3,642,159) to property and equipment.

Cost		
Balance, February 29, 2012	$	2,161,743
Additions		4,791,060
Exploration and evaluation expense		(120,882)
Transfer to property and equipment		(3,642,159)
Balance, December 31, 2012		3,189,762
Additions		202,315
Exploration and evaluation expense		-
Transfer to property and equipment		(1,481,401)
Balance, June 30, 2013	$	1,910,676

8. Property and Equipment

		Petroleum and Natural Gas		Other Equipment		Total
Cost						
Balance, December 31, 2012		26,428,633		67,522		26,496,155
Additions		2,228,196		-		2,228,196
Transfer from exploration property and evaluation assets		1,481,401		-		1,481,401
Balance, June 30, 2013	**$**	**30,138,230**	**$**	**67,522**	**$**	**30,205,752**
Accumulated depletion, depreciation, amortization and impairment losses						
Balance, December 31, 2012		6,293,348		49,980		6,343,328
Charge for period		1,192,812		2,433		1,195,244
Balance, June 30, 2013	**$**	**7,486,159**	**$**	**52,413**	**$**	**7,538,572**
Net book value						
December 31, 2012		20,135,286		17,542		20,152,828
June 30, 2013	**$**	**22,652,071**	**$**	**15,109**	**$**	**22,667,180**

During the six months ended June 30, 2013, the Company purchased land in Jenner for total capital expenditures of $98,963 through various land sales from the Alberta Department of Energy.

The Company performs an impairment test annually on its petroleum and natural gas interests. The impairment test is performed by comparing the estimated net present value of future cash flows from wells classified as proved and probable against their respective carrying amounts. Accordingly, the Company recognized an impairment charge for the six months ended June 30, 2013 and May 31, 2012 of $nil and $251,394, respectively.

9. Decommissioning Obligations

The Company's decommissioning obligations result from its ownership interest in petroleum and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years.

The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations as at June 30, 2013 is $748,000 (December 31, 2012 - $728,000). These payments are expected to be made over the next 26 years with the majority of costs to be incurred between 2020 and 2031. The discount factor, being the risk-free rate related to the liability, is 2.52%. Inflation of 1.00% has also been factored into the calculation. The Company also has $105,535 (December 31, 2012 - $100,535) in various reclamation bonds for its properties held by the British Columbia Ministry of Energy, Mines and Petroleum Resources.

		June 30, 2013		December 31, 2012
Decommissioning obligations, beginning of period	**$**	**467,236**	$	358,428
Increase in estimated future obligations		**24,722**		94,485
Accretion expense		**3,256**		14,323
Decommissioning obligations, end of period	**$**	**495,214**	$	467,235

10. Finance Income and Expenses

	Three Months Ended				**Six Months Ended**			
		June 30, 2013		May 31, 2012		**June 30, 2013**		May 31, 2012
Finance expense:								
Interest expense	**$**	**47,378**	$	2,568	**$**	**78,457**	$	2,568
Part XII.6 tax		**-**		-		**-**		(4,219)
Accretion of provision		**1,628**		4,297		**3,257**		5,302
Net finance expenses	**$**	**49,006**	$	6,865	**$**	**81,714**	$	3,652

11. Bank Indebtedness

At June 30, 2013, the Company had total authorized credit facilities to borrow up to $9,500,000. The credit facilities are comprised of a revolving operating demand loan of $6,500,000 and a non-revolving acquisition and development demand loan of $3,000,000. Advances under the operating demand loan are payable on demand and are available by way of prime rate loans with an interest rate of 1.5% over the lender's prime lending rate. Advances under the acquisition and development demand loan are payable on demand and available by way of prime rate loans subject to prior engineering review by the bank with an interest rate of 2.0% over the lender's prime lending rate. The credit facilities are secured by a first floating charge debenture, a revolving credit agreement and general assignment of book debts.

As at June 30, 2013, the Company has drawn $3,900,000 from the revolving operating demand loan and $477,500 from the non-revolving acquisition and development demand loan for a total bank indebtedness of $4,377,500 (December 31, 2012 - $1,035,000).

12. Capital Stock

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and outstanding

On January 25, 2013, the Company closed the second and final tranche of a private placement consisting of 86,900 units at a price of $0.65 per unit for gross proceeds of $56,485. Each unit consisted of one common share and one-half of one non-transferrable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at the price of $0.90 until January 25, 2014.

In conjunction with the closing of the private placement, $456 in finders' fees and legal fees were paid and 700 finders' warrants were issued. Each warrant entitles the holder to purchase one common share at a price of $0.90 until January 25, 2014.

(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 and have a maximum term of five years. Stock options terminate no later than 90 days (30 days for investor-related services) upon termination of employment or employment contract and one year in the case of retirement, death or disability. The grant price may not be less than the last closing price of the Company's shares and not less than $0.10 per share.

No stock options were granted, exercised or expired/cancelled during the three months ended June 30, 2013. Details of the Company's stock options for the six months ended June 30, 2013 are as follows:

Exercise Price	Expiry Date	Balance Outstanding December 31, 2012	Granted	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable June 30, 2013
$0.27	28-Sep-14	445,000	-	-	-	445,000
$0.25	8-Mar-15	485,000	-	-	-	485,000
$0.26	30-Sep-15	520,000	-	-	-	520,000
$0.30	23-Dec-15	425,000	-	-	-	425,000
$0.30	27-Jan-16	200,000	-	-	-	200,000
$0.38	9-Feb-16	50,000	-	-	-	50,000
$0.40	26-May-16	520,000	-	-	-	520,000
$0.48	5-Jul-16	50,000	-	-	-	50,000
$0.70	8-Feb-17	1,550,000	-	-	-	1,550,000
$0.65	24-Apr-17	75,000	-	-	-	75,000
$0.61	5-Jul-17	425,000	-	-	-	425,000
$0.50	8-Mar-18	-	250,000	-	-	250,000
		4,745,000	250,000	-	-	4,955,000
Weighted-average exercise price		$0.47	$0.50	-	-	$0.47

For the six months ended June 30, 2013, the Company recognized $65,070 (May 31, 2012 - $952,353) in share-based payment expense from the granting of 250,000 (May 31, 2012 – 1,625,000) options to a consultant of the Company. The fair value was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30, 2013	May 31, 2012
Expected life (years)	**3.75**	3.75
Interest rate	**1.25%**	1.28%
Volatility	**79.24%**	141.73%
Dividend yield	**0.00%**	0.00%

The weighted-average grant date fair value for stock options granted during the six months ended June 30, 2013 was $0.50 (May 31, 2012 - $0.70). The forfeiture rate has been estimated at 0% (May 31, 2012 - 0%).

Included in share-based payments expense at June 30, 2013 were 250,000 (May 31, 2012 - 250,000) stock options granted to an individual performing investor relations services. These options were granted on February 8, 2012, have an exercise price of $0.70 per share and expire February 8, 2017. The options vest at 25% at each three-month interval from the grant date. The total number of options that remain unvested at June 30, 2013 is nil (May 31, 2012 – 187,500).

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

No share purchase warrants were issued, exercised or expired/cancelled during the three months ended June 30, 2013. Details of the Company's share purchase warrants for the six months ended June 30, 2013 are as follows:

Exercise Price	Expiry Date	Balance Outstanding & Exercisable December 31, 2012	Issued	Exercised	Expired/ Cancelled	Balance Outstanding & Exercisable June 30, 2013
$0.90	20-Dec-13	914,650	-	-	-	914,650
$0.90	20-Dec-13	114,191	-	-	-	114,191
$0.90	25-Jan-14	-	43,450	-	-	43,450
$0.90	25-Jan-14	-	700	-	-	700
$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
		8,139,295	44,150	-	-	8,183,445
Weighted-average exercise price		$0.92	$0.90	-	-	$0.92

(e) Income (loss) per share

	Three Months Ended		Six Months Ended	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Net income for the period	**$ 241,029**	$ 305,905	**$ 375,454**	$ 1,036,411
Weighted average number of common shares outstanding, basic	**54,047,948**	50,407,348	**54,035,945**	46,414,891
Dilutive stock options and share purchase warrants	**936,245**	1,626,581	**1,021,146**	1,702,294
Weighted average number of common shares outstanding, fully diluted	**54,984,193**	52,033,929	**55,057,091**	48,117,184
Income per share, basic	**$ 0.00**	$ 0.01	**$ 0.01**	$ 0.02
Income per share, fully diluted	**$ 0.00**	$ 0.01	**$ 0.01**	$ 0.02

For the six months ended June 30, 2013, 2,300,000 stock options and 8,183,445 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 quarter. For the three months ended June 30, 2013, 2,350,000 stock options and 8,183,445 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 $44,659 for December 31, 2013 and $52,102 for December 31, 2014.

14. Related Party Transactions

For the three and six months ended June 30, 2013, the Company paid management fees of $10,000 and $20,000, respectively that were charged by a director of the Company. Salaries and wages of key executive personnel, consisting of the Company's officers and directors, were awarded in the following amounts:

	Three Months Ended		**Six Months Ended**	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Short-term benefits	**$ 135,000**	$ 101,250	**$ 270,000**	$ 305,833
Share-based payments	**$ -**	$ -	**$ -**	$ 336,820

During the three and six months ended June 30, 2013 and May 31, 2012, no long-term benefits were paid to related parties.

15. Supplemental Cash Flow Information

	Three Months Ended		**Six Months Ended**	
	June 30, 2013	May 31, 2012	**June 30, 2013**	May 31, 2012
Provided by (used in):				
Accounts receivable	**$ (46,530)**	$ 192,920	**$ 107,326**	$ (431,707)
Prepaid expenses	**18,378**	9,128	**38,209**	66,411
Accounts payable and accrued liabilities	**(1,019,155)**	852,340	**(2,772,303)**	853,180
Total changes in non-cash working capital	**$ (1,047,307)**	$ 1,054,388	**$ (2,626,768)**	$ 487,884
Provided by (used in):				
Operating activities	**$ (253,364)**	$ 115,422	**$ (58,439)**	$ (279,762)
Investing activities	**(793,943)**	938,966	**(2,578,079)**	767,646
Financing activities	**-**	-	**9,750**	-
Total changes in non-cash working capital	**$ (1,047,307)**	$ 1,054,388	**$ (2,626,768)**	$ 487,884

16. Subsequent Events

On August 13, 2013, the Company commenced its summer drilling operations in Jenner targeting the oil-bearing sandstones of the Glauconitic formation with a horizontal development well.

17. Income Taxes

As at December 31, 2012, the Company had a deferred tax recovery in the amount of $912,087 (February 29, 2012 - $1,394,544). The tax affected items that give rise to significant portions of the deferred tax asset at December 31, 2012 and February 29, 2012 are presented below:

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

The Company has begun recognizing its deferred tax assets since the twelve months ended February 29, 2012, as it is probable that future taxable profits will be available. The Company does not have any remaining unrecognized deductible temporary differences and unused tax losses for which no deferred tax assets are recognized.

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

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

Hemisphere energy corporation

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President & Chief Executive Officer

Dorlyn Evancic, CGA
Chief Financial Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

Ian Duncan, P.Eng.
Vice President, Engineering

BOARD OF DIRECTORS

Charles O'Sullivan, B.Sc., *Chairman*(2)(3)

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

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

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

Don Simmons, P.Geol.(4)

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

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

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