

Q2 2025 HIGHLIGHTS

- Attained quarterly production of 3,826 boe/d (99% heavy oil).
- Generated \$24.4 million, or \$70.06/boe, in revenue.
- Achieved total operating and transportation costs of \$14.18/boe.
- Delivered an operating field netback¹ of \$14.9 million, or \$42.77/boe.
- Realized quarterly adjusted funds flow from operations ("AFF")¹ of \$10.3 million, or \$29.47/boe.
- Executed a \$2.2 million capital expenditure¹ program, including preparatory spending for Hemisphere's upcoming drilling program.
- Generated free funds flow¹ of \$8.1 million, or \$0.07/share.
- Distributed \$2.4 million, or \$0.025/share, in base dividends to shareholders during the quarter.
- Distributed \$2.9 million, or \$0.03/share, in special dividends to shareholders during the quarter.
- Purchased and cancelled 1.3 million shares for \$2.3 million under the Company's Normal Course Issuer Bid ("NCIB").
- Renewed the Company's \$35 million two-year extendible credit facility.
- Exited the first quarter with positive working capital¹ of \$13.9 million.

(1) Operating field netback, adjusted funds flow from operations (AFF), free funds flow, capital expenditure, and working capital are non-IFRS measures, or when expressed on a per share or boe basis, non-IFRS ratio, that do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Non-IFRS financial measures and ratios are not standardized financial measures under IFRS and may not be comparable to similar financial measures disclosed by other issuers. Refer to the section "Non-IFRS and Other Specified Financial Measures".

Q2 2025 OPERATIONS UPDATE

With significant volatility in the economy and oil markets earlier this year, Hemisphere elected to defer the majority of its capital spending into the latter third of the year. With relatively flat base production, the Company has focused on balance sheet strength and shareholder returns through its share buyback program, base quarterly dividends, and the announcements of two special dividends year-to-date.

The Company's drilling program is now scheduled to commence late in the third quarter. It will include several development wells in Atlee Buffalo in addition to at least one new well in Marsden, which will test a second oil-bearing zone on Hemisphere's lands adjacent to its oil treating facilities and active polymer pilot project.

Management will continue to closely monitor oil market volatility and adjust capital spending accordingly. With almost \$14 million in working capital, an undrawn credit line, and stable cash flow from its production base, Hemisphere is in a unique position to act on potential acquisition opportunities and continued shareholder returns in addition to executing its drilling program.

Q2 2025 FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended June 30		Six Months Ended June 30	
(\$000s except per unit and share amounts)	2025	2024	2025	2024
FINANCIAL				
Petroleum and natural gas revenue	\$ 24,395	\$ 28,938	\$ 51,734	\$ 49,899
Operating field netback ⁽¹⁾	14,890	17,851	32,071	30,809
Operating netback ⁽¹⁾	13,990	17,687	30,986	30,812
Cash flow provided by operating activities	11,846	14,795	28,028	17,479
Adjusted funds flow from operations ("AFF") ⁽¹⁾	10,261	13,578	22,965	23,664
Per share, basic ⁽¹⁾ (\$/share)	0.11	0.14	0.24	0.24
Per share, diluted ⁽¹⁾ (\$/share)	0.10	0.14	0.23	0.24
Free funds flow ⁽¹⁾	8,070	10,599	19,568	15,037
Net income	7,053	10,387	15,995	17,165
Per share, basic (\$/share)	0.07	0.11	0.17	0.17
Per share, diluted (\$/share)	0.07	0.10	0.16	0.17
Dividends	5,301	2,467	7,729	4,938
Per share, basic (\$/share)	0.055	0.025	0.080	0.050
NCIB share repurchases	2,340	1,730	3,641	2,897
Capital expenditures ⁽¹⁾	2,191	2,979	3,397	8,627
Working capital ⁽¹⁾	13,894	11,582	13,894	11,582

OPERATING

Average daily production

Heavy oil (bbl/d)	3,810	3,609	3,812	3,360
Natural gas (Mcf/d)	101	111	106	123
Combined (boe/d)	3,826	3,628	3,830	3,380
Oil weighting	99%	99%	99%	99%

Average sales prices

Heavy oil (\$/bbl)	\$ 70.33	\$ 88.07	\$ 74.93	\$ 81.54
Natural gas (\$/Mcf)	1.66	1.13	1.86	1.75
Combined (\$/boe)	\$ 70.06	\$ 87.65	\$ 74.64	\$ 81.11

Operating netback (\$/boe)

Petroleum and natural gas revenue	\$ 70.06	\$ 87.65	\$ 74.64	\$ 81.11
Royalties	(13.11)	(18.95)	(13.86)	(16.58)
Operating costs	(11.40)	(9.63)	(11.54)	(10.33)
Transportation costs	(2.78)	(5.00)	(2.97)	(4.12)
Operating field netback ⁽¹⁾	42.77	54.07	46.27	50.08
Realized commodity hedging loss	(2.59)	(0.49)	(1.57)	0.00
Operating netback ⁽¹⁾	\$ 40.18	\$ 53.58	\$ 44.70	\$ 50.08
General and administrative expense	(3.75)	(3.50)	(3.74)	(3.53)
Interest expense and foreign exchange gain (loss)	(0.18)	(0.53)	(0.23)	(0.49)
Tax expense provision	(6.78)	(8.42)	(7.60)	(7.59)
Adjusted funds flow from operations ⁽¹⁾ (\$/boe)	\$ 29.47	\$ 41.13	\$ 33.13	\$ 38.47

Note:

(1) Non-IFRS financial measure that is not a standardized financial measure under IFRS Accounting Standards ("IFRS") and may not be comparable to similar financial measures disclosed by other issuers. Refer to "Non-IFRS and Other Financial Measures" section of the MD&A.

COMMON SHARES

	August 13, 2025	June 30, 2025	December 31, 2024
Common shares outstanding	95,168,202	95,897,878	97,389,735
Stock options outstanding	5,113,600	5,188,600	6,021,600
Total fully diluted shares outstanding	100,281,802	101,086,478	103,411,335

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at August 13, 2025

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three and six months ended June 30, 2025 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2025, and the audited consolidated financial statements and related notes for the year ended December 31, 2024. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR+ at www.sedarplus.ca or the Company's website at www.hemisphereenergy.ca.

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

This MD&A contains non-IFRS measures, additional IFRS measures and forward-looking statements. Readers are cautioned that this document should be read in conjunction with Hemisphere's disclosure under "Non-IFRS and Other Financial Measures" and "Forward-Looking Statements" included at the end of this MD&A. All figures are in Canadian dollars unless otherwise noted.

Business Overview

Hemisphere was incorporated under the laws of British Columbia on March 6, 1978. On January 2, 2024, Hemisphere formed a wholly-owned subsidiary, Hemi Energy Inc. ("HEI"). On January 2, 2024, Hemisphere and HEI formed two general partnerships under the laws of Alberta; Hemi Energy Partnership, which owns substantially all of the Company's producing assets, and Hemi Energy Partnership II, which may be used to hold other assets of the Company in the future. Unless the context otherwise requires, references to Hemisphere or the Company include all subsidiaries of Hemisphere.

The Company's principal business is the acquisition, exploration, development, and production of petroleum and natural gas interests in Canada. It is a publicly traded company listed on the TSX Venture Exchange under the symbol "HME" and on the OTCQX Best Market under the symbol "HMENF". The Company's head office is located at Suite 501, 905 West Pender Street, Vancouver, British Columbia, Canada V6C 1L6.

Atlee Buffalo, Alberta

Atlee Buffalo is Hemisphere's core area, located approximately 85 kilometers north of Medicine Hat. Hemisphere made its first acquisition in the area in late 2013 and owns 20,200 gross and net acres as of June 30, 2025. The property has three oil pools delineated by vertical wells and defined by 3D seismic.

Marsden, Saskatchewan

Marsden is located approximately 50 kilometers southeast of Lloydminster in Saskatchewan. Hemisphere first entered the area in 2023 and owns 8,392 gross and net acres as of June 30, 2025. The Company commenced a pilot polymer flood project in the third quarter of 2024 to evaluate further development.

Operating Results

The Company generated adjusted funds flow from operations¹ ("AFF") of \$10.3 million (\$0.11/ basic share and \$0.10/diluted share) during the second quarter of 2025 compared to \$13.6 million (\$0.14/share, basic and diluted) during the second quarter of 2024. AFF for the six months ended June 30, 2025 decreased to \$23.0 million (\$0.24/basic share and \$0.23/diluted share) from \$23.7 million (\$0.24/basic and diluted share) for the same period in 2024. The decrease in AFF for the three and six months ended June 30, 2025 from the comparable periods in 2024 is primarily due to the 21% and 8% decreases in realized commodity prices, respectively.

The Company reported net income of \$7.1 million (\$0.07/share, basic and diluted) and \$16.0 million (\$0.17/basic share and \$0.16/diluted share) for the three and six months ended June 30, 2025, respectively, compared to \$10.4 million (\$0.11/basic share and \$0.10/diluted share) and \$17.2 million (\$0.17/share, basic and diluted) for the comparable three- and six-month periods of 2024, respectively. The \$1.2 million decrease in net income over the comparable six-month period of 2024 is primarily the result of the 8% decrease in realized commodity prices.

Production

By product:	Three Months Ended June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Oil (bbl/d)	3,810	3,609	3,812	3,360
Natural gas (Mcf/d)	101	111	106	123
Total (boe/d)	3,826	3,628	3,830	3,380
Oil weighting	99%	99%	99%	99%

For the three- and six-month periods ended June 30, 2025, the Company's average daily production was 3,826 boe/d and 3,830 boe/d (99% oil), respectively, representing 6% and 13% increases from the same periods in 2024. These increases can be attributed to production from Hemisphere's Atlee Buffalo 2024 drilling program as well as to the general success of the Company's Atlee Buffalo polymer floods. Two Atlee Buffalo wells were converted to injectors in the second quarter, helping to maintain the Company's production essentially flat during the first six months of 2025.

Average Benchmark and Realized Prices

		Three Months Ended June 30		Six Months Ended June 30	
		2025	2024	2025	2024
Benchmark prices					
WTI (\$US/bbl) ⁽¹⁾	\$	65.10	\$ 81.15	\$ 68.35	\$ 79.30
WCS Diff (\$US/bbl) ⁽²⁾		(11.38)	(14.25)	(12.19)	(17.05)
Exchange rate (\$C/\$US)		1.3793	1.3699	1.4085	1.3605
WTI (\$C/bbl)		89.79	111.16	96.27	107.89
WCS Diff (\$C/bbl)		(15.69)	(19.51)	(17.17)	(23.19)
WCS (\$C/bbl) ⁽²⁾		74.10	91.65	79.10	84.70
AECO natural gas (\$US/Mcf) ⁽³⁾		2.10	1.45	2.05	1.75
Average realized prices					
Crude oil (\$C/bbl)		70.33	88.07	744.93	81.54
Natural gas (\$C/Mcf)		1.66	1.13	1.86	1.75
Combined (\$C/boe)	\$	70.06	\$ 87.65	\$ 74.64	\$ 81.11

Notes:

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

(2) Represents posting prices of Western Canadian Select ("WCS").

(3) Represents the Alberta 30-day spot AECO posting prices.

¹ Non-IFRS and other financial measure. Refer to "Non-IFRS and Other Financial Measures" section of the MD&A.

The Company's oil and natural gas revenue and financial results are significantly influenced by changes in commodity prices. The West Texas Intermediate pricing ("WTI") at Cushing, Oklahoma is the benchmark reference price for North American crude oil prices. Canadian oil prices, including Hemisphere's heavy crude oil, are based on price postings, which is WTI pricing adjusted for transportation, quality, and the currency conversion rates from United States dollar ("US\$") to Canadian dollar ("C\$").

As at the date of this MD&A, the Company held derivative commodity contracts as follows:

Product	Type	Volume	Price	Index	Term
Crude oil	Collar	175 bbl/d	US\$50.00(put buy)/ US\$79.55(call sell)/bbl	WTI-NYMEX	Jul. 1, 2025 – Sep. 30, 2025
Crude oil	Swap	750 bbl/d	C\$19.45	WCS Differential	Jul. 1, 2025 – Sep. 30, 2025
Crude oil	Collar	200 bbl/d	US\$50.00(put buy)/ US\$80.00(call sell)/bbl	WTI-NYMEX	Oct. 1, 2025 – Dec. 31, 2025
Crude oil	Collar	200 bbl/d	US\$50.00(put buy)/ US\$68.00(call sell)/bbl	WTI-NYMEX	Jan. 1, 2026 – Mar. 31, 2026

Revenue

(\$000s)	Three Months Ended June 30				Six Months Ended June 30			
	2025		2024		2025		2024	
Heavy crude oil	\$	24,380	\$	28,927	\$	51,699	\$	49,860
Conventional natural gas		15		11		35		39
Total	\$	24,395	\$	28,938	\$	51,734	\$	49,899

Revenue for the three months ended June 30, 2025 decreased by 16% from the comparable period in 2024. This decrease is primarily due to the 20% decrease in the Company's combined average realized price, offset somewhat by the 6% increase in production, discussed above over the comparable three-month period in 2024. Revenue for the six months ended June 30, 2025 increased by 4% from the comparable period in 2024. This increase is primarily due to the 13% increase in production, discussed above, offset somewhat by the 8% decrease in the Company's combined average realized price over the comparable six-month period in 2024.

Operating Netback

(\$000s, except per unit amounts)	Three Months Ended June 30				Six Months Ended June 30			
	2025		2024		2025		2024	
Operating netback								
Revenue	\$	24,395	\$	28,938	\$	51,734	\$	49,899
Royalties		(4,565)		(6,257)		(9,608)		(10,200)
Operating costs		(3,969)		(3,179)		(7,998)		(6,355)
Transportation costs		(971)		(1,652)		(2,057)		(2,535)
Operating field netback ⁽¹⁾	\$	14,890	\$	17,851	\$	32,071	\$	30,809
Realized commodity hedging gain (loss)		(900)		(164)		(1,085)		3
Operating netback ⁽¹⁾	\$	13,990	\$	17,687	\$	30,986	\$	30,812
Operating netback (\$/boe)								
Revenue	\$	70.06	\$	87.65	\$	74.64	\$	81.11
Royalties		(13.11)		(18.95)		(13.86)		(16.58)
Operating costs		(11.40)		(9.63)		(11.54)		(10.33)
Transportation costs		(2.78)		(5.00)		(2.97)		(4.12)
Operating field netback ⁽¹⁾	\$	42.77	\$	54.07	\$	46.27	\$	50.08
Realized commodity hedging gain (loss)		(2.59)		(0.50)		(1.57)		-
Operating netback ⁽¹⁾	\$	40.18	\$	53.58	\$	44.70	\$	50.08

Note:

(1) Non-IFRS financial measure that is not a standardized financial measure under ("IFRS") and may not be comparable to similar financial measures disclosed by other issuers. Refer to "Non-IFRS and Other Financial Measures" section of the MD&A.

Royalties paid in the first six months of 2025 totaled \$9.6 million, of which \$8.9 million was paid to the Alberta Crown and \$0.7 million was paid to Over-Riding Royalty ("ORR") holders. Royalties for the three months ended June 30, 2025 were \$13.11/boe (19% of revenue) compared to \$18.95/boe (22% of revenue) during the same period of 2024. Royalties for the six months ended June 30, 2025 were \$13.86/boe (19% of revenue) compared to \$16.58/boe (20% of revenue) during the same period of 2024.

Operating costs include all costs for gathering, processing, dehydration, compression, water processing and marketing of the oil and natural gas, as well as additional costs incurred periodically for maintenance and repairs. Operating costs for the three months ended June 30, 2025 were \$11.40/boe, representing an 18% or \$1.77/boe increase from the same quarter in 2024. Operating costs for the six months ended June 30, 2025 were \$11.54/boe, representing a 12% or \$1.21/boe increase over the same period in 2024. These increases are primarily due to increased costs for labour and additional costs for the Company's new polymer pilot in Marsden, Saskatchewan during the period. The Company also completed two small turnarounds at the Jenner Battery and F-Pool Battery during the second quarter of 2025.

Transportation costs include all costs incurred to transport emulsion, oil, and gas sales to processing and distribution facilities. Transportation costs were \$2.78/boe and \$2.97/boe for the three- and six-month periods ended June 30, 2025, respectively. These represent 44% and 28% decreases from the respective comparable periods in 2024 as the result of trucking to closer sales points.

Operating netback for the three months ended June 30, 2025 was \$40.18/boe, which is \$13.04/boe or 25% lower than the comparable period in 2024. Operating netback for the six months ended June 30, 2025 was \$44.70/boe, which is \$5.38/boe or 11% lower than the comparable period in 2024. These decreases are mainly due to the respective 20% and 8% decreases in the Company's combined average realized prices offset by lower royalty rates and higher production in 2025.

Exploration and Evaluation

Exploration and evaluation expense generally consists of certain geological and geophysical costs, expiry of undeveloped lands, and costs of uneconomic exploratory wells. Exploration and evaluation expenses for the three months ended June 30, 2025 and 2024 were \$36 thousand and \$55 thousand, respectively. For the six months ended June 30, 2025 and 2024, exploration and evaluation expenses were \$72 thousand and \$93 thousand, respectively.

Depletion and Depreciation

(\$000s, except per boe)	Three Months Ended June 30			Six Months Ended June 30		
	2025	2024		2025	2024	
Depletion expense	\$ 2,706	\$ 2,413	\$	\$ 5,328	\$ 4,473	
Depreciation expense	265	209		532	421	
Total	\$ 2,972	\$ 2,622	\$	\$ 5,860	\$ 4,894	
\$ per boe	\$ 8.54	\$ 7.94	\$	\$ 8.45	\$ 7.96	

The depletion rate is calculated using the unit-of-production method on Proved and Probable oil and gas reserves, taking into account the future development costs ("FDC") to develop and produce undeveloped and non-producing reserves.

Depletion and depreciation expenses for the three months ended June 30, 2025 increased by 8% to \$8.54/boe from \$7.94/boe for the same period in 2024. For the six months ended June 30, 2025,

depletion and depreciation expenses increased by 6% to \$8.45/boe from \$7.96/boe for the same period in 2024. The increases in depletion expense for the three and six months ended June 30, 2025 over the comparable periods in 2024 are due to the respective 6% and 13% increases in production.

Impairment

At June 30, 2025, the Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units ("CGU"), and management determined that there were no indicators of impairment or reversal identified. As such, no impairment test on its petroleum and natural gas assets was required and \$nil impairment was recorded.

Capital Expenditures

(\$000s)	Three Months Ended June 30			Six Months Ended June 30		
	2025	2024		2025	2024	
Land and lease	\$ 73	\$ 66	\$	\$ 302	\$ 88	
Geological and geophysical	395	568		858	765	
Drilling and completions	1,096	1,489		1,286	6,682	
Facilities and infrastructure	627	856		951	1,092	
Total capital expenditures ⁽¹⁾	\$ 2,191	\$ 2,979	\$	\$ 3,397	\$ 8,627	

Note:

(1) Non-IFRS financial measure that is not a standardized financial measure under International Financial Reporting Standards ("IFRS") and may not be comparable to similar financial measures disclosed by other issuers. Refer to "Non-IFRS and Other Financial Measures" section of the MD&A.

The capital spent during the six months ended June 30, 2025 included conformance treatments at two water injection wells to improve sweep efficiency, as well as preparatory work for an upcoming drilling program.

General and Administrative

(\$000s, except per boe)	Three Months Ended June 30			Six Months Ended June 30		
	2025	2024		2025	2024	
Gross general and administrative	\$ 1,618	\$ 1,645	\$	\$ 3,277	\$ 2,831	
Capitalized general and administrative	(313)	(491)		(683)	(659)	
Total net	\$ 1,305	\$ 1,154	\$	\$ 2,594	\$ 2,172	
\$ per boe	\$ 3.75	\$ 3.50	\$	\$ 3.74	\$ 3.53	

General and administrative ("G&A") net expenses for the three- and six- month periods ended June 30, 2025 increased on a per boe basis by 7% and 6%, respectively, over the comparable periods in 2024. These increases in G&A net expenses are due to additional investor relations activities, and higher overall costs associated with inflation and the Company's year-over-year growth.

The Company capitalizes some G&A expenses which can be attributed to any costs incurred during the period relating to its development and exploration activities. For the six months ended June 30, 2025, capitalized G&A expenses increased by \$24 thousand over the comparable period in 2024. This change relates to an increase in capital program planning and evaluation activity carried out by the Company during the first six months of 2025.

Share-based Compensation

Share-based compensation includes expenses which reflect the estimated value of stock options and Restricted Share Units ("RSUs") issued to directors, employees, and consultants of the Company.

Share-based compensation expense is summarized in the following table:

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Stock options vested	\$ 8	\$ 6	\$ 16	\$ 13
RSUs granted ¹	772	-	772	-
Capitalized costs ¹	(230)	-	(230)	-
Total share-based payments	\$ 550	\$ 6	\$ 558	\$ 13

Note:

(1) Inclusive of any dividend reinvestment and fair value remeasurement.

Stock Options

During the first half of 2025, the Company did not grant any stock options to employees. However, a tranche of 25% of the options granted to an investor relations consultant during the fourth quarter of 2024 vested in each of the first two quarters in 2025. The total value of the stock options that vested during the first six months of 2025 was \$16 thousand, which was expensed as share-based compensation.

Restricted Share Units

In December 2024, Hemisphere's Board of Directors approved a new Restricted Share Unit Plan ("RSU Plan") as an additional form of share-based compensation which allows them to grant RSUs to directors, officers, employees and consultants of the Company. The aggregate number of common shares reserved for issuance under the RSU Plan is in combination with the shares reserved for issuance under the Company's Stock Option Plan and may not exceed 10% of the issued and outstanding shares of the Company. One-third of the granted RSUs will vest on each of the first, second and third anniversaries from the date of grant, unless otherwise determined by the Board of Directors of the Company. Awards are adjusted for dividends declared, with an adjustment to the notional number of common shares underlying each RSU for each dividend record date following the issue date of the RSU. The adjustment ratio for the awards was set a 1.0 at issuance of the RSUs, and has been adjusted to 1.06 as at June 30, 2025 for the subsequent dividends declared.

On December 13, 2024, the Board of Directors conditionally awarded 1,221,000 RSUs to directors, officers, employees and consultants of the Company that will expire on December 15, 2027. The RSU Plan and awarded RSUs were approved by the shareholders at the Company's Annual General and Special Meeting on June 2, 2025. The RSU Plan allows for cash settlement of the RSUs and accordingly the Company has recorded share-based compensation liabilities for the RSUs.

As at June 30, 2025, there were 1,221,000 RSUs outstanding.

Finance Expense

(\$000s, except per boe)	Three Months Ended June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Loan interest	\$ 140	\$ 106	\$ 254	\$ 239
Lease interest	61	52	124	105
Interest income	(151)	(5)	(262)	(70)
Accretion of decommissioning liabilities	50	50	99	99
Total	\$ 100	\$ 203	\$ 215	\$ 373
\$ per boe - Total	\$ 0.29	\$ 0.61	\$ 0.31	\$ 0.61
\$ per boe - Interest only	\$ 0.14	\$ 0.46	\$ 0.17	\$ 0.44

Loan fees, including standby and facility fees, for the three and six months ended June 30, 2025 increased by \$34 thousand and \$15 thousand, respectively, while interest income increased by \$146 thousand and \$192 thousand, respectively, due to higher cash on hand, over the comparable periods in 2024. The Company also recorded \$61 thousand and \$124 thousand in lease interest on right-of-use assets liability under IFRS 16 for the three and six months ended June 30, 2025, respectively. The total finance expense per boe for loan and lease interest decreased by \$0.32/boe or 69% for the three-month period and \$0.28 or 62% for the six-month period ended June 30, 2025 from the comparable periods of 2024 due primarily to the previously mentioned interest income earned on the Company's cash balances.

Accretion of decommissioning liabilities represents the adjusted present value of the Company's decommissioning obligations which include the abandonment and reclamation costs associated with wells and facilities. During the three and six months ended June 30, 2025, accretion expenses remained the same over the comparable periods in 2024.

Taxes

The Company has approximately \$23 million of tax pools available to be applied against future income for tax purposes, as per its tax assessments at December 31, 2024 (December 31, 2023 - \$29 million). Based on the Company's revised corporate structure as of January 2, 2024, the Company has recorded current tax expense of \$5.3 million and deferred tax expense of \$125 thousand for the six months ended June 30, 2025 (year ended December 31, 2024 - \$27 thousand current tax and \$10.4 million deferred tax). The Company expects to incur additional taxes in 2025 and any taxes payable beyond this will primarily be a function of commodity prices, capital expenditures and production volumes.

Tax Pools

(\$000s)	Base Deduction Rate	December 31, 2024	December 31, 2023
Canadian exploration expense (CEE)	100%	\$ -	\$ -
Canadian development expense (CDE)	30%	17,736	20,461
Canadian oil and gas property expense (COGPE)	10%	4,096	4,402
Non-capital losses carry forwards (NCL)	100%	-	-
Undepreciated capital cost (UCC)	20-55%	649	3,494
Share issuance costs and other	Various	598	657
Total		\$ 23,079	\$ 29,014

Summary of Quarterly Results

	2025			2024			2023	
	Jun. 30 Q2 ⁽¹⁾	Mar. 31 Q1 ⁽²⁾	Dec. 31 Q4 ⁽³⁾	Sep. 30 Q3 ⁽⁴⁾	Jun. 30 Q2 ⁽⁵⁾	Mar. 31 Q1 ⁽⁶⁾	Dec. 31 Q4 ⁽⁷⁾	Sep. 30 Q3 ⁽⁸⁾
<i>(\$000s, except production and per unit amounts)</i>								
Average daily production (boe/d)	3,826	3,833	3,359	3,621	3,628	3,133	3,386	3,056
Heavy oil and natural gas revenue	24,395	27,339	23,361	26,675	28,938	20,961	22,423	24,342
Cash provided by operating activities	11,846	16,181	12,284	16,782	14,795	2,684	13,496	12,340
Net income	7,053	8,942	7,342	8,596	10,387	6,778	3,981	8,465
Per share, basic	0.07	0.09	0.08	0.09	0.11	0.07	0.04	0.08
Per share, diluted	0.07	0.09	0.07	0.09	0.10	0.07	0.04	0.08
Combined average realized price (\$/boe)	70.06	79.26	75.59	80.06	87.65	73.53	71.97	86.57

Notes:

(1) The decreases in revenue and net income are due primarily to a decrease in realized commodity prices.

(2) The increases in revenue and cash provided by operating activities are due primarily to an increase in production combined with an increase in average realized commodity price.

- (3) The decreases in revenue and net income are mainly due to a decrease in production, higher operating costs and tax expenses.
- (4) The decreases in revenue and net income are due primarily to a decrease in realized commodity prices. Cash provided by operating activities increased due to changes in non-cash working capital.
- (5) The increases in revenue and cash provided by operating activities are due primarily to an increase in production, combined with increased average realized commodity price. Net income increased primarily due to the increase in revenue.
- (6) The decrease in revenue is due primarily to a slight decrease in production. The increase in net income is due primarily to a reduction in operating expenses. Cash provided by operating activities reduced significantly due to changes in non-cash working capital resulting from payments made to income taxes payable.
- (7) The decrease in revenue is due primarily to a decrease in realized commodity price. The increase in cash provided by operating activities is due primarily to an increase in production. Net income decreased due to a decrease in revenues, plus additional expenses recorded for production and operating, taxes, impairment, share-based payments.
- (8) The increases in revenue and cash provided by operating activities are due primarily to an increase in production combined with an increase in average realized commodity price. Net income increased primarily due to the increase in revenue.

Outstanding Share Capital

	August 13, 2025	June 30, 2025	December 31, 2024
Fully diluted share capital			
Common shares issued and outstanding	95,168,202	95,897,878	97,389,735
Stock options	5,113,600	5,188,600	6,021,600
Total fully diluted shares outstanding	100,281,802	101,086,478	103,411,335

On July 14, 2024, the Company renewed its normal course issuer bid ("NCIB") to purchase and cancel, from time to time, up to 8,670,636 common shares of the Company until July 13, 2025. In the six months ended June 30, 2025, the Company purchased and cancelled 2,024,500 shares under the NCIB for \$3.6 million at an average cost of \$1.78 per share.

On July 14, 2025, the Company renewed its NCIB to purchase and cancel, from time to time, up to 7,934,731 common shares of the Company until July 13, 2026.

Subsequent to the quarter ended June 30, 2025, the Company purchased and cancelled 760,300 shares under the NCIB at an average cost of \$1.88 per share.

The Company has the following stock options that are outstanding and exercisable as at August 13, 2025:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding	Balance Exercisable
\$0.91	December 17, 2021	December 17, 2031	793,600	793,600
\$1.41	March 17, 2022	March 17, 2032	50,000	50,000
\$1.30	December 14, 2022	December 14, 2032	2,550,000	2,550,000
\$1.25	September 11, 2023	September 11, 2033	50,000	50,000
\$1.27	December 15, 2023	December 15, 2028	1,622,000	1,622,000
\$1.84	December 13, 2024	December 13, 2029	48,000	24,000
			5,113,600	5,089,600
Weighted-average exercise price			\$1.24	\$1.23

Dividends

On June 7, 2022, the Company's Board of Directors approved a variable dividend policy. During 2022, the Company paid three quarterly base dividends at \$0.025 per share each for total distributions of \$7.6 million. During 2023, the Company paid four quarterly base dividends at \$0.025 per share each and one special dividend at \$0.03 per share for total distributions of \$13.1 million. During 2024, the Company paid four quarterly base dividends at \$0.025 per share each and two special dividends at \$0.03 per share each for total distributions of \$15.7 million.

As at the date of this MD&A, the Company has paid the following dividends to shareholders during 2025:

Dividend type	Record date	Shares outstanding ⁽¹⁾	Payment date	Dividend price per share	Dividends paid (\$000s)	Market capitalization ⁽²⁾ (\$000s)	Dividend yield ⁽³⁾ (annualized)
Quarterly Base	Feb. 12, 2025	97,112,082	Feb. 26, 2025	\$0.025	\$2,428	\$178,686	5.43%
Special	Apr. 17, 2025	96,786,752	Apr. 28, 2025	\$0.030	\$2,904	\$166,473	6.98%
Quarterly Base	Jun. 19, 2025	95,897,878	Jun. 30, 2025	\$0.025	\$2,397	\$176,452	5.43%
Total paid during 2025 to-date				\$0.080	\$7,729		

Notes:

(1) As at record date.

(2) As at payment date.

(3) Dividends paid multiplied by 4 and divided by the market capitalization.

On July 15, 2025, the Company announced its Board of Directors approved a special dividend of \$0.03 per share to the Company's shareholders of record on July 31, 2025 for payment on August 15, 2025.

On August 13, 2025, the Company's Board of Directors approved a quarterly dividend of \$0.025 per share to the Company's shareholders of record on August 29, 2025 for payment on September 12, 2025.

Further payments of dividends will be subject to board approval, and be conditional on continued production performance, commodity price environment, and compliance with the terms of the Company's credit facility.

Liquidity and Capital Management

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 prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

Hemisphere released its 2025 guidance on January 29, 2025, which was approved by the Company's Board of Directors. Management's forecasts may change materially based upon actual prices received, changes in future strip pricing, production volumes, operating costs, activity levels, cash flows, and the timing thereof and other factors which may or may not be within the control of the Company. The economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's liquidity and ability to generate profits in the future.

a) Financing

The Company's net cash used in financing activities during the three and six months ended June 30, 2025 were \$7.8 million and \$11.7 million, respectively (\$3.2 million and \$7.0 million cash used in financing activities for the three and six months ended June 30, 2024, respectively). For the three months ended June 30, 2025, the financing expenditures included dividends issued totaling \$5.3 million, shares repurchased under the NCIB totaling \$2.3 million, and lease liability payments of \$0.2 million. For the six months ended June 30, 2025, the financing expenditures included

dividends issued totaling \$7.7 million, shares purchased under the NCIB totaling \$3.6 million, plus lease liability payments of \$0.4 million.

b) Bank Debt

On July 27, 2021, the Company entered into a two-year committed and extendible term facility with a Canadian Bank (the "Lender") providing for borrowings of up to \$35.0 million (the "Credit Facility").

The Credit Facility had a renewed term date of May 31, 2025. Following the completion of its annual bank review, the term date was extended to May 31, 2026. The facility is extendible at the new term date and on an annual basis for an additional 365 days upon request of the Company. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At June 30, 2025, the Company had drawn \$nil on the Credit Facility. There are standard reporting covenants under the Credit Facility and a financial covenant for the Company to maintain working capital above a ratio of 1.00 to 1.00. Working capital for the covenant is defined as current assets, less current liabilities, excluding the derivative financial instruments, plus the undrawn amount available under the Credit Facility. The Company met these standard reporting covenants as well as the financial covenant, with a working capital ratio of 3.36 to 1.00 as at June 30, 2025.

Under the Credit Facility, advances can be drawn as prime rate loans and bear interest at the bank's prime lending rate plus interest rates between 2.50% and 3.50%. Advances may also be drawn as guaranteed notes/banker's acceptances and letters of credit, subject to Canadian interest benchmark rates plus margins ranging from 3.50% to 4.50%. Standby fees are charged on the undrawn portion of the Credit Facility at rates ranging from 0.875% to 1.125%. These interest rates, fees and margins vary based on adjusted debt to earnings metrics determined at each quarter-end for the preceding 12 months.

The next semi-annual review of the available lending limit of the Credit Facility is scheduled for review by November 30, 2025 and is based on the Lender's interpretation of the Company's reserves and future commodity prices. There can be no assurance that the amount or terms of the Credit Facility will not be adjusted at the next semi-annual review. Should the Lender reduce the Credit Facility's borrowing base below the amount drawn at the time of the redetermination, the Company would have 45 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the redetermined borrowing base. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is compliant with all covenants, representations, and warranties.

c) Capital Management

The Company manages its capital with the following objectives:

- 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

- Maximize shareholder return enhancing the Company's share value through dividends, share buybacks and corporate performance.

As part of its capital management process, the Company prepares budgets and forecasts, which are used by management and the Board of Directors, to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company.

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 bank debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, utilizing its bank debt, 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.

Commitments

(\$000s)		2025	2026	2027	2028	2029	Total
Office & equipment leases	\$	37	34	5	-	-	76
Surface leases		27	27	26	26	23	129
Production equipment leases		499	1,020	980	927	31	3,457
	\$	563	1,081	1,011	953	54	3,662

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.

Changes in Accounting Policies

There are no new accounting standards for the period. Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. When the Company has not applied a new primary source of GAAP that has been issued, but is not effective, the Company will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

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. These risks and uncertainties include, among other things, volatility in market prices for crude oil and natural gas, general economic conditions in Canada, the US and globally and other factors described under "*Risk Factors*" in Hemisphere's most recently filed Annual Information Form which is available on SEDAR+ at www.sedarplus.ca. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The following provides information about the Company's exposure to some 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 involve a high degree of risk whereby many properties may ultimately not be 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 numerous 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.

To the extent that geopolitical events may adversely affect Hemisphere's business, financial condition, and results of operations, it may also have the effect of heightening many of the other risks described in this MD&A and Hemisphere's Annual Information Form for the year ended December 31, 2024.

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 operators and oil and natural gas marketers, and reclamation deposits. The credit risk associated with reclamation deposits is minimized substantially by ensuring this financial asset is 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. There are no balances over 90 days past due or impaired.

The maximum exposure to credit risk is as follows:

	June 30, 2025	December 31, 2024
Accounts receivable		
Marketing receivables	\$ 7,357	\$ 5,423
Trade receivables	413	3,615
Receivables from joint ventures	11	10
Reclamation deposits	116	116
	\$ 7,897	\$ 9,164

The Company sells the majority of its oil production to three major oil marketers and, therefore, is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. Historically, the Company has never experienced any collection issues with its oil marketers.

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 also prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company will also attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

In light of the volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices, as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging. The economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's liquidity and ability to generate profits in the future.

At June 30, 2025, the Company had working capital (a non-IFRS measure calculated as current assets, less current liabilities, excluding the fair value of financial instruments, lease and decommissioning obligations, adjusted for tax provision and including any bank debt) of \$13.9 million (December 31, 2024 - \$6.4 million). The Company funds its operations through operating cash flows and a committed \$35.0 million two-year renewable term credit facility with ATB Financial.

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 interest rate risk, foreign currency risk, commodity price risk, and other price risk.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate due to changes in market interest rates. Borrowings under the Company's bank debt are subject to variable interest rates. A one percent change in interest rates would have a minimal annual effect on net income.

Foreign currency risk

The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency; except i) the Company's commodity prices are largely denominated in US Dollars ("USD"), and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar ii) some of the Company's leases are

transacted in USD. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales.

Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices may materially impact the Company's adjusted funds flow from operations, and ability to raise capital. The Company has derivative commodity contracts in place as further disclosed within this MD&A.

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, foreign currency risk or commodity price risk. The Company is not exposed to significant other price risk.

Environmental and Climate Change Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Company works hard to identify the potential environmental impacts of its new projects in the planning stage and during operations. The Company conducts its operations with high standards in order to protect the environment, its employees and consultants, and the general public. The Company maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations.

The Company's exploration and production facilities and other operations and activities emit greenhouse gases ("GHG") which may require compliance with federal and/or provincial GHG emissions legislation. Climate change policy is evolving at regional, national, and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate its effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on our business, financial condition, results of operations and prospects.

Non-IFRS Measures and Other Financial Measures

This MD&A contains the terms adjusted funds flow from operations, free funds flow, operating field netback and operating netback, capital expenditures and working capital/net debt, which are considered "non-IFRS financial measures" and any of these measures calculated on a per boe basis, which are considered "non-IFRS financial ratios". These terms do not have a standardized meaning prescribed by IFRS. Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Investors are cautioned that these measures should not be construed as an alternative to net income (loss) or cashflow from operations determined in accordance with IFRS and

these measures should not be considered more meaningful than IFRS measures in evaluating the Company's performance.

- a) **Adjusted funds flow from operations ("AFF") (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** The Company considers AFF to be a key measure that indicates the Company's ability to generate the funds necessary to support future growth through capital investment and to repay any debt. AFF is a measure that represents cash flow generated by operating activities, before changes in non-cash working capital and adjusted for tax provision and decommissioning expenditures, and may not be comparable to measures used by other companies. The most directly comparable IFRS measure for AFF is cash provided by operating activities. AFF per share is calculated using the same weighted-average number of shares outstanding as in the case of the earnings per share calculation for the period.

A reconciliation of AFF to cash provided by operating activities is presented as follows:

(\$000s, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Cash provided by operating activities	\$ 11,846	\$ 14,795	\$ 28,028	\$ 17,479
Change in non-cash working capital	(1,597)	1,544	(5,100)	10,825
Adjust: Tax Provision ⁽¹⁾	-	(2,779)	-	(4,668)
Adjust: Decommissioning obligation expenditures	12	18	37	28
Adjusted funds flow from operations	\$ 10,261	\$ 13,578	\$ 22,965	\$ 23,664
Per share, basic	\$ 0.11	\$ 0.14	\$ 0.24	\$ 0.24
Per share, diluted	\$ 0.10	\$ 0.14	\$ 0.23	\$ 0.24

Note:

(1) Provision for income taxes deferred under new corporate partnership structure effective as of January 2, 2024.

- b) **Free funds flow ("FFF") (Non-IFRS Financial Measure):** Calculated by taking adjusted funds flow and subtracting capital expenditures, excluding acquisitions and dispositions. Management believes that free funds flow provides a useful measure to determine Hemisphere's ability to improve returns and to manage the long-term value of the business.

(\$000s, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Adjusted funds flow from operations	\$ 10,261	\$ 13,578	\$ 22,965	\$ 23,664
Capital expenditures	(2,191)	(2,979)	(3,397)	(8,627)
Free funds flow	\$ 8,070	\$ 10,599	\$ 19,568	\$ 15,037
Per share, basic and diluted	\$ 0.08	\$ 0.11	\$ 0.20	\$ 0.15

- c) **Capital Expenditures (Non-IFRS Financial Measure):** Management uses the term "capital expenditures" as a measure of capital investment in exploration and production assets, and such spending is compared to the Company's annual budgeted capital expenditures. The most directly comparable IFRS measure for capital expenditures is cash flow used in investing activities. A summary of the reconciliation of cash flow used in investing activities to capital expenditures is set forth below:

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Cash used in investing activities	\$ 2,289	\$ 4,908	\$ 5,754	\$ 8,591
Change in non-cash working capital	(98)	(1,929)	(2,357)	36
Capital expenditures	\$ 2,191	\$ 2,979	\$ 3,397	\$ 8,627

- d) **Operating field netback (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** A benchmark used in the oil and natural gas industry and a key indicator of profitability relative to current commodity prices. Operating field netback is calculated as oil and gas sales, less royalties, operating expenses, and transportation costs on an absolute and per barrel of oil equivalent basis. These terms should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income or loss as determined in accordance with IFRS as an indicator of the Company's performance.
- e) **Operating netback (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** Calculated as the operating field netback plus the Company's realized gain (loss) on derivative financial instruments on an absolute and per barrel of oil equivalent basis.
- f) **Working Capital/Net debt (Non-IFRS Financial Measure):** Closely monitored by the Company to ensure that its capital structure is maintained by a strong balance sheet to fund the future growth of the Company. Working capital/Net debt is used in this document in the context of liquidity and is calculated as the total of the Company's current assets, less current liabilities, excluding derivative financial instruments, decommissioning obligations, and lease liabilities, adjusted for tax provision and including any bank debt. There is no IFRS measure that is reasonably comparable to working capital/net debt.

The following table outlines the Company calculation of working capital:

(\$000s)	As at June 30, 2025	As at December 31, 2024
Current assets ⁽¹⁾	\$ 32,420	\$ 22,676
Current liabilities ⁽¹⁾	(18,526)	(7,657)
Adjust: Tax provision ⁽²⁾	-	(8,601)
Working capital	\$ 13,894	\$ 6,418

Notes:

(1) Excluding fair value of financial instruments, decommissioning obligations, and lease liabilities.

(2) Provision for income taxes deferred in 2024 under the new corporate partnership structure effective as of January 2, 2024.

g) **Supplementary Financial Measures**

"Adjusted Funds Flow from operations per basic share" is comprised of funds from operations divided by basic weighted average common shares.

"Adjusted Funds Flow from operations per diluted share" is comprised of funds from operations divided by diluted weighted average common shares.

"Adjusted Funds Flow from operations per boe" is comprised of funds from operations divided by total boe production for the period.

"Annual Free Funds Flow" is comprised of free funds flow from the current three-month period multiplied by four.

"Operating expense per boe" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total production.

"Realized heavy oil price" is comprised of heavy crude oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's crude oil production.

"Realized natural gas price" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas production.

"Realized combined price" is comprised of total commodity sales from production, as determined in accordance with IFRS, divided by the Company's total production.

"Royalties per boe" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production.

"Transportation costs per boe" is comprised of transportation expense, as determined in accordance with IFRS, divided by the Company's total production.

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.

Forward-Looking Statements

In the interest of providing Hemisphere's shareholders and potential investors with information regarding the Company, including management's assessment of the future plans and operations of Hemisphere, certain statements contained in this MD&A constitute forward-looking statements or information (collectively forward-looking statements) within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as anticipate, continue, estimate, expect, forecast, may, will, project, could, plan, intend, should, believe, outlook, potential, target and similar words suggesting future events or future performance. In particular, but without limiting the foregoing, this document may contain forward-looking statements pertaining to the following: the Company's drilling activities, including the anticipated schedule thereof; potential acquisition opportunities and continued shareholder returns; the future payment of dividends; Hemisphere's capital program and the manner it intends to spend such funds; future oil and natural gas prices; future operational activities; and plans for continued growth in the Company's production, reserves and cash flow; the compliance of the Company under its credit agreements, the Company's tax pools and expectations on future tax taxability; the Company's dividend policies and intentions with respect to the same; and the manner in which FFF (if any) may be allocated. In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

With respect to forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things: future capital expenditure levels; future oil and natural gas prices and differentials between light, medium and heavy oil prices; inflation rates; results from operations including future oil and natural gas production levels; future exchange rates and interest rates; Hemisphere's ability to obtain equipment in a timely manner to carry out development activities; Hemisphere's ability to market its oil and natural gas successfully to current and new customers; the impact of increasing competition; Hemisphere's ability to obtain financing on acceptable terms; the continued availability of Hemisphere's credit facility; and Hemisphere's ability to add production and reserves through our development and exploitation activities.

Although Hemisphere believes that the expectations reflected in the forward-looking statements contained in this MD&A, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this MD&A, as there can be no assurance that the plans, intentions, or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause Hemisphere's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the following: volatility in market prices for oil and natural gas; risks associated with Hemisphere's enhanced oil recovery operations, including effects on its reserves, reservoirs and production; general economic conditions in Canada, the U.S. and globally; and the other factors described under "Risk Factors" in Hemisphere's most recently filed Annual Information Form available on the Company's profile on SEDAR+ at www.sedarplus.ca. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The forward-looking statements contained in this MD&A speak only as of the date of this document. Except as expressly required by applicable securities laws, Hemisphere does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

Management is responsible for the preparation of the financial statements and the consistent presentation of all other financial information that is publicly disclosed. The financial statements have been prepared in accordance with the accounting policies detailed in the notes to the financial statements and in accordance with IFRS Accounting Standards and include estimates and assumptions based on management's best judgment. Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner.

The accompanying unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

The Audit Committee, consisting of independent members of the Board of Directors, has reviewed the unaudited condensed interim consolidated financial statements with management. The Board of Directors has approved the unaudited condensed interim consolidated financial statements on the recommendation of the Audit Committee.

Vancouver, British Columbia
August 13, 2025

(signed) "Don Simmons"

Don Simmons, President & CEO

(signed) "Dorlyn Evancic"

Dorlyn Evancic, Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

(\$000s)	Note	June 30, 2025	December 31, 2024
Assets			
Current assets			
Cash and cash equivalents		\$ 23,150	\$ 12,550
Accounts receivable	3(a)	7,781	9,048
Prepaid expenses		1,489	1,078
		32,420	22,676
Non-current assets			
Reclamation deposits	8	116	116
Exploration and evaluation assets	6	3,681	3,389
Property and equipment	7	82,619	85,148
Total assets		\$ 118,836	\$ 111,329
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 4,235	\$ 7,657
Current tax liability		13,869	-
Current portion of lease liabilities	11	947	826
Current portion of decommissioning obligations	8	158	158
Share-based compensation payable	12(b)	422	-
Derivative financial instruments	3(c)	430	132
		20,061	8,773
Non-current liabilities			
Lease liabilities	11	2,470	2,969
Share-based compensation payable	12(b)	350	-
Deferred tax liability		10,890	19,368
Decommissioning obligations	8	5,902	5,840
		39,673	36,950
Shareholders' Equity			
Share capital	12	57,142	60,165
Contributed surplus		4,711	5,170
Retained earnings		17,310	9,044
Total shareholders' equity		79,163	74,379
Total liabilities and shareholders' equity		\$ 118,836	\$ 111,329

Commitments Note 13

Subsequent events Note 15

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Approved by the Board of Directors

(signed) "Bruce McIntyre"

Bruce McIntyre, Director

(signed) "Don Simmons"

Don Simmons, Director

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)

(Unaudited)

(\$000s, except per share amounts)	Note	Three Months Ended June 30		Six Months Ended June 30	
		2025	2024	2025	2024
Revenue					
Oil and natural gas revenue	5	\$ 24,395	\$ 28,938	\$ 51,734	\$ 49,899
Royalties		(4,564)	(6,257)	(9,609)	(10,200)
		19,831	22,681	42,125	39,699
Realized gain (loss) on derivative financial Instruments		(900)	(164)	(1,085)	3
Unrealized gain (loss) on derivative financial Instruments	3(c)	515	146	(298)	(476)
Net revenue		19,446	22,663	40,742	39,226
Expenses					
Production and operating		4,940	4,830	10,054	8,890
Exploration and evaluation	6	36	55	72	93
Depletion and depreciation	7	2,972	2,622	5,860	4,894
General and administrative		1,305	1,154	2,594	2,172
Share-based compensation	12(b)	550	6	558	13
Finance expense - net	9	100	203	215	373
Foreign exchange loss, realized		15	23	44	34
Foreign exchange (gain), unrealized		(2)	-	(42)	-
Total expenses		9,916	8,893	19,355	16,469
Income before taxes		9,530	13,770	21,387	22,757
Current income tax expense		(2,360)	-	(5,267)	-
Deferred income tax expense		(117)	(3,383)	(125)	(5,592)
Net income and comprehensive income for the period		\$ 7,053	\$ 10,387	\$ 15,995	\$ 17,165
Net income per share, basic	12(c)	\$ 0.07	\$ 0.11	\$ 0.17	\$ 0.17
Net income per share, diluted	12(c)	\$ 0.07	\$ 0.10	\$ 0.16	\$ 0.17

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

(Unaudited)

	Note	Number common shares	Share Capital (\$000s)	Contributed Surplus (\$000s)	Retained Earnings /(Deficit) (\$000s)	Total Shareholders' Equity (\$000s)
Balance at December 31, 2023		99,340,339	\$ 63,164	\$ 6,415	\$ (8,356)	\$ 61,223
Stock option exercise	12(b)	1,422,196	1,270	-	-	1,270
Share-based compensation	12(b)	-	-	25	-	25
Transfer on option exercise	12(b)	-	1,270	(1,270)	-	-
Shares repurchased under NCIB	12(a)	(3,372,800)	(5,461)	-	-	(5,461)
NCIB repurchase tax	12(a)	-	(78)	-	-	(78)
Dividends	12(d)	-	-	-	(15,703)	(15,703)
Net income for the year		-	-	-	33,103	33,103
Balance at December 31, 2024		97,389,735	\$ 60,165	\$ 5,170	\$ 9,044	\$ 74,379
Stock option exercise	12(b)	532,643	143	-	-	143
Share-based compensation - options	12(b)	-	-	16	-	16
Transfer on option exercise		-	475	(475)	-	-
Shares repurchased under NCIB	12(a)	(2,024,500)	(3,641)	-	-	(3,641)
Dividends	12(d)	-	-	-	(7,729)	(7,729)
Net income for the period		-	-	-	15,995	15,995
Balance at June 30, 2025		95,897,878	\$ 57,142	\$ 4,711	\$ 17,310	\$ 79,163

Prior year period comparison

Balance at December 31, 2023		99,340,339	\$ 63,164	\$ 6,415	\$ (8,356)	\$ 61,223
Stock option exercise	12(b)	1,256,400	1,194	-	-	1,194
Share-based compensation	12(b)	-	-	13	-	13
Transfer on option exercise	12(b)	-	1,076	(1,076)	-	-
Shares repurchased under NCIB	12(a)	(1,923,300)	(2,896)	-	-	(2,896)
Dividends	12(d)	-	-	-	(4,938)	(4,938)
Net income for the period		-	-	-	17,165	17,165
Balance at June 30, 2024		98,673,439	\$ 62,537	\$ 5,352	\$ 3,871	\$ 71,760

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

(Unaudited)

(\$000s)	Note	Three Months Ended June 30		Six Months Ended June 30	
		2025	2024	2025	2024
Operating activities					
Net income for the period		\$ 7,053	\$ 10,387	\$ 15,995	\$ 17,165
Items not affecting cash:					
Accretion of decommissioning costs	8	50	50	99	99
Deferred tax expense		117	3,383	125	5,592
Depletion and depreciation	7	2,972	2,622	5,860	4,894
Exploration and evaluation expense	6	36	55	72	93
Share-based compensation	12(b)	550	6	558	13
Unrealized loss (gain) on derivative financial Instruments	3(c)	(515)	(146)	298	476
Unrealized loss on foreign exchange	3(c)	(2)	-	(42)	-
		10,261	16,357	22,965	28,332
Decommissioning obligation expenditures	8	(12)	(18)	(37)	(28)
Changes in non-cash working capital	14	1,597	(1,544)	5,100	(10,825)
Cash provided by operating activities		11,846	14,795	28,028	17,479
Investing activities					
Exploration and evaluation expenditures	6	(278)	(1,231)	(364)	(6,409)
Property and equipment expenditures	7	(1,913)	(1,748)	(3,033)	(2,218)
Changes in non-cash working capital	14	(98)	(1,929)	(2,357)	36
Cash used in investing activities		(2,289)	(4,908)	(5,754)	(8,591)
Financing activities					
Shares issued for stock options, cash exercise	12(b)	69	1,194	143	1,194
Shares repurchased under NCIB	12(a)	(2,340)	(1,730)	(3,641)	(2,897)
Dividends	12(d)	(5,301)	(2,467)	(7,729)	(4,938)
Payment of lease liabilities, net		(224)	(204)	(447)	(374)
Cash used in financing activities		(7,796)	(3,207)	(11,674)	(7,015)
Net change in cash		1,761	6,680	10,600	1,873
Cash and cash equivalents at beginning of period		21,389	2,382	12,550	7,189
Cash and cash equivalents at end of period		\$ 23,150	\$ 9,062	\$ 23,150	\$ 9,062

Supplemental cash flow information (Note 14)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2025 and 2024

(Expressed in Canadian Dollars)

(Unaudited)

1. Nature and Continuance of Operations

Hemisphere was incorporated under the laws of British Columbia on March 6, 1978. On January 2, 2024, Hemisphere formed a wholly-owned subsidiary, Hemi Energy Inc. ("HEI"). On January 2, 2024, Hemisphere and HEI formed two general partnerships under the laws of Alberta; Hemi Energy Partnership, which owns substantially all of the Company's producing assets, and Hemi Energy Partnership II, which may be used to hold other assets of the Company in the future. Unless the context otherwise requires, references to Hemisphere or the Company include all subsidiaries of Hemisphere.

The Company's principal business is the acquisition, exploration, development, and production of petroleum and natural gas interests in Canada. It is a publicly traded company listed on the TSX Venture Exchange under the symbol "HME" and on the OTCQX Best Market under the symbol "HMENF". The Company's head office is located at Suite 501, 905 West Pender Street, Vancouver, British Columbia, Canada V6C 1L6.

2. Basis of Presentation

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements ("Financial Statements") have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" of IFRS Accounting Standards ("IFRS").

These Financial Statements have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements of the Company for the year ended December 31, 2024. These Financial Statements should be read in conjunction with the financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2024.

These Financial Statements were authorized for issuance by the Board of Directors on August 13, 2025.

(b) Basis of valuation

These Financial Statements have been prepared on a historical cost basis, except for derivative financial instruments, which are stated at their fair values.

(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 materially differ from these estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Reserve estimation including engineering data, geological and geophysical data, projected future rates of production, commodity pricing, operating costs and timing of future expenditures, are subject to significant judgment and interpretation. These estimates are a critical part of many of the estimated amounts and calculations contained in the financial statements. These estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations. These determinations are updated at least on an annual basis.

As part of its capital management process, the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company. See further discussions relating to liquidity in Note 3(b).

Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements include:

- (i) Reserves – the Company uses estimated proved and probable oil and gas reserves to deplete petroleum and natural gas assets included in property and equipment ("P&E"), to assess for indicators of impairment or impairment reversal on each of the Company's cash generating units ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU.
- (ii) Impairment testing – internal and external sources of information including forecasted oil and gas commodity prices, forecasted production volumes, forecasted royalty costs and operating costs, forecasted future development costs, anticipated recoverable quantities of proved and probable oil and gas reserves and rates used to discount future cash flow estimates. Judgment is required to assess these factors when determining if the carrying amount of an asset is impaired, or in the case of previously impaired asset, whether the carrying amount of the asset has been restored.
- (iii) Depletion and depreciation – proved and probable oil and gas reserves, including forecasted future development costs are used in the calculation of depletion.

- (iv) Decommissioning obligations – estimates relating to amounts, likelihood, timing, inflation and discount rates.
- (v) Financial instruments – estimated fair values of the Company's financial derivative commodity contracts are subject to measurement uncertainty due to the estimation of future crude oil and natural gas commodity prices, foreign exchange rates and volatility.
- (vi) Stock options and restricted share units ("RSUs") – the estimated fair value of stock options and RSUs issued under the Company's stock option and RSU plans were based on a) stock options - the Black-Scholes pricing model incorporating assumptions on volatility, risk-free interest rate, forfeiture rate and the expected term b) RSUs – the market price per share at the date of issuance and a fair value remeasurement at period end using the Black-Scholes model and assumptions as stated above.
- (vii) Determination of CGUs – geographic location, commodity type, reservoir characteristics and lowest level of cash inflows.
- (viii) Determining the technical feasibility and commercial viability of exploration and evaluation assets.
- (ix) Business combinations – estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of petroleum and natural gas assets based upon the estimation of recoverable quantities of proved and probable oil and gas reserves being acquired.
- (x) Provisions – exercise of significant judgment and estimates of the outcome of future events.

(e) Business Risks

Oil and gas exploration and development involve a high degree of risk whereby many properties may ultimately not be 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 numerous 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, tariffs, 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.

(f) Environmental and Climate Change Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Company works hard to identify the potential environmental impacts of its new projects in

the planning stage and during operations. The Company maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations.

The Company's exploration and production facilities and other operations and activities emit greenhouse gasses ("GHG") which may require compliance with federal and/or provincial GHG emissions legislation. Climate change policy is evolving at regional, national, and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate its effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on our business, financial condition, results of operations and prospects.

(g) Future accounting pronouncements

IFRS 18 "Presentation and disclosure in financial statements" has been issued which will replace IAS 1 "Presentation of financial statements". The new standard establishes a revised structure for the statements of comprehensive income with the intention to improve comparability across entities. IFRS 18 is effective for annual periods beginning on or after January 1, 2027 and will be applied retrospectively. The Company is currently evaluating the impact of adopting IFRS 18 on the financial statements.

Amendments to IFRS 9 "Financial instruments" and IFRS 7 "Financial instruments: disclosures" have been issued with the intention to clarify the date of recognition and derecognition of some financial assets and liabilities. The amendments are effective January 1, 2026, with early adoption permitted. The Company is currently evaluating the impact of these amendments on the financial statements.

Canadian Sustainability Reporting Standards (CSDS 1 and CSDS 2)

In December 2024, the Canadian Sustainability Standards Board ("CSSB"), released the final versions of the Canadian Sustainability Reporting Standards, CSDS 1 and CSDS 2 (collectively, the "Canadian Standards"). Currently the adoption of the Canadian Standards remains voluntary. These standards closely align with the ISSB's international sustainability standards IFRS S1 and IFRS S2, but include certain differences, particularly around timing of adoption. Currently the adoption of the Canadian Standards remains voluntary, while the Canadian Securities Administrators are currently evaluating how and to what extent they will be incorporated into future reporting requirements. The impact and costs to comply with these standards has not yet been quantified.

3. 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 operators and oil and natural gas marketers, and reclamation deposits. The credit risk associated with reclamation deposits is minimized substantially by ensuring this financial asset is 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. There are no balances over 90 days past due or impaired.

The maximum exposure to credit risk is as follows:

(\$000s)	June 30, 2025	December 31, 2024
Accounts receivable		
Marketing receivables	\$ 7,357	\$ 5,423
Trade receivables	413	3,616
Receivables from joint ventures	11	9
Reclamation deposits	116	116
	\$ 7,897	\$ 9,164

The Company sells the majority of its heavy crude oil production through three marketers and, therefore, is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. The Company's key marketers are global companies with solid reputations, which the Company considers low risk of a collection concern.

(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 also prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company will also attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

In light of the volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices, as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging. The economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's liquidity and ability to generate profits in the future.

At June 30, 2025, the Company had working capital (a non-IFRS measure calculated as current assets, less current liabilities, excluding the derivative financial instruments, decommissioning obligations, and lease liabilities, adjusted for any tax provision and including any bank debt) of \$13.9 million (December 31, 2024 – \$ 6.4 million). The Company funds its operations through operating cash flows and a committed \$35.0 million two-year renewable term credit facility at ATB Financial (see Note 10).

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, other prices and interest rates will affect the value of the financial instruments. Market risk is comprised of interest rate risk, foreign currency risk, commodity price 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 Facility are subject to variable interest rates. A one percent change in interest rates would have a minimal effect on net income.

(ii) Foreign currency risk

The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency; except i) the Company's commodity prices are largely denominated in USD, and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales.

(iii) Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices may materially impact the Company's cash flow from operations and ability to raise capital.

At June 30, 2025, the Company held derivative commodity price contracts as follows:

						As at June 30, 2025 Fair Value (\$000s)
Product	Type	Volume	Price	Index	Term	
Crude oil	Put Spread	175 bbl/d	US\$50.00(put buy)/ US\$79.55(call sell)/bbl	WTI-NYMEX	Jul. 1, 2025 – Sep. 30, 2025	(1)
Crude oil	Swap	750 bbl/d	C\$19.45	WCS Differential	Jul. 1, 2025 – Sep. 30, 2025	(414)
Crude oil	Put Spread	200 bbl/d	US\$50.00(put buy)/ US\$80.00(call sell)/bbl	WTI-NYMEX	Oct. 1, 2025 – Dec. 31, 2025	12
Crude oil	Put Spread	200 bbl/d	US\$50.00(put buy)/ US\$68.00(call sell)/bbl	WTI-NYMEX	Jan. 1, 2026 – Mar. 31, 2026	(27)
						(430)

At June 30, 2025, the commodity contracts were fair valued as a liability of \$0.4 million recorded on the statement of financial position and an unrealized gain of \$0.5 million for the three-month period and an unrealized loss of \$0.3 million for the six-month period ended June 30, 2025, respectively (June 30, 2024 – gain of \$0.1 million and loss of \$0.5 million, respectively).

(iv) 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.

4. 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 comprised of working capital, shareholders' equity, and bank debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, and 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. There were no changes to capital management during the year.

5. Revenue

The Company sells its production pursuant to variable-price contracts. The transaction price for variable-price contracts is based on a benchmark commodity price, adjusted for quality, location or other factors whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver variable volumes of heavy oil, natural gas or natural gas liquids to the contract counterparty.

Production revenue is recognized when the Company gives up control of the unit of production at the delivery point agreed to under the terms of the contract. The amount of production revenue recognized is based on the agreed transaction price and the volumes delivered. Any variability in the transaction price relates specifically to the Company's efforts to transfer production and therefore the resulting revenue is allocated to the production delivered in the period to which the variability relates. The Company does not have any factors considered to be constraining in the recognition of revenue with variable pricing factors. Production revenues are normally collected on the business day nearest the 25th day of the month following production.

The Company's production revenues were primarily generated from its core area of the Mannville oil play in Atlee Buffalo, southeast Alberta. The Company's customers are oil and natural gas marketers and joint operations partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by management's policies and practices related to credit risk as discussed in Note 3(a). As at June 30, 2025, production revenue sold to customers was comprised of two marketers which account for \$7.3 million of the accounts receivable balance.

The following table presents the Company's total revenues disaggregated by revenue source:

(\$000s)	Three Months Ended June 30			Six Months Ended June 30		
	2025	2024		2025	2024	
Heavy crude oil	\$ 24,380	\$ 28,927	\$	\$ 51,699	\$ 49,860	
Conventional natural gas	15	11		35	39	
Total	\$ 24,395	\$ 28,938	\$	\$ 51,734	\$ 49,899	

6. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of proved and probable oil and gas reserves. A transfer from exploration and evaluation assets to property and equipment is made when reserves are assigned, or the exploration project has been completed. For the six months ended June 30, 2025, the Company recognized exploration and evaluation expense of \$72 thousand (December 31, 2024 - \$93 thousand).

Cost	
(\$000s)	
Balance at December 31, 2023	\$ 2,161
Additions	10,461
Exploration and evaluation expense	(165)
Transfer to property and equipment	(9,068)
Balance at December 31, 2024	\$ 3,389
Additions	364
Exploration and evaluation expense	(72)
Balance at June 30, 2025	\$ 3,681

At June 30, 2025, the Company performed an assessment of potential impairment indicators on its exploration and evaluation assets, and management determined that no impairment test was required.

7. Property and Equipment

Cost <i>(\$000s)</i>	Petroleum and Natural Gas	Right of Use and Other Assets	Total
Balance at December 31, 2023	\$ 152,497	\$ 5,511	\$ 158,008
Additions right-of-use assets	-	1,337	1,337
Additions property and equipment	11,391	-	11,391
Decrease in decommissioning obligations (Note 8)	(544)	-	(544)
Transfer from exploration and evaluation assets (Note 6)	9,068	-	9,068
Balance at December 31, 2024	\$ 172,412	\$ 6,848	\$ 179,260
Additions right-of-use assets	-	68	68
Additions property and equipment	3,033	-	3,033
Capitalized share-based compensation	230	-	230
Balance at June 30, 2025	\$ 175,675	\$ 6,916	\$ 182,591
Accumulated Depletion, Depreciation, Amortization and Impairment Losses			
Balance at December 31, 2023	\$ 81,932	\$ 1,934	\$ 83,866
Depletion and depreciation for the year	9,294	952	10,246
Balance at December 31, 2024	\$ 91,226	\$ 2,886	\$ 94,112
Depletion and depreciation for the period	5,328	532	5,860
Balance at June 30, 2025	\$ 96,554	\$ 3,418	\$ 99,972
Net Book Value			
December 31, 2024	\$ 81,186	\$ 3,962	\$ 85,148
June 30, 2025	\$ 79,121	\$ 3,498	\$ 82,619

The Company's additions for property and equipment included capitalized general and administrative expenses of \$683 thousand and capitalized share-based compensation of \$230 thousand for the six months ended June 30, 2025 (year ended December 31, 2024 - \$1.5 million and \$nil, respectively).

The calculation of depletion at June 30, 2025 includes estimated future development costs of \$40.2 million (year ended December 31, 2024 - \$40.2 million) associated with the development of the Company's Proved plus Probable reserves.

At June 30, 2025, the Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units ("CGU"), and management determined that there were no indicators of impairment or reversal identified. As such, no impairment test on its petroleum and natural gas assets was required.

At December 31, 2024, the Company performed an assessment of potential impairment or reversal indicators on each of its CGU, and management determined that there were no indicators of impairment or reversal identified. As such, no impairment test on its petroleum and natural gas assets was required.

8. Decommissioning Obligations

The Company's decommissioning obligation is estimated based on its 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 uses Alberta Energy Regulator guidelines for determining abandonment and reclamation estimates.

The Company estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations as at June 30, 2025 is \$8.1 million (December 31, 2024 - \$8.1 million), and

\$13.6 million with inflation (December 31, 2024 - \$13.6 million). These payments are expected to be made over the next 37 years.

The discount factor, being the risk-free rate related to the liability, is 3.30% (December 31, 2024 – 3.30%). Inflation of 2.00% (December 31, 2024 – 2.00%) has also been factored into the calculation of amounts in the table below. The Company also has \$116 thousand (December 31, 2024 - \$116 thousand) in various reclamation bonds for its properties held by the Alberta Energy Regulator and British Columbia Ministry of Energy, Mines and Petroleum Resources.

(\$000s)	Three Months Ended June 30, 2025	Year Ended December 31, 2024
Decommissioning obligations at beginning of period	\$ 5,998	\$ 6,616
Increase in estimated future obligations	-	1,076
Change in estimate	-	(1,620)
Payment of decommissioning obligations	(37)	(272)
Accretion expense	99	198
Decommissioning obligations at end of period	\$ 6,060	\$ 5,998
Current portion	158	158
Long-term portion	5,902	5,840

9. Finance Expense - net

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Finance expense - net:				
Loan interest	\$ 141	\$ 106	\$ 254	\$ 239
Lease interest	60	52	124	105
Interest income	(151)	(5)	(262)	(70)
Accretion of decommissioning liabilities	50	50	99	99
Total	\$ 100	\$ 203	\$ 215	\$ 373

10. Bank Debt

On July 27, 2021, the Company entered into a two-year committed and extendible term facility with a Canadian Bank (the "Lender") providing for borrowings of up to \$35.0 million (the "Credit Facility").

The Credit Facility had a renewed term date of May 31, 2025. Following the completion of its annual bank review, the term date was extended to May 31, 2026. The facility is extendible at the new term date and on an annual basis for an additional 365 days upon request of the Company. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At June 30, 2025, the Company had drawn \$nil on the Credit Facility. There are standard reporting covenants under the Credit Facility and a financial covenant for the Company to maintain working capital above a ratio of 1.00 to 1.00. Working capital for the covenant is defined as current assets, less current liabilities, excluding the derivative financial instruments, plus the undrawn amount available under the Credit Facility. The Company met these standard reporting covenants as well as the financial covenant, with a working capital ratio of 3.36 to 1.00 as at June 30, 2025.

Under the Credit Facility, advances can be drawn as prime rate loans and bear interest at the bank's prime lending rate plus interest rates between 2.50% and 3.50%. Advances may also be drawn as guaranteed

notes/banker's acceptances and letters of credit, subject to Canadian interest benchmark rates plus margins ranging from 3.50% to 4.50%. Standby fees are charged on the undrawn portion of the Credit Facility at rates ranging from 0.875% to 1.125%. These interest rates, fees and margins vary based on adjusted debt to earnings metrics determined at each quarter-end for the preceding 12 months.

The next semi-annual renewal of the available lending limit of the Credit Facility is scheduled for review by November 30, 2025 and is based on the Lender's interpretation of the Company's reserves and future commodity prices. There can be no assurance that the amount or terms of the Credit Facility will not be adjusted at the next semi-annual review. Should the Lender reduce the Credit Facility's borrowing base below the amount drawn at the time of the redetermination, the Company would have 45 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the redetermined borrowing base. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is compliant with all covenants, representations, and warranties.

11. Lease Liabilities

The Company has lease liabilities for contracts related to financing facilities, surface leases, vehicles, field operating equipment and office equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The following table summarizes lease liabilities at June 30, 2025:

<i>(\$000s)</i>		
Balance at December 31, 2023	\$	3,404
Lease additions (Note 7)		1,338
Interest expense		239
Lease payments		(1,185)
Balance at December 31, 2024	\$	3,796
Lease additions (Note 7)		68
Interest expense		124
Lease payments		(571)
Balance at June 30, 2025	\$	3,417
Current portion	\$	947
Long-term portion		2,470

12. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at June 30, 2025 and December 31, 2024, the Company had the following common shares issued and outstanding:

Common Shares	Shares	Value <i>(\$000s)</i>
Balance at December 31, 2023	99,340,339	\$ 63,164
Shares repurchased and cancelled (NCIB)	(3,372,800)	(5,461)
Tax on NCIB repurchase	-	(78)
Shares issued for stock option exercises	1,422,196	1,270
Transfer on stock option exercise	-	1,270
Balance at December 31, 2024	97,389,735	\$ 60,165
Shares repurchased and cancelled (NCIB)	(2,024,500)	(3,641)
Shares issued for stock option exercises	532,643	143
Transfer on stock option exercise	-	475
Balance at June 30, 2025	95,897,878	\$ 57,142

In the six months ended June 30, 2025, the Company purchased and cancelled 2,024,500 shares under the NCIB for \$3.6 million at an average cost of \$1.78 per share.

(b) Share-Based Compensation

Share-based compensation expense is summarized in the following table:

<i>(\$000s)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Stock options vested	\$ 8	\$ 6	\$ 16	\$ 13
RSUs granted ¹	772	-	772	-
Capitalized costs ¹	(230)	-	(230)	-
Total share-based payments	\$ 550	\$ 6	\$ 558	\$ 13

Note:

(1) Inclusive of any dividend reinvestment and fair value remeasurement.

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 ten years. Stock options terminate no later than 90 days upon termination of employment or employment contract and one year in the case of retirement, death or disability. The grant price is determined using the closing price of the Company's shares from the day prior to the grant.

Details of the Company's stock options as at June 30, 2025 are as follows:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2024	Changes in the Period			Balance Outstanding Jun. 30, 2025	Balance Exercisable Jun. 30, 2025
				Granted	Exercised	Expired/ Cancelled		
\$0.12	17-Jun-20	17-Jun-25	310,000	-	(310,000)	-	-	-
\$0.91	17-Dec-21	17-Dec-31	1,000,600	-	(132,000)	-	868,600	868,600
\$1.41	17-Mar-22	17-Mar-32	50,000	-	-	-	50,000	50,000
\$1.27	10-May-22	10-May-32	75,000	-	(75,000)	-	-	-
\$1.30	14-Dec-22	14-Dec-32	2,750,000	-	(200,000)	-	2,550,000	2,550,000
\$1.25	11-Sep-23	11-Sep-33	50,000	-	-	-	50,000	50,000
\$1.27	15-Dec-23	15-Dec-28	1,738,000	-	(116,000)	-	1,622,000	1,622,000
\$1.84	13-Dec-24	13-Dec-29	48,000	-	-	-	48,000	24,000
			6,021,600	-	(833,000)	-	5,188,600	5,164,600
Weighted-average exercise price per share			\$1.17	-	\$0.36	-	\$1.23	\$1.23

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees, and consultants of the Company. For the six months ended June 30, 2025, the Company recorded \$16 thousand in share-based costs for vested stock options, compared to \$12 thousand for the same period in 2024.

Restricted Share Units

In December 2024, Hemisphere's Board of Directors approved a new Restricted Share Unit Plan ("RSU Plan") as an additional form of share-based compensation which allows them to grant Restricted Share Units ("RSUs") to directors, officers, employees and consultants of the Company. The aggregate number of common shares reserved for issuance under the RSU Plan is in combination with the shares reserved for issuance under the Company's Stock Option Plan and may not exceed 10% of the issued and outstanding shares of the Company. One-third of the granted RSUs will vest on each of the first, second and third anniversaries from the date of grant, unless otherwise determined by the Board of Directors of the Company. Awards are adjusted for dividends declared, with an adjustment to the notional number of common shares underlying each RSU for each dividend record date following the issue date of the RSU. The adjustment ratio for the awards was set a 1.0 at issuance of the RSUs, and has been adjusted to 1.06 as at June 30, 2025 for the subsequent dividends declared.

On December 13, 2024, the Board of Directors conditionally awarded 1,221,000 RSUs to directors, officers, employees and consultants of the Company that will expire on December 15, 2027. The RSU Plan and awarded RSUs were approved by the shareholders at the Company's Annual General and Special Meeting on June 2, 2025. The RSU Plan allows for cash settlement of the RSUs and accordingly the Company has recorded share-based compensation liabilities for the RSUs.

Details of the RSUs as at June 30, 2025 are as follows:

RSU Units	
Units granted on December 13, 2024	1,221,000
Balance at June 30, 2025	1,221,000
RSU Liability	
Balance at beginning of the period	\$ -
Issuance value	749
Increase in liability/fair value adjustment ⁽¹⁾	23
Balance at June 30, 2025	\$ 772
Current portion	\$ 422
Long-term portion	350

Note:

1) Includes dividend adjustment.

(c) Income per share

	Three Months Ended June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Income for the period (\$000s)	\$ 7,053	\$ 10,387	\$ 15,995	\$ 17,165
Weighted-average number of common shares outstanding, basic	96,741,897	98,004,852	96,799,733	98,405,490
Dilutive stock options	1,595,237	1,953,112	1,644,771	1,598,626
Weighted-average number of common shares outstanding, diluted	98,337,134	99,957,964	98,444,503	100,004,116
Income per share, basic	\$ 0.07	\$ 0.11	\$ 0.17	\$ 0.17
Income per share, diluted	\$ 0.07	\$ 0.10	\$ 0.16	\$ 0.17

In computing the weighted-average shares outstanding for the three and six months ended June 30, 2025, the Company included 1,595,237 and 1,644,771 dilutive stock options, respectively. For the comparable three- and six-month periods in 2024, the Company included 1,644,771 and 1,598,626 dilutive stock options, respectively.

(d) Dividends

During the six months ended June 30, 2025, the Company paid the following dividends to shareholders in accordance with the Company's dividend policy:

Dividend type	Record date	Shares outstanding ⁽¹⁾	Payment date	Dividend price per share	Dividends paid (\$000s)
Quarterly Base	Feb. 12, 2025	97,112,082	Feb. 26, 2025	\$0.025	\$2,428
Special	Apr. 17, 2025	96,786,752	Apr. 28, 2025	\$0.030	\$2,903
Quarterly Base	Jun. 19, 2025	95,897,878	Jun. 30, 2025	\$0.025	\$2,397
Total					\$7,729

Note:

(1) As at record date.

13. Commitments

(\$000s)	2025	2026	2027	2028	2029	Total
Office & equipment leases	\$ 37	34	5	-	-	76
Surface leases	27	27	26	26	23	129
Production equipment leases	499	1,020	980	927	31	3,457
	\$ 563	1,081	1,011	953	54	3,662

14. Supplemental Cash Flow Information

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2025	2024	2025	2024
Provided by (used in):				
Accounts receivable	\$ 637	\$ (1,127)	\$ 1,267	\$ (3,511)
Prepaid expenses	(167)	156	(411)	(749)
Accounts payable and accrued liabilities	(1,331)	(2,501)	(3,380)	695
Current tax provision	2,360	-	5,267	(7,224)
Total changes in non-cash working capital	\$ 1,499	\$ (3,743)	\$ 2,743	\$ (10,789)
Provided by (used in):				
Operating activities	\$ 1,597	\$ (1,544)	\$ 5,100	\$ (10,825)
Investing activities	(98)	(1,929)	(2,357)	36
Total changes in non-cash working capital	\$ 1,499	\$ (3,473)	\$ 2,743	\$ (10,789)

15. Subsequent Events

- Subsequent to June 30, 2025, the Company issued 30,624 shares from the exercises of 75,000 stock options priced at \$0.91 per share, on cashless exercises.
- Subsequent to quarter-end, the Company has purchased and cancelled an additional 760,300 shares under the NCIB for \$1.4 million at an average cost of \$1.88 per share.
- On July 8, 2025, the Company announced the renewal of its NCIB, to purchase and cancel, from time to time, up to 7,934,731 common shares of the Company from July 14, 2025 until July 13, 2026.
- On July 15, 2025, the Company's Board of Directors approved a special dividend of \$0.03 per share to the Company's shareholders of record on July 31, 2025 for payment on August 15, 2025.
- On August 13, 2025, the Company's Board of Directors approved a quarterly dividend of \$0.025 per share to the Company's shareholders of record on August 29, 2025 for payment on September 12, 2025.



OFFICERS

Don Simmons, P.Geol.
President & Chief Executive Officer

Dorlyn Evancic, CPA, CGA
Chief Financial Officer

Ian Duncan, P.Eng.
Chief Operating Officer

Ashley Ramsden-Wood, P.Eng.
Chief Development Officer

Andrew Arthur, P.Geol.
Vice President, Exploration

BANKER

Alberta Treasury Branches
Calgary, Alberta

AUDITOR

KPMG LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services Inc.
Vancouver, British Columbia

BOARD OF DIRECTORS

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

Frank Borowicz, KC, CA (Hon)⁽¹⁾⁽²⁾

Bruce McIntyre, P.Geol.⁽¹⁾⁽³⁾

Don Simmons, P.Geol.⁽³⁾

Gregg Vernon, P.Eng.⁽²⁾

Richard Wyman, B.Sc., MBA⁽¹⁾⁽³⁾

(1) Member of Audit Committee

*(2) Member of Compensation/Nominating and
Corporate Governance Committee*

(3) Member of Reserves Committee

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