



Hemisphere ENERGY



2025 **ANNUAL REPORT**

www.hemisphereenergy.ca



TSX-V: HME OTCQX: HMENF

Corporate Summary

Hemisphere Energy Corporation is a dividend-paying Canadian oil company focused on maximizing value-per-share growth with the sustainable development of its high netback, low decline conventional heavy oil assets through polymer flood enhanced oil recovery methods. Hemisphere trades on the TSX Venture Exchange as a Tier 1 issuer under the symbol "HME" and on the OTCQX Venture Marketplace under the symbol "HMENF".

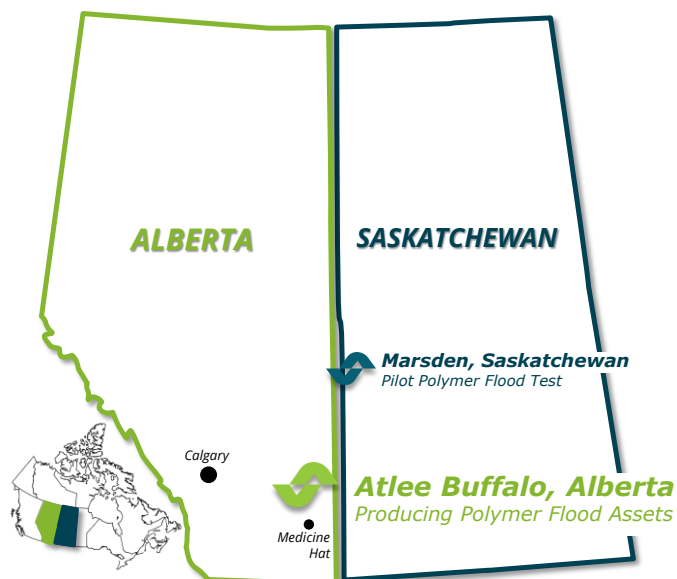


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2025 FINANCIAL AND OPERATING HIGHLIGHTS

(\$000s except per unit and share amounts)	Three Months Ended December 31		Years Ended December 31	
	2025	2024	2025	2024
FINANCIAL				
Petroleum and natural gas revenue	\$ 18,989	\$ 23,361	\$ 93,865	\$ 99,935
Operating field netback ⁽¹⁾	10,939	13,714	56,971	60,106
Operating netback ⁽¹⁾	10,943	13,627	55,530	59,844
Cash provided by operating activities	4,868	12,284	48,161	46,548
Adjusted funds flow from operations ("AFF") ⁽¹⁾	9,847	10,415	42,863	45,796
Per share, basic ⁽¹⁾	0.10	0.11	0.45	0.47
Per share, diluted ⁽¹⁾	0.10	0.10	0.44	0.46
Free funds flow ⁽¹⁾	2,161	7,092	26,611	23,944
Net income	5,080	7,342	28,006	33,103
Per share, basic	0.05	0.08	0.29	0.34
Per share, diluted	0.05	0.07	0.29	0.33
Dividends	2,362	5,366	15,335	15,703
Per share, basic	0.025	0.055	0.160	0.160
NCIB share repurchases	1,093	1,375	6,544	5,539
Capital expenditures ⁽¹⁾	7,686	3,323	16,252	21,852
Working capital ⁽¹⁾	8,552	6,418	8,552	6,418
OPERATING				
Average daily production				
Heavy oil (bbl/d)	3,325	3,341	3,624	3,416
Natural gas (Mcf/d)	172	110	121	120
Combined (boe/d)	3,354	3,359	3,645	3,436
Oil weighting	99%	99%	99%	99%
Average sales prices				
Heavy oil (\$/bbl)	\$ 61.95	\$ 75.96	\$ 70.90	\$ 79.89
Natural gas (\$/Mcf)	2.38	1.42	1.79	1.39
Combined (\$/boe)	\$ 61.55	\$ 75.59	\$ 70.56	\$ 79.48
Operating netback (\$/boe)				
Petroleum and natural gas revenue	\$ 61.55	\$ 75.59	\$ 70.56	\$ 79.48
Royalties	(9.89)	(13.54)	(12.59)	(16.08)
Operating costs	(13.19)	(13.89)	(12.20)	(11.36)
Transportation costs	(3.00)	(3.78)	(2.94)	(4.24)
Operating field netback ⁽¹⁾	35.47	44.38	42.83	47.80
Realized commodity hedging gain (loss)	0.01	(0.28)	(1.08)	(0.21)
Operating netback ⁽¹⁾	\$ 35.48	\$ 44.10	\$ 41.75	\$ 47.59
General and administrative expense	(4.77)	(4.74)	(3.99)	(3.91)
Interest expense	(0.16)	(0.31)	(0.14)	(0.35)
Other income and foreign exchange gain (loss)	2.94	(0.10)	0.63	(0.05)
Tax expense provision	(1.58)	(5.25)	(6.03)	(6.86)
Adjusted funds flow from operations (\$/boe) ⁽¹⁾	\$ 31.91	\$ 33.70	\$ 32.22	\$ 36.42

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	April 14, 2026	December 31, 2025	December 31, 2024
Common shares issued and outstanding	94,297,904	94,481,702	97,389,735
Stock options	4,420,600	5,145,600	6,021,600
Total fully diluted shares outstanding	98,718,504	99,627,302	103,411,335

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at April 14, 2026

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the year ended December 31, 2025 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the audited Consolidated Financial Statements and related notes for the years ended December 31, 2025 and 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 audited consolidated financial statements which were prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board.

This MD&A contains non-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 acres (20,200 net acres) as of December 31, 2025.

Marsden, Saskatchewan

Marsden is located approximately 50 kilometers southeast of Lloydminster in Saskatchewan. Hemisphere first entered the area in 2023 and owns 8,837 gross acres (8,837 net acres) as of December 31, 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 \$42.9 million (\$0.45/basic and \$0.44/diluted share) for the year ended December 31, 2025, as compared to \$45.8 million (\$0.47/basic and \$0.46/diluted share) for the year ended December 31, 2024. For the fourth quarter of 2025, the Company generated AFF of \$9.8 million (\$0.10/basic and \$0.10/diluted share) as compared to AFF of \$10.4 million (\$0.11/basic and \$0.10/diluted share) for the fourth quarter of 2024. The decrease of \$0.6 million and \$2.9 million for the three and twelve months ended December 31, 2025, respectively, is primarily a result of lower average sale prices for oil due to the decrease in WTI benchmark prices.

For the three and twelve months ended December 31, 2025, the Company reported net income of \$5.1 million (\$0.05/basic and \$0.05/diluted share) and \$28.0 million (\$0.29/basic and \$0.29/diluted share), respectively, compared to net income of \$7.3 million (\$0.08/basic and \$0.07/diluted share) and \$33.1 million (\$0.34/basic and \$0.33/diluted share) for the three and twelve months ended December 31, 2024, respectively. The \$5.1 million decrease for the year ended December 31, 2025 is primarily the result of a decrease in operating netbacks.

Production

By product	Three Months Ended December 31		Years Ended December 31	
	2025	2024	2025	2024
Oil (bbl/d)	3,325	3,341	3,624	3,416
Natural gas (Mcf/d)	172	110	121	120
Total (boe/d)	3,354	3,359	3,645	3,436
Oil weighting	99%	99%	99%	99%

In the fourth quarter of 2025, the Company's average daily production was 3,354 boe/d (99% heavy oil), representing a less than 1% decrease from 3,359 boe/d (99% heavy oil) in the comparable quarter in 2024. During the quarter, the Company experienced scheduled and unscheduled downtime. For the year ended December 31, 2025, the Company's average daily production was 3,645 boe/d (99% heavy oil), representing a 6% increase from 3,436 boe/d (99% heavy oil) for the same period in 2024. This increase can be attributed to production from Hemisphere's Atlee Buffalo 2025 drilling program as well as to the general success of the Company's Atlee Buffalo polymer floods over the year.

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

Average Benchmark and Realized Prices

	Three Months Ended December 31				Years Ended December 31			
	2025		2024		2025	2024		
Benchmark Prices								
WTI (US\$/bbl) ⁽¹⁾	\$	59.95	\$	70.70	\$	65.50	\$	76.55
WCS Differential (US\$/bbl)		11.97		12.86		11.84		15.52
Exchange rate (C\$/US\$)		1.3986		1.3986		1.3986		1.3699
WTI (C\$/bbl)		83.85		98.88		91.61		104.86
WCS Differential (C\$/bbl)		16.75		17.98		16.56		21.26
WCS (C\$/bbl) ⁽²⁾		67.10		80.90		75.05		83.60
AECO natural gas (US\$/Mcf) ⁽³⁾		2.30		1.45		1.85		1.45
Average realized prices								
Crude oil (C\$/bbl)		61.95		75.96		70.90		79.89
Natural gas (C\$/Mcf)		2.38		1.42		1.79		1.39
Combined (C\$/boe)	\$	61.55	\$	75.59	\$	70.56	\$	79.48

Notes:

- (1) Represents posting prices of West Texas Intermediate Oil.
(2) Represents posting prices of Western Canadian Select.
(3) Represents the Alberta 30 day spot AECO posting prices.

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-adjusted for transportation, quality and the currency conversion rates from United States dollar ("US\$") to Canadian dollar ("C\$").

The Company's combined average realized price for the three months ended December 31, 2025 decreased by 19% to \$61.55/boe from \$75.59/boe over the comparable period in 2024. The Company's combined average realized price for year ended December 31, 2025 decreased by 11% to \$70.56/boe from \$79.48/boe over the comparable period in 2024. These decreases are primarily the result of the decrease in WTI pricing. The WTI price decreased by 15% to US\$59.95/bbl in the fourth quarter of 2025 compared to US\$70.70/bbl in the fourth quarter of 2024. For the year ended December 31, 2025, the WTI price decreased by 14% to US\$65.50/bbl compared to US\$76.55/bbl in 2024.

The Company held derivative commodity contracts as follows as at December 31, 2025:

Product	Type	Volume	Price	Index	Term
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 December 31				Years Ended December 31			
	2025		2024		2025	2024		
Oil	\$	18,952	\$	23,347	\$	93,786	\$	99,874
Natural gas		37		14		79		61
Total	\$	18,989	\$	23,361	\$	93,865	\$	99,935

Revenue for the three months ended December 31, 2025 decreased 19% from the comparable period in 2024. This decrease is primarily due to the 19% decrease in combined average realized price. For the year ended December 31, 2025, revenue decreased by 6% from the comparable period in 2024 primarily due to an 11% decrease in the Company's combined average realized price per boe, partially offset by a 6% increase in production, over the comparable twelve months in 2024.

Operating Netback

(\$000s, except per unit amounts)	Three Months Ended December 31		Years Ended December 31	
	2025	2024	2025	2024
Operating netback				
Revenue	\$ 18,989	\$ 23,361	\$ 93,865	\$ 99,935
Royalties	(3,052)	(4,185)	(16,750)	(20,225)
Operating costs	(4,071)	(4,295)	(16,229)	(14,272)
Transportation costs	(927)	(1,167)	(3,915)	(5,332)
Operating field netback ⁽¹⁾	10,939	13,714	56,971	60,106
Realized commodity hedging gain (loss)	4	(87)	(1,441)	(262)
Operating netback ⁽¹⁾	\$ 10,943	\$ 13,627	\$ 55,530	\$ 59,844
Operating netback (\$/boe)				
Revenue	\$ 61.55	\$ 75.59	\$ 70.56	\$ 79.48
Royalties	(9.89)	(13.54)	(12.59)	(16.08)
Operating costs	(13.19)	(13.89)	(12.20)	(11.36)
Transportation costs	(3.00)	(3.78)	(2.94)	(4.24)
Operating field netback ⁽¹⁾	35.47	44.38	42.83	47.80
Realized commodity hedging gain (loss)	0.01	(0.28)	(1.08)	(0.21)
Operating netback ⁽¹⁾	\$ 35.48	\$ 44.10	\$ 41.75	\$ 47.59

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 during 2025 totaled \$16.8 million, of which \$15.5 million was paid to the Alberta Crown and \$1.3 million was paid to Over-Riding Royalty holders. Royalties for the three months ended December 31, 2025 were \$9.89/boe (16% of revenue) compared to \$13.54/boe (18% of revenue) during the same period in 2024. Royalties for the year ended December 31, 2025 were \$12.59/boe (18% of revenue) compared to \$16.08/boe (20% of revenue) during the same period in 2024. The decreases in royalties paid reflects lower average realized prices resulting from a decline in WTI benchmark prices.

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 December 31, 2025 were \$13.19/boe. This represents a \$0.70/boe or 5% decrease from the same period in 2024. This improvement is primarily due to less workovers done during the fourth quarter of 2025. Operating costs for the year ended December 31, 2025 were \$12.20/boe, representing a \$0.84/boe or 7% increase from the same period in 2024. This increase is attributed to increased workover costs during the year.

Transportation costs include all costs incurred to transport emulsion, oil, and gas sales to processing and distribution facilities. Transportation costs were \$3.00/boe and \$2.94/boe for the three-month and twelve-month periods ended December 31, 2025, respectively, representing 21% and 31% decreases from the comparable periods in 2024. These decreases are mainly attributed to trucking to closer sales points.

The Company's operating netback for the three and twelve months ended December 31, 2025 decreased to \$35.48/boe and \$41.75/boe, respectively, from \$44.10/boe and \$47.59/boe in the same periods of 2024. The decreases in the Company's operating netback were mainly due to the decreases in average selling price, partially offset by decreases in royalties and lower transportation expenses.

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 December 31, 2025 and 2024 were \$26 thousand and \$35 thousand, respectively. For the years ended December 31, 2025 and 2024, exploration and evaluation expenses were \$148 thousand and \$165 thousand, respectively.

Depletion and Depreciation

(\$000s, except per boe)	Three Months Ended December 31			Years Ended December 31	
	2025	2024		2025	2024
Depletion expense	\$ 2,601	\$ 2,306	\$	\$ 10,529	\$ 9,294
Depreciation expense	264	273		1,059	952
Total	\$ 2,865	\$ 2,579	\$	\$ 11,588	\$ 10,246
\$ per boe	\$ 9.28	\$ 8.35	\$	\$ 8.71	\$ 8.15

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 December 31, 2025 increased to \$9.28/boe from \$8.35/boe for the same period in 2024. For the year ended December 31, 2025, depletion and depreciation expenses increased to \$8.71/boe from \$8.15/boe for the same period in 2024. The increase in depletion expense for the three months ended December 31, 2025 is due to higher capital expenditures and the increase in depletion expense for the year ended December 31, 2025 is due to the 6% increase in production.

Impairment

At December 31, 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.

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.

Capital Expenditures

(\$000s)	Three Months Ended December 31			Years Ended December 31	
	2025	2024		2025	2024
Land and lease	\$ 52	\$ 9	\$	\$ 427	\$ 101
Geological and geophysical	320	424		1,683	1,547
Drilling and completions	5,562	1,326		10,515	14,719
Facilities and infrastructure	1,654	1,564		3,529	5,485
Fixed Assets	98	-		98	-
Total capital expenditures ⁽¹⁾	\$ 7,686	\$ 3,323	\$	\$ 16,252	\$ 21,852

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.

The capital spent during the year ended December 31, 2025 included execution of the Company's 2025 drilling program, various capitalized workovers and pump upsizes, facility work, and addition of power generation across the field.

General and Administrative Expenses

(\$000s, except per boe)	Three Months Ended December 31		Years Ended December 31	
	2025	2024	2025	2024
Gross general and administrative	\$ 1,883	\$ 1,835	\$ 6,791	\$ 6,378
Capitalized general and administrative	(413)	(370)	(1,480)	(1,460)
Total	\$ 1,470	\$ 1,465	\$ 5,311	\$ 4,918
\$ per boe	\$ 4.77	\$ 4.74	\$ 3.99	\$ 3.91

Net general and administrative ("G&A") expenses increased by 1% on a per boe basis for the three months ended December 31, 2025 and by 2% on a per boe basis for the year ended December 31, 2025 over the comparable periods in 2024. For the twelve months ended December 31, 2025, the increase in net G&A expenses is due to additional investor relations activities, and higher overall costs associated with inflation and the Company's year-over-year growth.

The Company capitalizes G&A expenses which are directly attributable to its development and exploration activities. For the three and twelve months ended December 31, 2025, capitalized G&A expenses increased by \$42 thousand and \$20 thousand, respectively, over the comparable periods in 2024. There was relatively no change as the Company continued to carry out its capital program during 2025.

Share-based Compensation

Share-based compensation reflects the estimated value of stock options and restricted share units ("RSUs") issued to directors, employees, and consultants of the Company. For the years ended December 31, 2025 and 2024, the Company recorded total share-based compensation expense of \$1.5 million and \$25 thousand, respectively.

(\$000s)	Three Months Ended December 31		Years Ended December 31	
	2025	2024	2025	2024
Stock options	\$ 8	\$ 6	\$ 32	\$ 25
RSUs ⁽¹⁾	332	-	1,717	-
Capitalized costs ⁽¹⁾	(99)	-	(512)	-
Total share-based payments	\$ 241	\$ 6	\$ 1,237	\$ 25

Note:

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

Stock Options

On December 15, 2025, the Company granted 48,000 stock options at \$2.01 per share to investor relations personnel which vest 25% each quarter. The total valuation of the options from grants was \$35 thousand. The factors used to calculate the fair value of the stock options under a Black-Scholes pricing model were volatility 73%, risk-free rate 2.98%, expected life 5 years, dividend rate of 8% and forfeiture rate of 5%.

During the year ended December 31, 2025, 100% of the stock options granted to an investor relations consultant during the fourth quarter of 2024 have since vested.

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.

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 subsequently approved by the shareholders at the Company's Annual General and Special Meeting on June 2, 2025.

On December 12, 2025, the Board of Directors awarded 1,272,000 RSUs to directors, officers, employees and consultants of the Company that will expire on December 15, 2028. 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 December 31, 2025, there were 2,086,000 RSUs outstanding. The adjustment ratio for the awards is set at 1.0 at issuance of the RSUs, and has been adjusted to 1.07 as at December 31, 2025 for the subsequent dividends declared.

Finance Expense

<i>(\$000s, except per boe)</i>	Three Months Ended December 31		Years Ended December 31	
	2025	2024	2025	2024
Loan interest and fees	\$ 141	\$ 132	\$ 535	\$ 508
Lease interest	54	69	236	239
Interest income	(146)	(103)	(579)	(307)
Accretion of decommissioning liabilities	49	49	198	198
Total	\$ 98	\$ 147	\$ 390	\$ 638
\$ per boe – Total	\$ 0.32	\$ 0.47	\$ 0.29	\$ 0.51
\$ per boe – Interest only	\$ 0.16	\$ 0.31	\$ 0.14	\$ 0.35

Loan fees, including standby and facility fees, for the three and twelve months ended December 31, 2025 increased by \$9 thousand and \$27 thousand, respectively, while interest income increased by \$43 thousand and \$272 thousand, respectively, due to higher cash on hand, over the comparable periods in 2024. The Company also recorded \$54 thousand and \$236 thousand in lease interest on right-of-use assets liability for the three and twelve months ended December 31, 2025, respectively. The total finance expense per boe for loan and lease interest decreased by \$0.15/boe or 32% for the three-month period and \$0.22/boe or 43% for the twelve-month period ended December 31, 2025 from the comparable periods of 2024 primarily due 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 twelve months ended December 31, 2025, accretion expenses remained consistent with the 2024 for comparable periods.

Other income

For the year ended December, 31 2025, the Company recognized other income of \$0.9 million related to investment tax credits received under Canada's Scientific Research and Experimental Development ("SR&ED") program, net of third-party fees.

Taxes

The Company has approximately \$32 million of tax pools available to be applied against future income for tax purposes, as per its tax assessments at December 31, 2025 (December 31, 2024 - \$23 million). Based on the Company's revised corporate structure as of January 2, 2024, the Company has recorded current tax expense of \$16.6 million and deferred tax recovery of \$6.7 million for the twelve months ended December 31, 2025 (December 31, 2024 - \$27 thousand current tax and \$10.4 million deferred tax). The Company expects to incur additional taxes in 2026 and any taxes payable beyond this will primarily be a function of commodity prices, capital expenditures and production volumes.

Tax Pools

<i>(\$000s)</i>	Base Deduction Rate	December 31, 2025	December 31, 2024
Canadian exploration expense (CEE)	100%	\$ -	\$ -
Canadian development expense (CDE)	30%	18,184	17,736
Canadian oil and gas property expense (COGPE)	10%	4,009	4,096
Non-capital losses carry forwards (NCL)	100%	-	-
Undepreciated capital cost (UCC)	20-55%	9,542	649
Share issuance costs and other	Various	630	598
Total		\$ 32,365	\$ 23,079

Selected Annual Information

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

<i>(\$000s, except production and per unit amounts)</i>	Years Ended December 31		
	2025	2024	2023
Average daily production (boe/d)	3,645	3,436	3,125
Heavy oil and natural gas revenue	\$ 93,865	\$ 99,935	\$ 84,472
Cash provided by operating activities	48,161	46,548	44,241
Net income	28,006	33,103	24,195
Per share, basic (\$/share)	0.29	0.34	0.24
Per share, diluted (\$/share)	0.29	0.33	0.24
Combined average realized price (\$/boe)	70.56	79.48	74.07
Total assets	\$ 121,123	\$ 111,329	\$ 90,737

Summary of Quarterly Results

	2025				2024			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
<i>(\$000s, except production and per unit amounts)</i>	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average daily production (boe/d)	3,354	3,571	3,826	3,833	3,359	3,621	3,628	3,133
Heavy oil and natural gas revenue	18,989	23,142	24,395	27,339	23,361	26,675	28,938	20,961
Cash provided by operating activities	4,868	15,265	11,846	16,181	12,284	16,782	14,795	2,684
Net income	5,080	6,931	7,053	8,942	7,342	8,596	10,387	6,778
\$ Per share, basic	0.05	0.07	0.07	0.09	0.08	0.09	0.11	0.07
\$ Per share, diluted	0.05	0.07	0.07	0.09	0.07	0.09	0.10	0.07
Combined average realized price (\$/boe)	61.55	70.43	70.06	79.26	75.59	80.06	87.65	73.53

The fluctuations in the Company's revenue over the past eight quarters are primarily due to changes in realized commodity prices and changes in production volumes.

The fluctuations in realized commodity prices and production volumes have also impacted the Company's cash provided by operating activities, in addition to changes in non-cash working capital. Net income has also fluctuated from changes in adjusted funds flow and unrealized gains/losses on derivative financial instruments.

Outstanding Share Data

	April 14, 2026	December 31, 2025	December 31, 2024
Fully diluted share capital			
Common shares issued and outstanding	94,297,904	94,481,702	97,389,735
Stock options	4,420,600	5,145,600	6,021,600
Total fully diluted shares outstanding	98,718,504	99,627,302	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 8,255,766 common shares of the Company until July 13, 2025.

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.

During the year ended December 31, 2025, the Company purchased and cancelled 3,487,300 shares under the NCIB for \$6.5 million at an average cost of \$1.88 per share.

Subsequent to the year ended December 31, 2025, the Company purchased and cancelled an additional 487,600 shares year-to-date under the NCIB for \$1.0 million at an average cost of \$2.15 per share.

During the year ended December 31, 2025, the Company issued 579,267 shares from the exercises of 924,000 stock options through the Company's Stock Option Plan, at an average exercise price of \$0.81 per share, including cashless exercises.

Subsequent to the year ended December 31, 2025, the Company issued 303,802 shares from the cashless exercises of 725,000 stock options under the Company's Stock Option Plan, at an average exercise price of \$1.25 per share.

The Company has the following stock options that are outstanding and exercisable as at April 14, 2026:

Exercise Price	Grant Date	Expiry Date	Balance Outstanding	Balance Exercisable
\$0.91	December 17, 2021	December 17, 2031	693,600	693,600
\$1.30	December 14, 2022	December 14, 2032	2,075,000	2,075,000
\$1.25	September 11, 2023	September 11, 2033	50,000	50,000
\$1.27	December 15, 2023	December 15, 2028	1,506,000	1,506,000
\$1.84	December 13, 2024	December 13, 2029	48,000	48,000
\$2.01	December 15, 2025	December 15, 2030	48,000	12,000
			4,420,600	4,384,600
Weighted-average exercise price			\$1.24	\$1.24

Dividends

On June 7, 2022, the Company's Board of Directors approved a variable dividend policy. Since inception of the policy, the Company has paid total dividends of \$51.7 million.

The Company 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%
Special	Jul. 31, 2025	95,471,202	Aug. 15, 2025	\$0.030	2,864	186,169	6.15%
Quarterly Base	Aug. 29, 2025	95,184,202	Sep. 12, 2025	\$0.025	2,380	187,513	5.08%
Quarterly Base	Dec. 9, 2025	94,481,702	Dec. 30, 2025	\$0.025	2,362	184,239	5.13%
Total paid during 2025				\$0.160	15,335		

Notes:

(1) As at record date.

(2) As at payment date.

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

On February 26, 2026, the Company paid a quarterly base dividend of \$0.025 per share for total distributions of \$2.4 million to the Company's shareholders of record on February 12, 2026.

On March 11, 2026, the Company announced a special dividend of \$0.03 per share for payment on April 28, 2026 to the Company's shareholders of record on April 15, 2026.

On April 14, 2026, the Company's Board of Directors approved a special dividend of \$0.03 per share to the Company's shareholders of record on May 14, 2026 for payment on May 28, 2026.

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 2026 guidance on January 28, 2026, 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 twelve months ended December 31, 2025 were \$3.7 million and \$22.7 million, respectively (\$7.0 million and \$20.9 million cash used in financing activities for the three and twelve months ended December 31, 2024, respectively). For the three months ended December 31, 2025, the financing expenditures included dividends issued totaling \$2.4 million, shares repurchased under the NCIB totaling \$1.1 million and lease liability payments of \$0.2 million. For the year ended December 31, 2025, the financing expenditures included total dividends issued of \$15.3 million, total shares purchased under the NCIB of \$6.7 million plus lease liability payments of \$0.9 million, less \$163 thousand from stock option exercises.

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 December 31, 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 3.09 to 1.00 as at December 31, 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 May 31, 2026 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)	2026	2027	2028	2029	Total
Office & equipment leases	\$ 34	5	-	-	39
Surface leases	27	26	26	23	102
Production equipment leases	1,020	980	927	31	2,958
	\$ 1,081	1,011	953	54	3,099

Off-Balance Sheet Arrangements

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

Related Party Transactions

Compensation to key executive personnel, consisting of the Company's officers, directors and Chairman, was paid as follows:

(\$000s)	Years Ended December 31	
	2025	2024
Salaries and wages	\$ 3,457	\$ 3,326
Share-based payments	701	-

Proposed Transactions

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

Critical Accounting Estimates

The Company's significant accounting estimates, judgments and policies are set out in Notes 2 and 3 of the audited consolidated financial statements for the year ended December 31, 2025, and have been consistently followed in the preparation of the audited consolidated financial statements.

The preparation of the audited consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. A discussion of specific estimates and judgments employed in the preparation of the Company's financial statements is included in the Company's audited consolidated financial statements for the year ended December 31, 2025.

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

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 IFRS 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 IFRS 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 Risks

Oil and gas exploration and development involves 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 other 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, 2025.

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:

<i>(\$000s)</i>	December 31, 2025	December 31, 2024
Accounts receivable		
Marketing receivables	\$ 5,909	\$ 5,423
Trade receivables	169	3,615
Receivable from SR&ED credit	925	-
Receivables from joint ventures	11	10
Reclamation deposits	116	116
	\$ 7,130	\$ 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 December 31, 2025, the Company had working capital² (a non-IFRS measure calculated as current assets, less current liabilities, excluding the derivative financial instruments, lease and decommissioning obligations, and including any bank debt) of \$8.6 million (December 31, 2024 - \$6.4 million, adjusted for tax provision). 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.

² Non-IFRS financial measure. Refer to "Non-IFRS and Other Financial Measures" section of the MD&A.

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 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 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.

Non-IFRS 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 December 31		Years Ended December 31	
	2025	2024	2025	2024
Cash provided by operating activities	\$ 4,868	\$ 12,284	\$ 48,161	\$ 46,548
Change in non-cash working capital	(3,743)	(509)	(14,306)	7,578
Adjust: Tax provision ⁽¹⁾	8,603	(1,597)	8,603	(8,603)
Adjust: Decommissioning obligation expenditures	119	237	405	273
Adjusted funds flow from operations	\$ 9,847	\$ 10,415	\$ 42,863	\$ 45,796
Per share, basic	\$ 0.10	\$ 0.11	\$ 0.45	\$ 0.47
Per share, diluted	\$ 0.10	\$ 0.10	\$ 0.44	\$ 0.46

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 Measures):** 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 December 31		Years Ended December 31	
	2025	2024	2025	2024
Adjusted funds flow from operations	\$ 9,847	\$ 10,415	\$ 42,863	\$ 45,796
Capital expenditures	(7,686)	(3,323)	(16,252)	(21,852)
Free funds flow	\$ 2,161	\$ 7,092	\$ 26,611	\$ 23,944

Per share, basic and diluted	\$	0.02	\$	0.07	\$	0.27	\$	0.24
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- 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 December 31		Years Ended December 31	
	2025	2024	2025	2024
Cash used in investing activities	\$ 7,570	\$ 6,497	\$ 18,473	\$ 20,269
Proceeds of disposition	-	75	-	75
Change in non-cash working capital	116	(3,249)	(2,221)	1,508
Capital expenditures	\$ 7,686	\$ 3,323	\$ 16,252	\$ 21,852

- 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 December 31, 2025		As at December 31, 2024	
Current assets ⁽¹⁾	\$	27,775	\$	22,677
Current liabilities ⁽¹⁾		(19,223)		(7,656)
Adjust: Tax provision ⁽²⁾		-		(8,603)
Working capital	\$	8,552	\$	6,418

Notes:

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

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

g) Supplementary Financial Measures and Ratios

"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.

"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 expenses, 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

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.

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 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 terms of the Credit Facility including the anticipated semi-annual review and the timing thereof; and the Company's compliance with the terms of the Credit Facility; the Company's tax pools and expectations on future tax taxability; and the Company's dividend policies and intentions with respect to the same. 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; the effects of tariffs on Hemisphere's operations (including those affecting its partners and service providers); 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; the effects of tariffs, 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.

The future acquisition by the Company of its common shares pursuant to a share buyback program, including its NCIB and future NCIBs, if any, and the level thereof is uncertain. Any decision to implement a share buyback program, including the Company's NCIB and to acquire common shares of the Company pursuant to the NCIB will be subject to the discretion of the board of directors of the Company and may depend on a variety of factors, including, without limitation, the Company's business performance, financial condition, financial requirements, growth plans, expected capital requirements and other conditions existing at such future time including, without limitation, contractual restrictions and satisfaction of the solvency tests imposed on the Company under applicable corporate law. There can be no assurance of the number of common shares of the Company that the Company will acquire pursuant to a share buyback program, including its NCIB or future NCIBs, if any, in the future.

Forward-Looking Financial Information

This document may contain future oriented financial information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Company's activities and results. The FOFI has been prepared based on a number of assumptions including the assumptions discussed and disclosed above and below. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on FOFI. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits the Company will derive therefrom. The Company has included the FOFI in order to provide readers with a more complete perspective on the Company's future operations and such information may not be appropriate for other purposes. The Company disclaims any intention or obligation to update or revise any FOFI statements, whether as a result of new information, future events or otherwise, except as required by law.

Reserves Advisories

It should not be assumed that the net present value of the estimated net revenues of the reserve presented in herein represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions upon which such estimates are made will be attained and variances could be material. The reserve estimates of Hemisphere's crude oil, natural gas liquids and natural gas reserves and any estimated recovery factors provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquids reserves may be greater than or less than the estimates provided here.

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 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. Independent auditors appointed by the shareholders have examined the financial statements. Their report is presented with the financial statements. The Audit Committee, consisting of independent members of the Board of Directors, has reviewed the financial statements with management and the independent auditors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Vancouver, British Columbia
April 14, 2026

(signed) *"Don Simmons"*

Don Simmons, President & CEO

(signed) *"Dorlyn Evancic"*

Dorlyn Evancic, Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT



KPMG LLP
KPMG Tower 2200, 240 Fourth Ave SW
Calgary AB T2P 4H4
Canada
Tel 403 691 8000
Fax 403 691 8008

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hemisphere Energy Corporation

Opinion

We have audited the consolidated financial statements of Hemisphere Energy Corporation (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2025 and December 31, 2024
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information
(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2025 and December 31, 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2025. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of indicators of impairment related to the Marsden cash-generating unit ("CGU") **Description of the matter**

We draw attention to Note 2(d), Note 3(c), and Note 9 to the financial statements. The Entity uses estimated proved and probable oil and gas reserves to assess for indicators of impairment or impairment reversal on each of the Entity's cash generating units and if such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU.

The Entity did not identify indicators of impairment on the Marsden CGU at December 31, 2025.

The estimate of proved and probable oil and gas reserves requires the expertise of independent third-party reserve evaluators and includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production volumes
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Entity engages independent third-party reserve evaluator to estimate the proved and probable oil and gas reserves.

Why the matter is a key audit matter

We identified the assessment of indicators of impairment related to the Marsden CGU as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of Marsden CGU proved and probable oil and gas reserves, which was used in the assessment of indicators of impairment.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the Entity's assessment of internal and external indicators of impairment for the Marsden CGU by considering the consistency of the quantitative and qualitative information used in the analysis with external market and industry data, and the estimate of Marsden CGU proved and probable oil and gas reserves.

With respect to the estimate of Marsden CGU proved and probable oil and gas reserves:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluator engaged by the Entity



- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We compared the 2025 actual production volumes, operating costs, royalty costs and development costs of the Marsden CGU to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Entity's ability to accurately forecast
- We assessed the forecasted production volumes, forecasted operating costs, forecasted royalty costs and forecasted future development costs assumptions by comparing them to 2025 historical results. We took into account changes in conditions and events affecting the Marsden CGU to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

Assessment of the impact of estimated proved and probable oil and gas reserves on petroleum and natural gas assets

Description of the matter

We draw attention to Note 2(d), Note 3(c), and Note 9 to the financial statements. The Entity uses estimated proved and probable oil and gas reserves to deplete petroleum and natural gas assets included in property and equipment, to assess for indicators of impairment or impairment reversal on each of the Entity's cash generating units and if such indicators exist, to perform an impairment test to estimate the recoverable amount of a CGU.

The Entity depletes its net carrying value of petroleum and natural gas assets using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production.

At December 31, 2025, the Entity had \$85,065 thousand of petroleum and natural gas assets and recorded \$10,529 thousand of related depletion expense for the year.

The estimate of proved and probable oil and gas reserves requires the expertise of independent third-party reserve evaluators and includes significant assumptions related to:

- Forecasted oil and gas commodity prices
- Forecasted production volumes
- Forecasted operating costs
- Forecasted royalty costs
- Forecasted future development costs.

The Entity engages independent third-party reserve evaluator to estimate the proved and probable oil and gas reserves.

Why the matter is a key audit matter

We identified the assessment of the impact of estimated proved and probable oil and gas reserves on petroleum and natural gas assets as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and gas reserves.



How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We assessed the depletion expense calculation for compliance with the relevant accounting standards.

With respect to the estimate of proved and probable oil and gas reserves:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluator engaged by the Entity
- We compared forecasted oil and gas commodity prices to those published by other independent third-party reserve evaluators
- We compared the 2025 actual production volumes, operating costs, royalty costs and development costs of the Entity to those estimates used in the prior year's estimate of proved oil and gas reserves to assess the Entity's ability to accurately forecast
- We assessed the forecasted production volumes, forecasted operating costs, forecasted royalty costs and forecasted future development costs assumptions by comparing to 2025 historical results. We took into account changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is David Yung.

Calgary, Canada

April 14, 2026

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(\$000s)	Note	December 31, 2025	December 31, 2024
Assets			
Current assets			
Cash and cash equivalents		\$ 19,513	\$ 12,550
Accounts receivable	5(a)	7,014	9,048
Prepaid expenses		1,248	1,078
		27,775	22,676
Non-current assets			
Reclamation deposits	10	116	116
Exploration and evaluation assets	8	5,099	3,389
Property and equipment	9	88,133	85,148
Total assets		\$ 121,123	\$ 111,329
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 2,129	\$ 7,657
Current tax liability	19	16,621	-
Current portion of lease liabilities	13	903	826
Current portion of decommissioning obligations	10	158	158
Share-based compensation payable	14(b)	474	-
Derivative financial instruments	5(c)	3	132
		20,288	8,773
Non-current liabilities			
Lease liabilities	13	2,062	2,969
Share-based compensation payable	14(b)	323	-
Deferred tax liability	19	12,627	19,368
Decommissioning obligations	10	5,231	5,840
		40,531	36,950
Shareholders' Equity			
Share capital	14	54,266	60,165
Contributed surplus		4,611	5,170
Retained Earnings		21,715	9,044
Total shareholders' equity		80,592	74,379
Total liabilities and shareholders' equity		\$ 121,123	\$ 111,329

Commitments Note 16

Subsequent events Note 20

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

Approved by the Board of Directors

(signed) "Bruce McIntyre"
Bruce McIntyre, Director

(signed) "Don Simmons"
Don Simmons, Director

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)

(\$000s, except per share amounts)	Note	Years Ended December 31	
		2025	2024
Revenue			
Oil and natural gas revenue	7	\$ 93,865	\$ 99,935
Royalties		(16,750)	(20,225)
		77,115	79,710
Other income	18	925	-
Realized loss on derivative financial instruments		(1,441)	(262)
Unrealized gain (loss) on derivative financial instruments	5(c)	128	(340)
Total revenue and other income		76,727	79,108
Expenses			
Production and operating		20,144	19,603
Exploration and evaluation	8	148	165
Depletion and depreciation	9	11,588	10,246
General and administrative		5,311	4,918
Share-based compensation	14(b)	1,237	25
Finance expense - net	11	390	638
Foreign exchange loss, realized		71	62
Foreign exchange gain, unrealized		(48)	-
Gain on disposition		-	(75)
Total expenses		38,841	35,582
Income before taxes		37,886	43,526
Current income tax expense	19	(16,621)	(27)
Deferred income tax (expense) recovery	19	6,741	(10,396)
Net income and comprehensive income for the year		\$ 28,006	\$ 33,103
Net income per share, basic	14(c)	\$ 0.29	\$ 0.34
Net income per share, diluted	14(c)	\$ 0.29	\$ 0.33

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

	Note	Number common shares	Share Capital (\$000s)	Contributed Surplus (\$000s)	Retained Earnings (\$000s)	Total Shareholders' Equity (\$000s)
Balance at December 31, 2024		97,389,735	\$ 60,165	\$ 5,170	\$ 9,044	\$ 74,379
Stock option exercise	14(b)	579,267	163	-	-	163
Share-based compensation - options	14(b)	-	-	33	-	33
Transfer on option exercise	14(b)	-	592	(592)	-	-
Shares repurchased under NCIB	14(a)	(3,487,300)	(6,544)	-	-	(6,544)
NCIB repurchase tax	14(a)	-	(110)	-	-	(110)
Dividends	14(d)	-	-	-	(15,335)	(15,335)
Net income for the year		-	-	-	28,006	28,006
Balance at December 31, 2025		94,481,702	\$ 54,266	\$ 4,611	\$ 21,715	\$ 80,592
Prior year period comparison						
Balance at December 31, 2023		99,340,339	\$ 63,164	\$ 6,415	\$ (8,356)	\$ 61,223
Stock option exercise	14(b)	1,422,196	1,270	-	-	1,270
Share-based compensation	14(b)	-	-	25	-	25
Transfer on option exercise	14(b)	-	1,270	(1,270)	-	-
Shares repurchased under NCIB	14(a)	(3,372,800)	(5,461)	-	-	(5,461)
NCIB repurchase tax	14(a)	-	(78)	-	-	(78)
Dividends	14(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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

(\$000s)	Note	Years Ended December 31	
		2025	2024
Operating activities			
Net income for the year		\$ 28,006	\$ 33,103
Items not affecting cash:			
Accretion of decommissioning costs	10	198	198
Deferred tax expense (recovery)	19	(6,741)	10,396
Depletion and depreciation	9	11,588	10,246
Exploration and evaluation expense	8	148	165
Gain on disposition		-	(75)
Share-based compensation	14(b)	1,237	25
Unrealized loss (gain) on derivative financial instruments	5(c)	(128)	340
Unrealized gain on foreign exchange	5(c)	(48)	-
		34,260	54,398
Decommissioning obligation expenditures	10	(405)	(272)
Changes in non-cash working capital	17	14,306	(7,578)
Cash provided by operating activities		48,161	46,548
Investing activities			
Exploration and evaluation expenditures	8	(2,214)	(10,461)
Property and equipment expenditures	9	(14,038)	(11,391)
Proceeds from disposition		-	75
Changes in non-cash working capital	17	(2,221)	1,508
Cash used in investing activities		(18,473)	(20,269)
Financing activities			
Shares issued for stock options, cash exercise	14(b)	163	1,270
Shares repurchased under NCIB	14(a)	(6,654)	(5,539)
Dividends	14(d)	(15,335)	(15,703)
Payment of lease liabilities, net	13	(899)	(946)
Cash used in financing activities		(22,725)	(20,918)
Net change in cash		6,963	5,361
Cash and cash equivalents at beginning of year		12,550	7,189
Cash and cash equivalents at end of year		\$ 19,513	\$ 12,550

Supplemental cash flow information (Note 17)

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

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2025 and December 31, 2024

(Expressed in Canadian dollars)

1. Nature and Continuation of Operations

Hemisphere Energy Corporation ("HEC") was incorporated under the laws of British Columbia on March 6, 1978. On January 2, 2024, HEC formed a wholly-owned subsidiary, Hemi Energy Inc. ("HEI"). On January 2, 2024, HEC 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 HEC.

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 audited consolidated financial statements ("Financial Statements") have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board.

These Financial Statements were authorized for issuance by the Board of Directors on April 14, 2026.

(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 evaluators, 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 5.

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, 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, 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.

During the past twelve months, demand for oil and natural gas has remained stable. Energy prices have continued to strengthen due to elevated uncertainty of global oil and natural gas supply, particularly since the current hostilities between the United States, Israel and Iran. The situation poses ongoing risks to regional stability in the Middle East, a key hub for global oil production. Continued conflict or escalation could disrupt energy supply chains and drive volatility in oil and natural gas markets. Such instability could materially impact the global economy, the Canadian oil and gas industry, and the Company. While the Company has benefited from the improvement in commodity prices, there is a degree of uncertainty related to geopolitical events that have been considered in our estimates.

To the extent that other 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, 2025.

(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) Tariffs

The government of the United States of America continues to threaten, and has implemented, tariffs on goods that are sourced from Canada in the range of 10% to 25%. At the present time there are no tariffs on Canadian energy products exported into the U.S. However, a review of the United States-Mexico-Canada Agreement ("USMCA") is planned in 2026, adding increased uncertainty for Canadian exports, including energy products, to the U.S. If there are significant changes to USMCA this could have a significant adverse effect on the Canadian economy, including the oil and gas industry, and the Company. The Company will continue to monitor the impact of this evolving situation.

3. Material Accounting Policies

(a) Revenue

Revenues from the sale of heavy oil, natural gas liquids and natural gas are recognized based on the consideration specified in contracts with customers. The Company recognizes revenue when it transfers control of the product to the customer, which is generally when legal title passes to the customer which is when it is physically transferred to the pipeline or other transportation method agreed upon and collection is reasonably assured. Any revenues from processing activities are recognized over time as processing occurs, and are generally billed monthly.

The Company evaluates its arrangements with third parties and partners to determine if the Company is acting as the principal or as an agent. The Company is considered the principal in a transaction when it has primary responsibility for the transaction. If the Company acts in

the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

(b) Jointly owned assets

Some of the Company's petroleum and natural gas activities involve jointly owned assets and are conducted under joint operating agreements. Accordingly, the financial statements reflect the Company's proportionate share of joint assets, liabilities, revenues and expenses.

(c) Property and equipment and exploration and evaluation assets

(i) Pre-exploration expenditures

Expenditures made by the Company before acquiring the legal right to explore in a specific area do not meet the definition of an asset and therefore are expensed as incurred.

(ii) Exploration and evaluation expenditures

Costs incurred once the legal right to explore has been acquired are capitalized as exploration and evaluation assets. These costs include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, drilling costs directly attributable to an identifiable well, and directly attributable general and administrative costs. These costs are accumulated in cost centers by property and are not subject to depletion until technical feasibility and commercial viability has been determined.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount, and on transfer of assets from exploration and evaluation assets to property and equipment.

The technical feasibility and commercial viability are considered to be determinable when proved and probable oil and gas reserves have been identified. A review of each exploration license or field is carried out quarterly to ascertain whether proved and probable oil and gas reserves have been discovered. Upon determination of proved and probable oil and gas reserves, exploration and evaluation assets attributable to those reserves are tested for impairment and reclassified from exploration and evaluation assets to petroleum and natural gas assets.

(iii) Property and equipment

Items of property and equipment, which include petroleum and natural gas assets, are measured at cost less accumulated depletion and depreciation and impairment losses.

Gains and losses on disposal of an item of property and equipment, including petroleum and natural gas assets, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

(iv) Capitalization of costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas assets generally represent costs incurred in developing proved and/or probable oil and gas reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(v) Depletion and depreciation

The Company depletes its net carrying value of petroleum and natural gas assets using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable oil and gas reserves, taking into account estimated forecasted future development costs necessary to bring those reserves into production. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. The calculation of depletion and depreciation is based on total capitalized costs plus estimated forecasted future development costs of proved and probable non-producing and undeveloped oil and gas reserves.

Proved and probable oil and gas reserves are estimated using independent third-party reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proved component of proved and probable oil and gas reserves are 90 percent and 10 percent, respectively.

Depreciation of other equipment is provided for on a 20-30% declining balance basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(vi) Impairment

Exploration and evaluation assets are grouped together with the Company's respective CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to developed and producing assets (petroleum and natural gas assets).

Exploration and evaluation assets are assessed for impairment when they are reclassified to developing and producing assets, as part of the petroleum and natural gas assets, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For petroleum and natural gas assets, an impairment is recorded when the recoverable amount of a CGU is less than the respective carrying amount. Recoverable amount is the higher of its fair value less cost to sell and value in use. Fair value is the price that would be received from selling an asset in an orderly transaction between market participants. Fair value less costs to sell can be determined by using observable market information or by using discounted future net cash flows of proved and probable oil and gas reserves using forecasted oil and gas commodity prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Judgment is required to assess when indicators of impairment or reversals exist and whether calculation of the recoverable amount of an asset is necessary. The estimated recoverable amount of a CGU involves significant estimates, including the estimate of proved and probable oil and gas reserves and the discount rates. The estimate of proved and probable oil and gas reserves requires the expertise of independent third-party reserve evaluators and includes significant assumptions related to forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, forecasted royalty costs and forecasted future development costs. The Company engages independent third-party reserve evaluators to estimate the proved and probable oil and gas reserves. 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.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been

determined, net of depletion and depreciation, if no impairment loss had been recognized.

(d) Decommissioning obligations

Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is included as finance expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision.

(e) Share-based compensation

The Company has a stock option plan and a restricted share unit ("RSU") plan that is described in Note 14(b) as part of the compensation structure. Share-based payments to officers, directors, employees and consultants are measured at the fair value of the instruments issued and are amortized over the vesting periods. The offset to the recorded cost for stock options is to the Company's contributed surplus. The offset to recorded cost for RSUs and any additional remeasurement is to the share-based compensation liabilities.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital. Charges for options that are forfeited before vesting are reversed from contributed surplus, while any forfeited RSUs are reversed from the share-based compensation liability.

(f) Share Capital

Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(g) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the

reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Per share amounts

Basic per share amounts are calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted-average number of common shares outstanding during the period. Diluted income or loss per share is determined by dividing the income or loss attributable to common shareholders by the weighted-average number of shares outstanding adjusted for the effects of dilutive instruments such as options and warrants.

The Company uses the treasury stock method to compute the dilutive effect of stock options and warrants. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding stock options and warrants. It assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(i) Finance expense

Finance expense comprises interest expense on borrowings and lease liabilities, accretion of the discount on decommissioning obligations, loan settlement costs, other finance expenses and impairment losses recognized on financial assets. Borrowing costs and interest income are recognized in earnings or loss using the effective interest method.

(j) Leases

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term. The carrying amount is reviewed for impairment at each reporting period.

The lease liability is initially measured at the present value of future lease payments, discounted using the interest rate implicit in the lease, if applicable, or the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured if the Company changes its assessment

of whether it will exercise a purchase, extension, or termination option with a corresponding adjustment to the carrying amount of the right-of-use asset.

Lease payments are allocated between the lease liability and finance charges. Cash outflows for repayment of the principal portion of the lease liability is classified as cash flows provided by financing activities. The interest portion of the lease payments is classified as cash flows provided by operating activities.

The Company does not recognize assets and lease liabilities for short-term leases with a term of twelve months or less, and leases of low value assets. The lease payments associated with these leases are recognized as an expense in the Statement of Income and Comprehensive Income over the lease term.

(k) 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 will introduce new totals, subtotals, and categories for income and expenses in the statements of income and comprehensive income, as well as requiring disclosure about management-defined performance measures and additional requirements regarding the aggregation and disaggregation of certain information. IFRS 18 is effective for annual periods beginning on or after January 1, 2027 and will be applied retroactively. 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: Disclosure" 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.

4. Financial Instruments

The Company's financial assets and liabilities include cash and cash equivalents, accounts receivable, reclamation deposits, derivative financial instruments, accounts payable and accrued liabilities, share based compensation payable, current tax liability and bank debt.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through income or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Upon initial recognition, a financial asset is measured at: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

Financial liabilities are measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest

expense, are recognized in income. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Company has made the following classifications:

- Cash and cash equivalents, accounts receivable and reclamation deposits are measured at amortized cost. Subsequently, they are recorded at amortized cost using the effective interest method.
- Derivative financial instruments that do not qualify as hedges, or are not designated as hedges on the statement of financial position, including risk management commodity and interest rate contracts, are classified as FVTPL and are recorded and carried at fair value. The Company may use derivative financial instruments to manage economic exposure to market risks relating to commodity prices and interest rates. The Company does not utilize derivative financial instruments for speculative purposes.
- Accounts payable and accrued liabilities, current tax liability and bank debt are classified as other financial liabilities and are initially measured at fair value less directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest method.
- Share based compensation ("SBC") is measured using the Black-Scholes fair value model. For share options, the valuation is determined at the time of grant and recorded as an SBC expense at vesting. For RSUs the valuation is determined at the time of grant, as well as a quarterly remeasurement, which are recorded as SBC expense and liability.

5. Financial Risk Management

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its payment obligations. This risk arises principally from the Company's receivables from joint 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:

<i>(\$000s)</i>	December 31, 2025	December 31, 2024
Accounts receivable		
Marketing receivables	\$ 5,909	\$ 5,423
Trade receivables	169	3,616
Receivable from SR&ED credit	925	-
Receivables from joint ventures	11	9
Reclamation deposits	116	116
	\$ 7,130	\$ 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 December 31, 2025, the Company had working capital (a non-IFRS measure calculated as current assets, less current liabilities, excluding the derivative financial instruments, lease and decommissioning obligations, and including any bank debt) of \$8.6 million (December 31, 2024 - \$6.4 million, adjusted for tax provision). 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 12).

(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 December 31, 2025, the Company held derivative commodity contracts as follows:

Product	Type	Volume	Price	Index	Term	As at Dec. 31, 2025 Fair Value (\$000s)
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	(3)

At December 31, 2025, the commodity contracts were fair valued as a liability of \$3 thousand on the Statement of Financial Position, and an unrealized gain of \$128 thousand was recorded for the year ended December 31, 2025.

At December 31, 2024, the Company held derivative commodity contracts as follows:

						As at Dec. 31, 2024 Fair Value (\$000s)
Product	Type	Volume	Price	Index	Term	
Crude oil	Put Spread	350 bbl/d	US\$50.00(put sell)/US\$60.00(put buy), net cost US\$2.15/bbl	WTI-NYMEX	Jan. 1, 2025 – Mar. 31, 2025	(85)
Crude oil	Swap	250 bbl/d	US\$14.50	WCS Differential	Jan. 1, 2025 – Mar. 31, 2025	(19)
Crude oil	Collar	175 bbl/d	US\$50.00(put buy)/ US\$90.50(call sell)/bbl	WTI-NYMEX	Apr. 1, 2025 – Jun. 30, 2025	-
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	(28)
						(132)

At December 31, 2024, the commodity contracts were fair valued as a liability of \$132 thousand on the Statement of Financial Position, and an unrealized loss of \$340 thousand was recorded for the year ended December 31, 2024.

(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.

6. Capital Management

The Company manages its capital with the following objectives:

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is 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.

7. 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 5(a). As at December 31, 2025, production revenue sold to customers was comprised of five marketers which account for \$5.9 million of the accounts receivable balance.

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

<i>(\$000s)</i>	Years Ended December 31	
	2025	2024
Heavy crude oil	\$ 93,786	\$ 99,874
Conventional natural gas	79	61
Total	\$ 93,865	\$ 99,935

8. Exploration and Evaluation Assets and Impairment

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 year ended December 31, 2025, the Company transferred \$0.3 million (December 31, 2024 - \$9.1 million) to property and equipment, capitalized general and administrative expenses of \$nil (December 31, 2024 - \$nil) to exploration and evaluation assets, and recognized exploration and evaluation expense of \$148 thousand (December 31, 2024 - \$165 thousand), which relate to expired or uneconomic properties.

Cost	
<i>(\$000s)</i>	
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	2,214
Exploration and evaluation expense	(148)
Transfers to property and equipment	(356)
Balance at December 31, 2025	\$ 5,099

At December 31, 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.

9. 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 10)		(544)		-	(544)
Transfer from exploration and evaluation assets (Note 8)		9,068		-	9,068
Balance at December 31, 2024	\$	172,412	\$	6,848	\$ 179,260
Additions right-of-use assets		-		69	69
Additions property and equipment		13,941		96	14,037
Decrease in decommissioning obligations (Note 10)		(401)		-	(401)
Capitalized share-based compensation		512		-	512
Transfer from exploration and evaluation assets (Note 8)		356		-	356
Balance at December 31, 2025	\$	186,820	\$	7,013	\$ 193,833
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 year		10,529		1,059	11,588
Balance at December 31, 2025	\$	101,755	\$	3,945	\$ 105,700
Net Book Value					
December 31, 2024	\$	81,186	\$	3,962	\$ 85,148
December 31, 2025	\$	85,065	\$	3,068	\$ 88,133

The Company's additions for property and equipment included capitalized general and administrative expenses of \$1.5 million for both the years ended December 31, 2025 and 2024.

The calculation for depletion at December 31, 2025 includes estimated forecasted future development costs of \$53.0 million (December 31, 2024 - \$40.2 million) associated with the development of the Company's proved and probable oil and gas reserves.

At December 31, 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.

10. 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 December 31, 2025 is \$7.9 million (December 31, 2024 - \$8.1 million), and \$12.5 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 3.8% (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)	Years Ended December 31	
	2025	2024
Decommissioning obligations at beginning of year	\$ 5,998	\$ 6,616
Increase in estimated future obligations	245	1,076
Change in estimate	(647)	(1,620)
Payment of decommissioning obligations	(405)	(272)
Accretion expense	198	198
Total Decommissioning obligations at end of year	\$ 5,389	\$ 5,998
Current portion	158	158
Long term portion	5,231	5,840

11. Finance Expense - net

(\$000s)	Note	Years Ended December 31	
		2025	2024
Finance expense:			
Loan interest		\$ 535	\$ 507
Lease interest	13	236	239
Interest income		(579)	(306)
Accretion of decommissioning liabilities	10	198	198
Total		\$ 390	\$ 638

12. 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 December 31, 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 3.09 to 1.00 as at December 31, 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 May 31, 2026 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.

13. 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 December 31, 2025:

<i>(\$000s)</i>		
Balance at December 31, 2023	\$	3,404
Lease additions (Note 9)		1,337
Interest expense		239
Lease payments		(1,185)
Balance at December 31, 2024	\$	3,795
Lease additions (Note 9)		69
Interest expense		236
Lease payments		(1,135)
Balance at December 31, 2025	\$	2,965
Current portion	\$	903
Long-term portion		2,062

14. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at December 31, 2025 and 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)	(3,487,300)	(6,544)
Tax on NCIB repurchase	-	(110)
Shares issued for stock option exercises	579,267	163
Transfer on stock option exercise	-	592
Balance at December 31, 2025	94,481,702	\$ 54,266

On July 14, 2024, the Company renewed its NCIB to purchase and cancel, from time to time, up to 8,255,766 common shares of the Company until July 13, 2025.

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.

During the year ended December 31, 2025, the Company repurchased and cancelled 3,487,300 shares under the NCIB for \$6.5 million at an average cost of \$1.88 per share. Subsequent to year-end, the Company has repurchased additional NCIB shares as disclosed in Note 20(b).

During the year ended December 31, 2025, the Company issued 579,267 shares from the exercise of 924,000 stock options exercised through the Company's Stock Option Plan, at an average exercise price of \$0.81 per share, including cashless exercises.

(b) Share-Based Compensation

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

<i>(\$000s)</i>	Years Ended December 31	
	2025	2024
Stock options vested	\$ 32	\$ 25
RSUs ⁽¹⁾	1,717	-
Capitalized costs ⁽¹⁾	(512)	-
Total share-based compensation	\$ 1,237	\$ 25

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 December 31, 2025 and 2024 are as follows:

Exercise Price	Grant Date	Expiry Date	Changes in the Year				Balance Outstanding Dec. 31, 2025	Balance Exercisable Dec. 31, 2025
			Balance Outstanding Dec. 31, 2024	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	-	(207,000)	-	793,600	
\$1.41	17-Mar-22	17-Mar-32	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	
\$1.25	11-Sep-23	11-Sep-33	50,000	-	-	-	50,000	
\$1.27	15-Dec-23	15-Dec-28	1,738,000	-	(132,000)	-	1,606,000	
\$1.84	13-Dec-24	13-Dec-29	48,000	-	-	-	48,000	
\$2.01	15-Dec-25	15-Dec-30	-	48,000	-	-	48,000	
			6,021,600	48,000	(924,000)	-	5,145,600	
Weighted-average exercise price per share			\$1.17	\$2.01	\$0.81	-	\$1.24	

Exercise Price	Grant Date	Expiry Date	Changes in the Year				Balance Outstanding Dec. 31, 2024	Balance Exercisable Dec. 31, 2024
			Balance Outstanding Dec. 31, 2023	Granted	Exercised	Expired/Cancelled		
\$0.12	17-Jun-20	17-Jun-25	485,000	-	(175,000)	-	310,000	
\$0.91	17-Dec-21	17-Dec-31	1,690,000	-	(689,400)	-	1,000,600	
\$1.41	17-Mar-22	17-Mar-32	50,000	-	-	-	50,000	
\$1.27	10-May-22	10-May-32	150,000	-	(75,000)	-	75,000	
\$1.30	14-Dec-22	14-Dec-32	3,150,000	-	(400,000)	-	2,750,000	
\$1.25	11-Sep-23	11-Sep-33	50,000	-	-	-	50,000	
\$1.27	15-Dec-23	15-Dec-28	1,988,000	-	(250,000)	-	1,738,000	
\$1.84	13-Dec-24	13-Dec-29	-	48,000	-	-	48,000	
			7,563,000	48,000	(1,589,400)	-	6,021,600	
Weighted-average exercise price per share			\$1.13	\$1.84	\$0.99	-	\$1.17	

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 year ended December 31, 2025, the Company recorded total share-based compensation of \$32 thousand, for stock options that vested, compared to \$25 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 1.07 as at December 31, 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 subsequently approved by the shareholders at the Company's Annual General and Special Meeting on June 2, 2025.

On December 12, 2025, the Board of Directors awarded 1,272,000 RSUs to directors, officers, employees and consultants of the Company that will expire on December 15, 2028.

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 December 31, 2025 are as follows:

RSU Units	
Balance at beginning of year ⁽¹⁾	1,221,000
Vested during the year	(407,000)
Granted during the year	1,272,000
Balance at December 31, 2025	2,086,000

Note:

1) On December 13, 2024, the Board of Directors conditionally awarded 1,221,000 RSUs to directors, officers, employees and consultants of the Company, which were subsequently approved by the shareholders at the Company's Annual General and Special Meeting on June 2, 2025.

RSU Liability	
Balance at beginning of the year	\$ -
Issuance value	1,487
Increase in liability/fair value adjustment ⁽¹⁾	231
Vested during the year	(921)
Balance at December 31, 2025	\$ 797
Current portion	\$ 474
Long-term portion	323

Note:

1) Includes dividend adjustment.

(c) Income per share

	Years Ended December 31	
	2025	2024
Net income for the year (\$000s)	\$ 28,006	\$ 33,103
Weighted-average number of common shares outstanding, basic	95,846,431	98,146,591
Dilutive stock options	1,810,681	1,858,318
Weighted-average number of common shares outstanding, diluted	97,657,112	100,004,909
Income per share, basic	\$ 0.29	\$ 0.34
Income per share, diluted	0.29	0.33

In computing the weighted-average shares outstanding for the year ended December 31, 2025, the Company included 1,810,681 dilutive stock options. For the comparable period in 2024, the Company had 1,858,318 dilutive stock options.

(d) Dividends

During the year ended December 31, 2025, the Company paid the following dividends to shareholders in accordance with the Company's dividend policy:

Dividend type	Payment date	Dividend price per share	Dividends paid (\$000s)
Quarterly Base	Feb. 26, 2025	\$0.025	2,428
Special	Apr. 28, 2025	\$0.030	2,904
Quarterly Base	Jun. 30, 2025	\$0.025	2,397
Special	Aug. 15, 2025	\$0.030	2,864
Quarterly Base	Sep. 12, 2025	\$0.025	2,380
Quarterly Base	Dec. 30, 2025	\$0.025	2,362
Total			\$15,335

15. Related Party Transactions

Compensation to key executive personnel, consisting of the Company's officers, directors, and Chairman, was paid as follows:

(\$000s)	Years Ended December 31	
	2025	2024
Salaries and wages	\$ 3,457	\$ 3,326
Share-based payments	701	-

16. Commitments

(\$000s)	2026	2027	2028	2029	Total
Office & equipment leases	\$ 34	5	-	-	39
Surface leases	27	26	26	23	102
Production equipment leases	1,020	980	927	31	2,958
	\$ 1,081	1,011	953	54	3,099

17. Supplemental Cash Flow Information

(\$000s)	Years Ended December 31	
	2025	2024
Provided by (used in):		
Accounts receivable	\$ 2,034	\$ (3,297)
Prepaid expenses	(170)	92
Accounts payable and accrued liabilities	(5,479)	4,359
Current tax liability	16,621	(7,224)
Settlement of share-based compensation	(921)	-
Total changes in non-cash working capital	\$ 12,085	\$ (6,070)
Provided by (used in):		
Operating activities	\$ 14,306	\$ (7,578)
Investing activities	(2,221)	1,508
Total changes in non-cash working capital	\$ 12,085	\$ (6,070)

Interest paid, including bank fees, on the Company's debts during the year ended December 31, 2025 was \$0.5 million, which was consistent with the year ended December 31, 2024.

18. Other Income

For the year ended December, 31 2025, the Company recognized other income of \$0.9 million related to investment tax credits received under Canada's Scientific Research and Experimental Development ("SR&ED") program, net of third-party fees.

19. Income Taxes

The reconciliation of income tax computed at the current statutory tax rate of 24.74% (year ended December 31, 2024 – 24.57%) to income tax expense is in the table below. This is a blended tax rate between British Columbia, Alberta and Ontario determined with weighted factors.

(\$000s, except rates)	Years Ended December 31	
	2025	2024
Income before tax	\$ 37,886	\$ 43,526
Statutory income tax rate	24.74%	24.57%
Expected income tax expense (recovery)	9,375	10,694
Non-deductible items	78	7
Other items	427	(305)
Total	\$ 9,880	\$ 10,396
Current tax expense	\$ 16,621	\$ -
Deferred tax expense (recovery)	(6,741)	10,396

The tax affected temporary differences that give rise to significant portions of the deferred tax liability at December 31, 2025 and 2024 are presented below:

(\$000s)	December 31, 2025	December 31, 2024
Deferred tax assets		
Share issue costs	\$ 7	\$ 7
Decommissioning obligations	1,333	1,474
Non-capital loss	-	4,582
Lease liability	734	932
Deferred income tax liability		
Property and equipment	(14,701)	(13,178)
Partnership income	-	(13,185)
Deferred tax liability	\$ (12,627)	\$ (19,368)

The Company assessed the probability that future taxable profit will be available against which the Company can utilize the benefits of tax pools in excess of the carrying amount of assets and has not recognized a deferred tax asset in respect of the following deductible temporary differences.

(\$000s)	December 31, 2025	December 31, 2024
Capital losses	\$ 278	\$ 278

20. Subsequent Events

- Subsequent to December 31, 2025, the Company issued 303,802 shares from the cashless exercises of 725,000 stock options under the Company's Stock Option Plan, at an average exercise price of \$1.25 per share.

- b) Subsequent to year-end, the Company purchased and cancelled an additional 487,600 shares under the NCIB for \$1.0 million at an average cost of \$2.15 per share.
- c) On February 26, 2026, the Company's paid a quarterly base dividend of \$0.025 per share for total distributions of \$2.4 million to the Company's shareholders of record on February 12, 2026.
- d) On March 11, 2026, the Company announced a special dividend of \$0.03 per share for payment on April 28, 2026 to the Company's shareholders of record on April 15, 2026.
- e) On April 14, 2026, the Company's Board of Directors approved a special dividend of \$0.03 per share to the Company's shareholders of record on May 14, 2026 for payment on May 28, 2026.



Hemisphere ENERGY

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 & Corporate Governance Committee

(3) Member of Reserves Committee

LEGAL COUNSEL

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