Q2 2026 HIGHLIGHTS

- Generated record revenue of $33.6 million.
- Delivered record operating netback[1] of $22.1 million, or $67.94/boe.
- Realized record quarterly adjusted funds flow from operations ("AFF")[1] of $16.7 million, or $51.25/boe.
- Generated record free funds flow[1] of $14.2 million, or $0.15/share.
- Produced 3,576 boe/d (99% heavy oil) during the quarter.
- Achieved total operating and transportation costs of $14.35/boe.
- Distributed $2.4 million, or $0.025/share, in base dividends to shareholders during the quarter.
- Distributed $5.7 million, or $0.06/share, in special dividends to shareholders during the quarter.
- Purchased and cancelled 30,000 shares at an average price of $2.52/share under the Company's Normal Course Issuer Bid ("NCIB").
- Renewed the Company's $35 million two-year extendible credit facility.
- Exited the quarter with no bank debt and positive working capital[1] of $19.5 million.

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

Q2 2026 Operations Update

In late July, Hemisphere kicked off its summer drilling program with two successfully drilled horizonal wells in the Marsden area that targeted the Colony Formation. The Colony Formation is a zone that Hemisphere has not previously produced from in the Marsden area; if productive, these wells could prove up several additional locations along a well-delineated channel on the Company's land.

Hemisphere's pilot polymer flood in the Sparky Formation in Marsden is ongoing, and the Company is committed to continue testing the project until at least year-end. While limited production response has been noted, reservoir injection continues to replace historical production from the oil pool.

After completing drilling operations in Marsden, the rig recently moved to Atlee Buffalo where the Company plans to drill up to nine additional wells and convert up to five wells to injectors. This important part of reservoir development is expected to improve reservoir sweep in areas of the pool with lower pressure that need additional injection support. It is anticipated that the new wells and injector well conversions should be placed on production throughout September and October.

Outlook

With its strong balance sheet, unhedged oil production, and positive working capital, Hemisphere is in a solid position to fully capitalize on the current oil price environment and continue to prioritize per-share growth and shareholder returns.

Q2 2026 FINANCIAL AND OPERATING HIGHLIGHTS

($000s except per unit and share amounts)	Three Months Ended June 30 2026	Three Months Ended June 30 2025	Six Months Ended June 30 2026	Six Months Ended June 30 2025
FINANCIAL				
Petroleum and natural gas revenue	**$ 33,578**	$ 24,395	**$ 58,981**	$ 51,734
Operating field netback(1)	**22,163**	14,890	**38,969**	32,071
Operating netback(1)	**22,112**	13,990	**38,776**	30,986
Cash flow provided by operating activities(2)	**19,333**	11,846	**13,999**	28,028
Adjusted funds flow from operations ("AFF")(1)	**16,680**	10,261	**29,358**	22,965
Per share, basic(1)	**0.18**	0.11	**0.31**	0.24
Per share, diluted(1)	**0.17**	0.10	**0.30**	0.23
Free funds flow(1)	**14,159**	8,070	**23,748**	19,568
Net income	**12,557**	7,053	**20,423**	15,995
Per share, basic	**0.13**	0.07	**0.22**	0.17
Per share, diluted	**0.13**	0.07	**0.21**	0.16
Dividends	**8,023**	5,301	**10,381**	7,729
Per share, basic	**0.085**	0.055	**0.110**	0.080
NCIB share repurchases	**76**	2,340	**1,049**	3,641
Capital expenditures(1)	**2,521**	2,191	**5,610**	3,397
Working capital(1)	**19,487**	13,894	**19,487**	13,894
OPERATING				
Average daily production				
Heavy oil (bbl/d)	**3,530**	3,810	**3,647**	3,812
Natural gas (Mcf/d)	**275**	101	**277**	106
Combined (boe/d)	**3,576**	3,826	**3,693**	3,830
Oil weighting	**99%**	99%	**99%**	99%
Average sales prices				
Heavy oil ($/bbl)	**$ 104.40**	$ 70.33	**$ 89.23**	$ 74.93
Natural gas ($/Mcf)	**1.57**	1.66	**1.75**	1.86
Combined ($/boe)	**$ 103.18**	$ 70.06	**$ 88.24**	$ 74.64
Operating netback ($/boe)				
Petroleum and natural gas revenue	**$ 103.18**	$ 70.06	**$ 88.24**	$ 74.64
Royalties	**(20.73)**	(13.11)	**(15.38)**	(13.86)
Operating costs	**(11.51)**	(11.40)	**(11.64)**	(11.54)
Transportation costs	**(2.84)**	(2.78)	**(2.92)**	(2.97)
Operating field netback(1)	**68.10**	42.77	**58.30**	46.27
Realized commodity hedging loss	**(0.16)**	(2.59)	**(0.29)**	(1.57)
Operating netback(1)	**$ 67.94**	$ 40.18	**$ 58.01**	$ 44.70
General and administrative expense	**(4.94)**	(3.75)	**(4.44)**	(3.74)
Interest expense and foreign exchange loss	**(0.64)**	(0.18)	**(0.48)**	(0.23)
Tax expense provision	**(11.11)**	(6.78)	**(9.18)**	(7.60)
Adjusted funds flow from operations ($/boe)(1)	**$ 51.25**	$ 29.47	**$ 43.91**	$ 33.13

Notes:

(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.*

(2) *This includes the Company's payment of current tax liabilities in February 2026 related to taxes previously deferred under the new corporate partnership structure effective January 2, 2024.*

COMMON SHARES	August 19, 2026	**June 30, 2026**	December 31, 2025
Common shares outstanding	94,250,109	**94,500,109**	94,481,702
Stock options outstanding	4,139,600	**4,139,600**	5,145,600
Total fully diluted shares outstanding	98,389,709	**98,639,709**	99,627,302

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as at August 19, 2026

The following Management's Discussion and Analysis ("MD&A") is a review of the operations and current financial position for the three and six months ended June 30, 2026 for Hemisphere Energy Corporation ("Hemisphere" or the "Company") and should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2026, and the audited consolidated financial statements and related notes for the year ended December 31, 2025. These documents and additional information relating to the Company, including the Company's Annual Information Form, are available on SEDAR+ at www.sedarplus.ca or the Company's website at www.hemisphereenergy.ca.

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

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

Business Overview

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

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

Atlee Buffalo, Alberta

Atlee Buffalo is Hemisphere's core area, located approximately 85 kilometers north of Medicine Hat. Hemisphere made its first acquisition in the area in late 2013 and owns 32,680 gross and net acres as of June 30, 2026.

Marsden, Saskatchewan

Marsden is located approximately 50 kilometers southeast of Lloydminster in Saskatchewan. Hemisphere first entered the area in 2023 and owns 9,165 gross and net acres as of June 30, 2026.

Operating Results

The Company generated adjusted funds flow from operations[1] ("AFF") of $16.7 million ($0.18/basic share and $0.17/diluted share) during the second quarter of 2026 compared to $10.3 million ($0.11/basic share and $0.10/diluted share) during the second quarter of 2025. AFF for the six months ended June 30, 2026 increased to $29.4 million ($0.31/basic share and $0.30/diluted share) from $23.0 million ($0.24/basic share and $0.23/diluted share) for the same period in 2025. The increases in AFF for the three and six months ended June 30, 2026 from the comparable periods in 2025 are primarily due to the 58% and 25% increases in operating netback, respectively.

The Company reported net income of $12.6 million ($0.13/share, basic and diluted) and $20.4 million ($0.22/basic share and $0.21/diluted share) for the three and six months ended June 30, 2026, respectively, compared to $7.1 million ($0.07/share, basic and diluted) and $16.0 million ($0.17/basic share and $0.16/diluted share) for the comparable three- and six-month periods of 2025, respectively. The $4.4 million increase in net income over the comparable six-month period of 2025 is primarily the result of the 18% increase in realized average prices.

Production

	Three Months Ended June 30		Six Months Ended June 30	
By product:	**2026**	2025	**2026**	2025
Oil (bbl/d)	**3,530**	3,810	**3,647**	3,812
Natural gas (Mcf/d)	**275**	101	**277**	106
Total (boe/d)	**3,576**	3,826	**3,693**	3,830
Oil weighting	**99%**	99%	**99%**	99%

The Company's average daily production was 3,576 boe/d and 3,693 boe/d (99% oil) for the three and six months ended June 30, 2026, respectively, representing 7% and 4% decreases from the same periods in 2025. These decreases can be attributed to some facility downtime and normal decline in well performance, resulting in lower year-over-year production.

Average Benchmark and Realized Prices

	Three Months Ended June 30		Six Months Ended June 30	
	2026	2025	**2026**	2025
Benchmark prices				
WTI ($US/bbl)(1)	**$ 99.90**	$ 65.10	**$ 85.50**	$ 68.35
WCS Diff ($US/bbl)(2)	**(18.72)**	(11.38)	**(16.12)**	(12.19)
CAD/USD exchange rate	**1.3889**	1.3793	**1.3793**	1.4085
WTI ($C/bbl)	**138.75**	89.79	**117.93**	96.27
WCS Diff ($C/bbl)	**(26.00)**	(15.69)	**(22.23)**	(17.17)
WCS ($C/bbl)	**112.75**	74.10	**95.70**	79.10
AECO natural gas ($/Mcf)(3)	**1.50**	2.10	**2.00**	2.05
Average realized prices				
Crude oil ($/bbl)	**104.40**	70.33	**89.23**	74.93
Natural gas ($/Mcf)	**1.57**	1.66	**1.75**	1.86
Combined ($/boe)	**$ 103.18**	$ 70.06	**$ 88.24**	$ 74.64

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

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

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

Revenue

	Three Months Ended June 30		Six Months Ended June 30	
($000s)	**2026**	2025	**2026**	2025
Oil	**$ 33,539**	$ 24,380	**$ 58,893**	$ 51,699
Natural gas	**39**	15	**88**	35
Total	**$ 33,578**	$ 24,395	**$ 58,981**	$ 51,734

During the three months ended June 30, 2026, revenue increased 38% compared to the same period in 2025. The increase corresponds to the 47% increase in the Company's combined average realized prices as a result of higher commodity prices, partially offset by the 7% decrease in production.

For the six months ended June 30, 2026, revenue increased by 14% from the comparable period in 2025. This increase is primarily due to the 18% increase in average realized prices discussed above.

Operating Netback

	Three Months Ended June 30		Six Months Ended June 30	
($000s, except per unit amounts)	**2026**	2025	**2026**	2025
Operating netback				
Revenue	**$ 33,578**	$ 24,395	**$ 58,981**	$ 51,734
Royalties	**(6,745)**	(4,565)	**(10,279)**	(9,608)
Operating costs	**(3,747)**	(3,969)	**(7,780)**	(7,998)
Transportation costs	**(923)**	(971)	**(1,953)**	(2,057)
Operating field netback(1)	**$ 22,163**	$ 14,890	**$ 38,969**	$ 32,071
Realized commodity hedging loss	**(51)**	(900)	**(193)**	(1,085)
Operating netback(1)	**$ 22,112**	$ 13,990	**$ 38,776**	$ 30,986
Operating netback ($/boe)				
Revenue	**$ 103.18**	$ 70.06	**$ 88.24**	$ 74.64
Royalties	**(20.73)**	(13.11)	**(15.38)**	(13.86)
Operating costs	**(11.51)**	(11.40)	**(11.64)**	(11.54)
Transportation costs	**(2.84)**	(2.78)	**(2.92)**	(2.97)
Operating field netback(1)	**$ 68.10**	$ 42.77	**$ 58.30**	$ 46.27
Realized commodity hedging loss	**(0.16)**	(2.59)	**(0.29)**	(1.57)
Operating netback(1)	**$ 67.94**	$ 40.18	**$ 58.01**	$ 44.70

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.

During the three and six months ended June 30, 2026, royalties paid increased to $6.7 million and $10.3 million, respectively, from $4.6 million and $9.6 million in the same periods of 2025, due to higher sales and an increase in the average royalty rates. On a per boe basis, royalties for the three and six months ended June 30, 2026 were $20.73 per boe (20% of revenue) and $15.38 per boe (17% of revenue) compared to $13.11 per boe (19% of revenue) and $13.86 per boe (19% of revenue) in the corresponding periods of 2025.

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 and six months ended June 30, 2026 were $11.51 per boe and $11.64 per boe, respectively, which were 1% higher than the same periods in 2025, driven mainly by lower production volumes. Operating costs were also impacted by higher costs associated with higher WTI benchmark prices and inflation-driven cost increases across the Company's operations. This was mostly offset by reduced workover expenditures.

Transportation costs include all costs incurred to transport emulsion, oil, and gas sales to processing and distribution facilities. Transportation costs were $2.84 per boe in the three months ended June 30, 2026, an increase of 2% compared to the same period in 2025. The increase was primarily driven by fuel surcharges and the impact of lower production volumes.

For the six months ended June 30, 2026, transportation costs were $2.92 per boe, representing a 2% decrease from 2025 due to trucking to closer sales points during the year.

Operating netback for the three months ended June 30, 2025 was $67.94 per boe, which is $27.76 per boe or 69% higher than the comparable period in 2025. Operating netback for the six months ended June 30, 2026 was $58.01 per boe, which is $13.31 per boe or 30% higher than the comparable period in 2025. These increases are mainly due to the respective 47% and 18% increases in the Company's combined average realized prices, as well as the decrease in realized commodity hedging loss, partially offset by higher royalty rates in 2026.

Exploration and Evaluation

Exploration and evaluation expense generally consists of certain geological and geophysical costs, expiry of undeveloped lands, and costs of uneconomic exploratory wells. Exploration and evaluation expenses for the three months ended June 30, 2026 and 2025 were $37 thousand and $36 thousand, respectively. For the six months ended June 30, 2026 and 2025, exploration and evaluation expenses were $84 thousand and $72 thousand, respectively.

Depletion and Depreciation

	Three Months Ended June 30		Six Months Ended June 30	
($000s, except per boe)	**2026**	2025	**2026**	2025
Depletion expense	**$ 2,856**	$ 2,706	**$ 5,808**	$ 5,328
Depreciation expense	**259**	265	**523**	532
Total	**$ 3,115**	$ 2,972	**$ 6,331**	$ 5,860
$ per boe	**$ 9.57**	$ 8.54	**$ 9.47**	$ 8.45

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 and six months ended June 30, 2026 increased by 12% to $9.57 per boe and $9.47 per boe, respectively. The increases are due to a higher depletable asset base from capital expenditures associated with the Company's development program, as well as the impact of lower production volumes in the current year.

Impairment

The Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units ("CGU") and determined that there were no indicators of impairment or reversal at June 30, 2026.

Capital Expenditures

	Three Months Ended June 30		Six Months Ended June 30	
($000s)	**2026**	2025	**2026**	2025
Land and lease	**$ 261**	$ 73	**$ 415**	$ 302
Geological and geophysical	**400**	395	**808**	858
Drilling and completions	**1,504**	1,096	**3,667**	1,286
Facilities and infrastructure	**356**	627	**720**	951
Total capital expenditures(1)	**$ 2,521**	$ 2,191	**$ 5,610**	$ 3,397

Note:

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

The capital spent during the six months ended June 30, 2026 included the drilling of one multi-lateral well in Atlee Buffalo, Alberta as well as costs associated with preliminary work for the Company's drilling program scheduled to commence in the third quarter of 2026.

General and Administrative

	Three Months Ended June 30		Six Months Ended June 30	
($000s, except per boe)	**2026**	2025	**2026**	2025
Gross general and administrative	**$ 1,976**	$ 1,618	**$ 3,658**	$ 3,277
Capitalized general and administrative	**(368)**	(313)	**(691)**	(683)
Total net	**$ 1,608**	$ 1,305	**$ 2,967**	$ 2,594
$ per boe	**$ 4.94**	$ 3.75	**$ 4.44**	$ 3.74

For the three and six months ended June 30, 2026, net general and administrative ("G&A") expenses increased to $2.0 million and $3.7 million from the respective periods in 2025 due to additional personnel costs and inflationary increases. On a per boe basis, net G&A expenses increased by 19% and 12% for the three and six months ended June 2026, respectively, due to the increases in net G&A discussed above and lower production volumes.

The Company capitalizes a portion of G&A expenses that are directly attributable to its development and exploration activities. For the six months ended June 30, 2026, capitalized G&A expenses remained relatively consistent with the comparable period and reflected the Company's ongoing capital program planning, evaluation, and related development and exploration activities undertaken during the first six months of 2026.

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 three and six months ended June 30, 2026, the Company recorded total share-based compensation expense of $306 thousand and $1.4 million, respectively. For three and six months ended June 30, 2025, the Company recorded total share-based compensation expense of $550 thousand and $558 thousand, respectively.

($000s)	Three Months Ended June 30 2026	2025	Six Months Ended June 30 2026	2025
Stock options	**$ 8**	$ 8	**$ 17**	$ 16
RSUs[1]	**432**	772	**1,601**	772
Capitalized costs	**(134)**	(230)	**(234)**	(230)
Total share-based payments	**$ 306**	$ 550	**$ 1,384**	$ 558

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

Stock Options

During the first half of 2026, the Company did not grant any stock options to employees. However, a tranche of 25% of the stock options granted to an investor relations consultant during the fourth quarter of 2025 vested in each of the first two quarters in 2026. The total value of the stock options that vested during the first six months of 2026 was $17 thousand, which was expensed as share-based compensation.

Restricted Share Units

The Company has a Restricted Share Unit Plan ("RSU Plan") that provides for the grant of 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 RSU Plan allows for cash settlement of the RSUs and accordingly the Company has recorded share-based compensation liabilities for the RSUs.

As at June 30, 2026, there were 2,072,000 RSUs outstanding. The adjustment ratio for the awards is set at 1.0 at issuance of the RSUs, and has been adjusted to 1.09 as at June 30, 2026 for the subsequent dividends declared.

Finance Expense

($000s, except per boe)	Three Months Ended June 30 2026	2025	Six Months Ended June 30 2026	2025
Loan interest and fees	**$ 209**	$ 140	**$ 345**	$ 254
Lease interest	**45**	61	**95**	124
Interest income	**(60)**	(151)	**(145)**	(262)
Accretion of decommissioning liabilities	**44**	50	**89**	99
Total	**$ 238**	$ 100	**$ 384**	$ 215
$ per boe - Total	**$ 0.73**	$ 0.29	**$ 0.58**	$ 0.31
$ per boe - Interest only	**$ 0.59**	$ 0.14	**$ 0.44**	$ 0.17

Loan fees, including standby and facility fees, for the three and six months ended June 30, 2026 increased by $69 thousand and $91 thousand, respectively, while interest income decreased by $91 thousand and $117 thousand, respectively, due to a lower average cash balance, over the comparable periods in 2025. The Company also recorded $45 thousand and $95 thousand in lease interest on right-of-use assets liability for the three and six months ended June 30, 2026, respectively. The total finance expense per boe for loan and lease interest increased by $0.44 per boe the three-month period and $0.27 per boe for the six-month period ended June 30, 2026 from the comparable periods of 2025 due primarily to the lower interest income earned on the Company's cash balances discussed above.

Accretion of decommissioning liabilities represents the adjusted present value of the Company's decommissioning obligations which include the abandonment and reclamation costs associated with wells and facilities. During the three and six months ended June 30, 2026, accretion expenses remained relatively consistent with the same periods in 2025.

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). The Company has recorded current tax expense of $6.1 million and deferred tax expense of $1.0 million for the six months ended June 30, 2026 (six months ended June 30, 2025 - $5.3 million current tax and $125 thousand 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

($000s)	Base Deduction Rate	**December 31, 2025**	December 31, 2024
Canadian exploration expense (CEE)	100%	**$ -**	$ -
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

Summary of Quarterly Results

	2026		2025				2024	
($000s,	**Jun. 30**	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30
except production and per unit amounts)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Average daily production (boe/d)	**3,576**	3,811	3,354	3,571	3,826	3,833	3,359	3,621
Oil and natural gas revenue	**33,578**	25,403	18,989	23,142	24,395	27,339	23,361	26,675
Cash provided by operating activities	**19,333**	(5,334)	4,868	15,265	11,846	16,181	12,284	16,782
Net income	**12,557**	7,866	5,080	6,931	7,053	8,942	7,342	8,596
Per share, basic	**0.13**	0.08	0.05	0.07	0.07	0.09	0.08	0.09
Per share, diluted	**0.13**	0.08	0.05	0.07	0.07	0.09	0.07	0.09
Combined average realized price ($/boe)	**103.18**	74.07	61.55	70.43	70.06	79.26	75.59	80.06

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 fluctuated from changes in adjusted funds flow and unrealized gains/losses on derivative financial instruments.

Outstanding Share Capital

Fully diluted share capital	August 19, 2026	**June 30, 2026**	December 31, 2025
Common shares issued and outstanding	94,250,109	**94,500,109**	94,481,702
Stock options	4,139,600	**4,139,600**	5,145,600
Total fully diluted shares outstanding	98,389,709	**98,639,709**	99,627,302

Share Repurchases

On July 8, 2025, the TSX Venture Exchange approved the renewal of the Company's NCIB to purchase and cancel, from time to time, up to 7,934,731 common shares of the Company between July 14, 2025 and July 13, 2026. During the six months ended June 30, 2026, the Company purchased and cancelled 487,600 shares under the NCIB for $1.0 million at an average cost of $2.15 per share.

Subsequent to quarter-end, the Company has purchased and cancelled an additional 250,000 shares under the NCIB for $651 thousand at an average cost of $2.61 per share.

On July 7, 2026, the Company announced the renewal of its NCIB, to purchase and cancel, from time to time, up to 7,914,281 common shares of the Company from July 14, 2026 until July 13, 2027.

Stock Options

In the six months ended June 30, 2026, the Company issued 506,007 common shares upon the exercises of 1,006,000 stock options under the Company's Stock Option Plan, including cashless exercises, at a weighted average exercise price of $1.26 per share.

The Company has the following stock options that are outstanding and exercisable as at August 19, 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	1,975,000	1,975,000
$1.25	September 11, 2023	September 11, 2033	50,000	50,000
$1.27	December 15, 2023	December 15, 2028	1,325,000	1,325,000
$1.84	December 13, 2024	December 13, 2029	48,000	48,000
$2.01	December 15, 2025	December 15, 2030	48,000	24,000
			4,139,600	4,115,600
Weighted-average exercise price			$1.24	$1.23

Dividends

On June 7, 2022, the Company's Board of Directors approved a variable dividend policy. Since inception of the policy, the Company has paid total dividends of $62.2 million as of June 30, 2026.

As at the date of this MD&A, the Company has paid the following dividends to shareholders during 2026:

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, 2026	94,333,576	Feb. 26, 2026	$0.025	$2,358	$213,194	4.42%
Special	Apr. 15, 2026	94,297,904	Apr. 28, 2026	$0.030	$2,829	$279,122	4.05%
Special	May 14, 2026	94,387,109	May 28, 2026	$0.030	$2,832	$267,116	4.24%
Quarterly Base	Jun. 12, 2026	94,500,109	Jun. 26, 2026	$0.025	$2,362	$229,635	4.12%
Total paid during 2026				**$0.110**	**$10,381**		

Notes:
(1) As at record date.
(2) As at payment date.
(3) Dividends paid multiplied by 4 and divided by market capitalization.

On August 19, 2026, the Company's Board of Directors approved a quarterly dividend of $0.025 per share to the Company's shareholders of record on August 28, 2026 for payment on September 11, 2026.

Future dividend payments 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. The Company subsequently provided an update to the price sensitivities for its 2026 guidance in response to a higher oil price environment in its May 13, 2026 news release. Management's forecasts may change materially based upon actual prices received, changes in future strip pricing, production volumes, operating costs, activity levels, cash flows, and the timing thereof and other factors which may or may not be within the control of the Company. The economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's liquidity and ability to generate profits in the future.

a) Financing

The Company's net cash used in financing activities during the three and six months ended June 30, 2026 were $8.3 million and $11.9 million, respectively ($7.8 million and $11.7 million cash used in financing activities for the three and six months ended June 30, 2025, respectively). For the three months ended June 30, 2026, the financing expenditures included dividends issued totaling $8.0 million, shares repurchased under the NCIB totaling $76 thousand, and lease liability payments of $0.2 million. For the six months ended June 30, 2026, the financing expenditures included dividends issued totaling $10.4 million, shares purchased under the NCIB totaling $1.0 million, plus lease liability payments of $0.5 million.

b) Bank Debt

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

The Credit Facility has a renewed term date of May 31, 2027. The facility is extendible at the new term date and on an annual basis for an additional 365 days upon request of the Company. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At June 30, 2026, 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 7.96 to 1.00 as at June 30, 2026.

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 2.25% and 3.25%. 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 3.25% to 4.25%. Standby fees are charged on the undrawn portion of the Credit Facility at rates ranging from 0.8125% to 1.065%. 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 annual review of the available lending limit of the Credit Facility is scheduled for review by May 31, 2027 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 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	2030+	Total
Office & equipment leases	$	36	30	-	-	-	66
Surface leases		13	26	26	23	237	325
Production equipment leases		499	997	942	28	-	2,466
	$	548	1,053	968	51	237	2,857

Off-Balance Sheet Arrangements

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

Proposed Transactions

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

Changes in Accounting Policies

Effective January 1, 2026, the Company adopted amendments to IFRS 9 "Financial instruments and IFRS 7 "Financial instruments: disclosures". These amendments clarify the date of recognition and derecognition of some financial assets and liabilities. The amendments did not have a material impact on the Company's financial statements.

Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. When the Company has not applied a new primary source of GAAP that has been issued, but is not effective, the Company will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

Risks

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

The following provides information about the Company's exposure to some risks associated with the oil and gas industry, as well as the Company's objectives, policies, and processes for measuring and managing risk.

Business Risk

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

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

($000s)	**June 30, 2026**	December 31, 2025
Accounts receivable		
Marketing receivables	**$ 7,183**	$ 5,909
Trade receivables	**481**	169
Receivable from SR&ED credit	**1,015**	925
Receivables from joint ventures	**17**	11
Reclamation deposits	**116**	116
	$ 8,812	$ 7,130

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company.

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

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

At June 30, 2026, the Company had working capital (a non-IFRS measure calculated as current assets, less current liabilities, excluding the fair value of financial instruments, lease and decommissioning obligations, adjusted for tax provision and including any bank debt) of $19.5 million (December 31, 2025 - $8.6 million). The Company funds its operations through operating cash flows and a committed $35.0 million two-year renewable term credit facility with ATB Financial.

Market risk

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

Interest rate risk

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

Foreign currency risk

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

Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the USD. Significant changes in commodity prices may materially impact the Company's adjusted funds flow from operations, and ability to raise capital. The Company continuously monitors commodity prices and, when deemed appropriate, utilizes derivative commodity contracts to manage its exposure to commodity price volatility.

Other price risk

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

Environmental and Climate Change Risks

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

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

Non-IFRS Measures and Other Financial Measures

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

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

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

	Three Months Ended June 30		Six Months Ended June 30	
($000s, except per share amounts)	**2026**	2025	**2026**	2025
Cash provided by operating activities[(1)]	**$ 19,333**	$ 11,846	**$ 13,999**	$ 28,028
Change in non-cash working capital	**(2,655)**	(1,597)	**15,344**	(5,100)
Adjust: Decommissioning obligation expenditures	**2**	12	**15**	37
Adjusted funds flow from operations	**$ 16,680**	$ 10,261	**$ 29,358**	$ 22,965
Per share, basic	**$ 0.18**	$ 0.11	**$ 0.31**	$ 0.24
Per share, diluted	**$ 0.17**	$ 0.10	**$ 0.30**	$ 0.23

Note:

(1) This includes the Company's payment of current taxes due in February 2026 related to taxes previously deferred under the new corporate partnership structure effective January 2, 2024.

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

	Three Months Ended June 30		Six Months Ended June 30	
($000s, except per share amounts)	**2026**	2025	**2026**	2025
Adjusted funds flow from operations	**$ 16,680**	$ 10,261	**$ 29,358**	$ 22,965
Capital expenditures	**(2,521)**	(2,191)	**(5,610)**	(3,397)
Free funds flow	**$ 14,159**	**$** 8,070	**$ 23,748**	$ 19,568
Per share, basic and diluted	**$ 0.15**	**$** 0.08	**$ 0.25**	$ 0.20

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:

	Three Months Ended June 30		Six Months Ended June 30	
($000s)	**2026**	2025	**2026**	2025
Cash used in investing activities	**$ 3,079**	$ 2,289	**$ 5,553**	$ 5,754
Change in non-cash working capital	**(558)**	(98)	**57**	(2,357)
Capital expenditures	**$ 2,521**	$ 2,191	**$ 5,610**	$ 3,397

d) **Operating field netback (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** A benchmark used in the oil and natural gas industry and a key indicator of profitability relative to current commodity prices. Operating field netback is calculated as oil and gas sales, less royalties, operating expenses, and transportation costs on an absolute and per barrel of oil equivalent basis. These terms should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income or loss as determined in accordance with IFRS as an indicator of the Company's performance.

e) **Operating netback (Non-IFRS Financial Measure and Ratio if calculated on a per boe basis):** Calculated as the operating field netback plus the Company's realized gain (loss) on derivative financial instruments on an absolute and per barrel of oil equivalent basis.

f) **Working Capital/Net debt (Non-IFRS Financial Measure):** Closely monitored by the Company to ensure that its capital structure is maintained by a strong balance sheet to fund the future growth of the Company. Working capital/Net debt is used in this document in the context of liquidity and is calculated as the total of the Company's current assets, less current liabilities, excluding derivative financial instruments, decommissioning obligations, and lease liabilities, adjusted for tax provision and including any bank debt. There is no IFRS measure that is reasonably comparable to working capital/net debt.

The following table outlines the Company calculation of working capital:

($000s)		**As at June 30, 2026**		As at December 31, 2025
Current assets[1]	**$**	**26,050**	$	27,775
Current liabilities[1]		**(6,563)**		(19,223)
Working capital	**$**	**19,487**	$	8,552

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

g) ***Supplementary Financial Measures***

"Adjusted Funds Flow from operations per basic share" is comprised of funds from operations divided by basic weighted average common shares.
"Adjusted Funds Flow from operations per diluted share" is comprised of funds from operations divided by diluted weighted average common shares.
"Adjusted Funds Flow from operations per boe" is comprised of funds from operations divided by total boe production for the period.
"Annual Free Funds Flow" is comprised of free funds flow from the current three-month period multiplied by four.
"Operating expense per boe" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total production.
"Realized heavy oil price" is comprised of heavy crude oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's crude oil production.
"Realized natural gas price" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas production.
"Realized combined price" is comprised of total commodity sales from production, as determined in accordance with IFRS, divided by the Company's total production.
"Royalties per boe" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production.

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

Boe Conversion

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

Forward-Looking Statements

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

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

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

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

MANAGEMENT'S REPORT

To the Shareholders of Hemisphere Energy Corporation:

Management is responsible for the preparation of the financial statements and the consistent presentation of all other financial information that is publicly disclosed. The financial statements have been prepared in accordance with the accounting policies detailed in the notes to the financial statements and in accordance with International Accounting Standard 34, "Interim Financial Reporting" of IFRS Accounting Standards and include estimates and assumptions based on management's best judgment. Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced in a timely manner.

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

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

Vancouver, British Columbia
August 19, 2026

(signed) *"Don Simmons"*	(signed) *"Dorlyn Evancic"*
Don Simmons, President & CEO	Dorlyn Evancic, Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)
(Unaudited)

($000s)	Note		**June 30, 2026**		December 31, 2025
Assets					
Current assets					
Cash and cash equivalents		$	**16,088**	$	19,513
Accounts receivable	3(a)		**8,696**		7,014
Prepaid expenses			**1,266**		1,248
			26,050		27,775
Non-current assets					
Reclamation deposits	8		**116**		116
Exploration and evaluation assets	6		**5,573**		5,099
Property and equipment	7		**87,152**		88,133
Total assets		$	**118,891**	$	121,123
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	**4,664**	$	2,129
Current tax liability			**514**		16,621
Current portion of lease liabilities	11		**946**		903
Current portion of decommissioning obligations	8		**158**		158
Share-based compensation payable	12(b)		**1,385**		474
Derivative financial instruments			**-**		3
			7,667		20,288
Non-current liabilities					
Lease liabilities	11		**1,627**		2,062
Share-based compensation payable	12(b)		**1,011**		323
Deferred tax liability			**13,664**		12,627
Decommissioning obligations	8		**5,305**		5,231
			29,274		40,531
Shareholders' Equity					
Share capital	12		**54,201**		54,266
Contributed surplus			**3,659**		4,611
Retained earnings			**31,757**		21,715
Total shareholders' equity			**89,617**		80,592
Total liabilities and shareholders' equity		$	**118,891**	$	121,123

Commitments	Note 13
Subsequent events	Note 15

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

Approved by the Board of Directors

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

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)
(Unaudited)

($000s, except per share amounts)	Note	Three Months Ended June 30 **2026**	2025	Six Months Ended June 30 **2026**	2025
Revenue					
Oil and natural gas revenue	5	**$ 33,578**	$ 24,395	**$ 58,981**	$ 51,734
Royalties		**(6,745)**	(4,564)	**(10,279)**	(9,609)
		26,833	19,831	**48,702**	42,125
Realized loss on derivative financial instruments		**(51)**	(900)	**(193)**	(1,085)
Unrealized gain (loss) on derivative financial instruments		**-**	515	**3**	(298)
Total revenue		**26,782**	19,446	**48,512**	40,742
Expenses					
Production and operating		**4,670**	4,940	**9,733**	10,054
Exploration and evaluation	6	**37**	36	**84**	72
Depletion and depreciation	7	**3,115**	2,972	**6,331**	5,860
General and administrative		**1,608**	1,305	**2,967**	2,594
Share-based compensation	12(b)	**306**	550	**1,384**	558
Finance expense	9	**238**	100	**384**	215
Foreign exchange loss, realized		**13**	15	**23**	44
Foreign exchange (gain) loss, unrealized		**10**	(2)	**13**	(42)
Total expenses		**9,997**	9,916	**20,919**	19,355
Income before taxes		**16,785**	9,530	**27,593**	21,387
Current income tax expense		**(3,617)**	(2,360)	**(6,133)**	(5,267)
Deferred income tax expense		**(611)**	(117)	**(1,037)**	(125)
Net income and comprehensive income for the period		**$ 12,557**	$ 7,053	**$ 20,423**	$ 15,995
Net income per share, basic	12(c)	**$ 0.13**	$ 0.07	**$ 0.22**	$ 0.17
Net income per share, diluted	12(c)	**$ 0.13**	$ 0.07	**$ 0.21**	$ 0.16

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)
(Unaudited)

	Note	Number common shares		Share Capital ($000s)		Contributed Surplus ($000s)		Retained Earnings ($000s)		Total Shareholders' Equity ($000s)
Balance at December 31, 2025		94,481,702	$	54,266	$	4,611	$	21,715	$	80,592
Stock option exercise	12(b)	506,007		15		-		-		15
Share-based compensation - options	12(b)	-		-		17		-		17
Transfer on option exercise		-		969		(969)		-		-
Shares repurchased under NCIB	12(a)	(487,600)		(1,049)		-		-		(1,049)
Dividends	12(d)	-		-		-		(10,381)		(10,381)
Net income for the period		-		-		-		20,423		20,423
Balance at June 30, 2026		**94,500,109**	**$**	**54,201**	**$**	**3,659**	**$**	**31,757**	**$**	**89,617**
Balance at December 31, 2024		**97,389,735**	**$**	**60,165**	**$**	**5,170**	**$**	**9,044**	**$**	**74,379**
Stock option exercise	12(b)	532,643		143		-		-		143
Share-based compensation - options	12(b)	-		-		16		-		16
Transfer on option exercise		-		475		(475)		-		-
Shares repurchased under NCIB	12(a)	(2,024,500)		(3,641)		-		-		(3,641)
Dividends	12(d)	-		-		-		(7,729)		(7,729)
Net income for the period		-		-		-		15,995		15,995
Balance at June 30, 2025		**95,897,878**	**$**	**57,142**	**$**	**4,711**	**$**	**17,310**	**$**	**79,163**

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)
(Unaudited)

($000s)	Note	Three Months Ended June 30 **2026**	2025	Six Months Ended June 30 **2026**	2025
Operating activities					
Net income for the period		**$ 12,557**	$ 7,053	**$ 20,423**	$ 15,995
Items not affecting cash:					
Accretion of decommissioning costs	8	**44**	50	**89**	99
Deferred tax expense		**611**	117	**1,037**	125
Depletion and depreciation	7	**3,115**	2,972	**6,331**	5,860
Exploration and evaluation expense	6	**37**	36	**84**	72
Share-based compensation	12(b)	**306**	550	**1,384**	558
Unrealized (gain) loss on derivative financial instruments		**-**	(515)	**(3)**	298
Unrealized loss (gain) on foreign exchange		**10**	(2)	**13**	(42)
		16,680	10,261	**29,358**	22,965
Decommissioning obligation expenditures	8	**(2)**	(12)	**(15)**	(37)
Changes in non-cash working capital	14	**2,655**	1,597	**(15,344)**	5,100
Cash provided by operating activities		**19,333**	11,846	**13,999**	28,028
Investing activities					
Exploration and evaluation expenditures	6	**(353)**	(278)	**(558)**	(364)
Property and equipment expenditures	7	**(2,168)**	(1,913)	**(5,052)**	(3,033)
Changes in non-cash working capital	14	**(558)**	(98)	**57**	(2,357)
Cash used in investing activities		**(3,079)**	(2,289)	**(5,553)**	(5,754)
Financing activities					
Shares issued for stock options, cash exercise	12(b)	**15**	69	**15**	143
Shares repurchased under NCIB	12(a)	**(76)**	(2,340)	**(1,049)**	(3,641)
Dividends	12(d)	**(8,023)**	(5,301)	**(10,381)**	(7,729)
Payment of lease liabilities, net		**(229)**	(224)	**(456)**	(447)
Cash used in financing activities		**(8,313)**	(7,796)	**(11,871)**	(11,674)
Net change in cash		**7,941**	1,761	**(3,425)**	10,600
Cash and cash equivalents at beginning of period		**8,147**	21,389	**19,513**	12,550
Cash and cash equivalents at end of period		**$ 16,088**	$ 23,150	**$ 16,088**	$ 23,150

Supplemental cash flow information (Note 14)

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

1. Nature and Continuance of Operations

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

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

2. Basis of Presentation

(a) Statement of compliance

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

These Financial Statements have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements of the Company for the year ended December 31, 2025. These Financial Statements should be read in conjunction with the financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2025.

These Financial Statements were authorized for issuance by the Board of Directors on August 19, 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. Significant judgments, estimates and assumptions made in these financial statements are outlined in the audited financial statements for the year ended December 31, 2025.

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.

(e) Change in accounting policies

Effective January 1, 2026, the Company adopted amendments to IFRS 9 "Financial instruments and IFRS 7 "Financial instruments: disclosures". These amendments clarify the date of recognition and derecognition of some financial assets and liabilities. The amendments did not have a material impact on the Company's financial statements.

(f) Future accounting pronouncements

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

3. Financial Risk Management

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its payment obligations. This risk arises principally from the Company's receivables from joint operators and oil and natural gas marketers, and reclamation deposits. The credit risk associated with reclamation deposits is minimized substantially by ensuring this financial asset is placed with major financial institutions with strong investment-grade ratings by a primary ratings agency. The credit risk associated with accounts receivable is mitigated as the Company monitors monthly balances to limit the risk associated with collections. The Company does not anticipate any default. There are no balances over 90 days past due or impaired.

The maximum exposure to credit risk is as follows:

($000s)		**June 30, 2026**		December 31, 2025
Accounts receivable				
Marketing receivables	**$**	**7,183**	$	5,909
Trade receivables		**481**		169
Receivable from SR&ED credit		**1,015**		925
Receivables from joint ventures		**17**		11
Reclamation deposits		**116**		116
	$	**8,812**	$	7,130

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

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company.

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

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

At June 30, 2026, 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 $19.5 million (December 31, 2025 - $8.6 million). The Company funds its operations through operating cash flows and a committed $35.0 million two-year renewable term credit facility at ATB Financial (see Note 10).

(c) Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

(iii) Commodity price risk

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

(iv) Other price risk

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

4. Capital Management

The Company manages its capital with the following objectives:

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

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Company is comprised of working capital, shareholders' equity, and bank debt. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, and issuing new debt instruments, or other financial or equity-based instruments, adjusting capital spending, or disposing of assets. The capital structure is reviewed on an ongoing basis. There were no changes to capital management during the year.

5. Revenue

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

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

The Company's production revenues were primarily generated from its core area of the Mannville oil play in Atlee Buffalo, southeast Alberta. The Company's customers are oil and natural gas marketers and joint operations partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by management's policies and practices related to credit risk as discussed in Note 3(a). As at June 30, 2026, production revenue sold to customers was comprised of five marketers which account for $7.2 million of the accounts receivable balance.

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

	Three Months Ended June 30		Six Months Ended June 30	
($000s)	**2026**	2025	**2026**	2025
Heavy crude oil	**$ 33,539**	$ 24,380	**$ 58,893**	$ 51,699
Conventional natural gas	**39**	15	**88**	35
Total	**$ 33,578**	$ 24,395	**$ 58,981**	$ 51,734

6. Exploration and Evaluation Assets

Exploration and evaluation assets consist of the Company's exploration projects, which are pending the determination of proved and probable oil and gas reserves. A transfer from exploration and evaluation assets to property and equipment is made when reserves are assigned, or the exploration project has been completed. For the six months ended June 30, 2026, the Company recognized exploration and evaluation expense of $84 thousand (December 31, 2025 - $148 thousand).

Cost *($000s)*		
Balance at December 31, 2024	$	3,389
Additions		2,214
Exploration and evaluation expense		(148)
Transfer to property and equipment		(356)
Balance at December 31, 2025	$	5,099
Additions		558
Exploration and evaluation expense		(84)
Balance at June 30, 2026	**$**	**5,573**

At June 30, 2026, the Company performed an assessment of potential impairment indicators on its exploration and evaluation assets, and management determined that no impairment test was required.

7. Property and Equipment

Cost *($000s)*		Petroleum and Natural Gas		Right of Use and Other Assets		Total
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 8)		(401)		-		(401)
Capitalized share-based compensation		512		-		512
Transfer from exploration and evaluation assets (Note 6)		356		-		356
Balance at December 31, 2025	$	186,820	$	7,013	$	193,833
Additions right-of-use assets		-		64		64
Additions property and equipment		5,052		-		5,052
Capitalized share-based compensation		234		-		234
Balance at June 30, 2026	**$**	**192,106**	**$**	**7,077**	**$**	**199,183**
Accumulated Depletion, Depreciation, Amortization and Impairment Losses						
Balance at December 31, 2024	**$**	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
Depletion and depreciation for the period		5,809		522		6,331
Balance at June 30, 2026	**$**	**107,564**	**$**	**4,467**	**$**	**112,031**
Net Book Value						
December 31, 2025	$	85,065	$	3,068	$	88,133
June 30, 2026	**$**	**84,542**	**$**	**2,610**	**$**	**87,152**

The Company's additions for property and equipment included capitalized general and administrative expenses of $691 thousand and capitalized share-based compensation of $234 thousand for the six months ended June 30, 2026 (year ended December 31, 2025 - $1.5 million and $0.5 million respectively).

The calculation of depletion at June 30, 2026 includes estimated future development costs of $53.0 million (year ended December 31, 2025 - $53.0 million) associated with the development of the Company's Proved plus Probable reserves.

The Company performed an assessment of potential impairment or reversal indicators on each of its Cash Generating Units ("CGU") and determined that there were no indicators of impairment or reversal at June 30, 2026 and December 31, 2025.

8. Decommissioning Obligations

The Company's decommissioning obligations are estimated based on its net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future years. The Company uses Alberta Energy Regulator guidelines for determining abandonment and reclamation estimates.

The Company estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations as at June 30, 2026 is $7.9 million (December 31, 2025 - $7.9 million), and $12.5 million with inflation (December 31, 2025 - $12.5 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 3.80% (December 31, 2025 – 3.80%). Inflation of 2.00% (December 31, 2025 – 2.00%) has also been factored into the calculation of amounts in the table below. The Company also has $116 thousand (December 31, 2025 - $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.

($000s)		**Six Months Ended June 30, 2026**		Year Ended December 31, 2025
Decommissioning obligations at beginning of period	**$**	**5,389**	$	5,998
Increase in estimated future obligations		**-**		245
Change in estimate		**-**		(647)
Payment of decommissioning obligations		**(15)**		(405)
Accretion expense		**89**		198
Decommissioning obligations at end of period	**$**	**5,463**	$	5,389
Current portion		**158**		158
Long-term portion		**5,305**		5,231

9. Finance Expense

	Three Months Ended June 30				**Six Months Ended June 30**			
($000s)		**2026**		2025		**2026**		2025
Finance expense - net:								
Loan interest and fees	**$**	**209**	$	141	**$**	**345**	$	254
Lease interest		**45**		60		**95**		124
Interest income		**(60)**		(151)		**(145)**		(262)
Accretion of decommissioning liabilities		**44**		50		**89**		99
Total	**$**	**238**	$	100	**$**	**384**	$	215

10. Bank Debt

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

The Credit Facility has a renewed term date of May 31, 2027. The facility is extendible at the new term date and on an annual basis for an additional 365 days upon request of the Company. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company.

At June 30, 2026, 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 7.96 to 1.00 as at June 30, 2026.

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 2.25% and 3.25%. 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 3.25% to 4.25%. Standby fees are charged on the undrawn portion of the Credit Facility at rates ranging from 0.8125% to 1.065%. 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 annual renewal of the available lending limit of the Credit Facility is scheduled for review by May 31, 2027 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 annual review. Should the Lender reduce the Credit Facility's borrowing base below the amount drawn at the time of the redetermination, the Company would have 45 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the redetermined borrowing base. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is compliant with all covenants, representations, and warranties.

11. Lease Liabilities

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

The following table summarizes lease liabilities at June 30, 2026:

($000s)		
Balance at December 31, 2024	$	3,795
Lease additions (Note 7)		69
Interest expense		236
Lease payments		(1,135)
Balance at December 31, 2025	$	2,965
Lease additions (Note 7)		64
Interest expense		95
Lease payments		(551)
Balance at June 30, 2026	$	**2,573**
Current portion	$	946
Long-term portion		1,627

12. Share Capital

(a) Authorized

Unlimited number of common shares without par value.

Issued and outstanding

As at June 30, 2026 and December 31, 2025, the Company had the following common shares issued and outstanding:

Common Shares	Shares		Value *($000s)*
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
Shares repurchased and cancelled (NCIB)	(487,600)		(1,049)
Shares issued for stock option exercises	506,007		15
Transfer on stock option exercise	-		969
Balance at June 30, 2026	**94,500,109**	**$**	**54,201**

On July 8, 2025, the TSX Venture Exchange approved the renewal of the Company's NCIB to purchase and cancel, from time to time, up to 7,934,731 common shares of the Company between July 14, 2025 and July 13, 2026.

During the six months ended June 30, 2026, the Company purchased and cancelled 487,600 shares under the NCIB for $1.0 million at an average cost of $2.15 per share.

During the six months ended June 30, 2026, the Company issued 506,007 common shares upon the exercises of 1,006,000 stock options under the Company's Stock Option Plan, including cashless exercises, at a weighted average exercise price of $1.26 per share.

(b) Share-Based Compensation

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

	Three Months Ended June 30				Six Months Ended June 30			
($000s)		**2026**		2025		**2026**		2025
Stock options vested	**$**	**8**	$	8	**$**	**17**	$	16
RSUs[1]		**432**		772		**1,601**		772
Capitalized costs[1]		**(134)**		(230)		**(234)**		(230)
Total share-based compensation	**$**	**306**	$	550	**$**	**1,384**	$	558

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

Stock options

The Company has a stock option plan in place and is authorized to grant stock options to officers, directors, employees and consultants whereby the aggregate number of shares reserved for issuance may not exceed 10% of the issued shares at the time of grant and 5% of the issued shares to each optionee. Stock options are non-transferable and have a maximum term of ten years. Stock options terminate no later than 90 days upon termination of employment or employment contract and one year in the case of retirement, death or disability. The grant price is determined using the closing price of the Company's shares from the day prior to the grant.

Details of the Company's stock options as at June 30, 2026 are as follows:

				Changes in the Period				
Exercise Price	Grant Date	Expiry Date	Balance Outstanding Dec. 31, 2025	Granted	Exercised	Expired/ Cancelled	**Balance Outstanding June 30, 2026**	**Balance Exercisable June 30, 2026**
$0.91	17-Dec-21	17-Dec-31	793,600	-	(100,000)	-	**693,600**	**693,600**
$1.41	17-Mar-22	17-Mar-32	50,000	-	(50,000)	-	**-**	**-**
$1.30	14-Dec-22	14-Dec-32	2,550,000	-	(575,000)	-	**1,975,000**	**1,975,000**
$1.25	11-Sep-23	11-Sep-33	50,000	-	-	-	**50,000**	**50,000**
$1.27	15-Dec-23	15-Dec-28	1,606,000	-	(281,000)	-	**1,325,000**	**1,325,000**
$1.84	13-Dec-24	13-Dec-29	48,000	-	-	-	**48,000**	**48,000**
$2.01	15-Dec-25	15-Dec-30	48,000	-	-	-	**48,000**	**24,000**
			5,145,600	-	(1,006,000)	-	**4,139,600**	**4,115,600**
Weighted-average exercise price per share			$1.24	-	$1.26	-	**$1.24**	**$1.23**

Share-based payments are non-cash expenses which reflect the estimated value of stock options issued to directors, employees, and consultants of the Company. For the six months ended June 30, 2026, the Company recorded $17 thousand in share-based costs for vested stock options, compared to $16 thousand for the same period in 2025.

Restricted Share Units

The Company has a Restricted Share Unit Plan ("RSU Plan") in place and is authorized to grant RSUs to directors, officers, employees and consultants of the Company. The aggregate number of common shares reserved for issuance under the RSU Plan is in combination with the shares reserved for issuance under the Company's Stock Option Plan and may not exceed 10% of the issued and outstanding shares of the Company. One-third of the granted RSUs will vest on each of the first, second and third anniversaries from the date of grant, unless otherwise determined by the Board of Directors of the Company. Awards are adjusted for dividends declared, with an adjustment to the notional number of common shares underlying each RSU for each dividend record date following the issue date of the RSU. The adjustment ratio for the awards was set a 1.0 at issuance of the RSUs, and has been adjusted to 1.09 as at June 30, 2026 for the subsequent dividends declared.

The RSU Plan allows for cash settlement of the RSUs and accordingly the Company has recorded share-based compensation liabilities for the RSUs.

Details of the RSUs as at June 30, 2026 are as follows:

RSU Units	
Balance at beginning of period	2,086,000
Granted during the period	30,000
Forfeited during the period	(44,000)
Vested during the period	-
Balance at June 30, 2026	**2,072,000**

RSU Liability		
($000s)		
Balance at December 31, 2024	$	-
Issuance value		1,487
Increase in liability/fair value adjustment(1)		231
Vested during the year		(921)
Balance at December 31, 2025	$	797
Issuance value		1,131
Increase in liability/fair value adjustment(1)		468
Vested during the period		-
Balance at June 30, 2026	**$**	**2,396**
Current portion	$	1,385
Long-term portion		1,011

Note:

(1) Inclusive of any dividend adjustment.

(c) Income per share

	Three Months Ended June 30		**Six Months Ended June 30**	
($000s, except per share amounts)	**2026**	2025	**2026**	2025
Net income for the period	**$ 12,557**	$ 7,053	**$ 20,423**	$ 15,995
Weighted-average number of common shares outstanding, basic	**94,374,037**	96,741,897	**94,364,806**	96,799,733
Dilutive stock options	**2,291,004**	1,595,237	**2,106,677**	1,644,771
Weighted-average number of common shares outstanding, diluted	**96,665,041**	98,337,134	**96,471,483**	98,444,503
Income per share, basic	**$ 0.13**	$ 0.07	**$ 0.22**	$ 0.17
Income per share, diluted	**$ 0.13**	$ 0.07	**$ 0.21**	$ 0.16

In computing the weighted-average shares outstanding for the three and six months ended June 30, 2026, the Company included 2,291,004 and 2,106,677 dilutive stock options, respectively. For the comparable three- and six-month periods in 2025, the Company included 1,595,237 and 1,644,771 dilutive stock options, respectively.

(d) Dividends

During the six months ended June 30, 2026, 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, 2026	$0.025	$2,358
Special	Apr. 28, 2026	$0.030	$2,829
Special	May 28, 2026	$0.030	$2,832
Quarterly Base	Jun. 26, 2026	$0.025	$2,362
Total			**$10,381**

13. Commitments

($000s)		2026	2027	2028	2029	2030+	Total
Office & equipment leases	$	36	30	-	-	-	66
Surface leases		13	26	26	23	237	325
Production equipment leases		499	997	942	28	-	2,466
	$	548	1,053	968	51	237	2,857

14. Supplemental Cash Flow Information

		Three Months Ended June 30				**Six Months Ended June 30**		
($000s)		**2026**		2025		**2026**		2025
Provided by (used in):								
Accounts receivable	**$**	**2,814**	$	637	**$**	**(1,682)**	$	1,267
Prepaid expenses		**244**		(167)		**(18)**		(411)
Accounts payable and accrued liabilities		**(939)**		(1,331)		**2,520**		(3,380)
Current tax provision		**(22)**		2,360		**(16,107)**		5,267
Total changes in non-cash working capital	**$**	**2,097**	$	1,499	**$**	**(15,287)**	$	2,743
Provided by (used in):								
Operating activities	**$**	**2,655**	$	1,597	**$**	**(15,344)**	$	5,100
Investing activities		**(558)**		(98)		**57**		(2,357)
Total changes in non-cash working capital	**$**	**2,097**	$	1,499	**$**	**(15,287)**	$	2,743

15. Subsequent Events

a) Subsequent to quarter-end, the Company has purchased and cancelled an additional 250,000 shares under the NCIB for $651 thousand at an average cost of $2.61 per share.

b) On July 7, 2026, the Company announced the renewal of its NCIB, to purchase and cancel, from time to time, up to 7,914,281 common shares of the Company from July 14, 2026 until July 13, 2027.

c) On August 19, 2026, the Company's Board of Directors approved a quarterly dividend of $0.025 per share to the Company's shareholders of record on August 28, 2026 for payment on September 11, 2026.

OFFICERS

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

Dorlyn Evancic, CPA
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

BOARD OF DIRECTORS

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

Frank Borowicz, KC, CA (Hon)(1)(2)

Bruce McIntyre, P.Geol.(1)(3)

Don Simmons, P.Geol.(3)

Gregg Vernon, P.Eng.(2)

Richard Wyman, B.Sc., MBA(1)(3)

(1) Member of Audit Committee
(2) Member of Compensation/Nominating and Corporate Governance Committee
(3) Member of Reserves Committee

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Calgary, Alberta

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