Headwater Exploration Inc.

CORPORATE PRESENTATION

TSX:HWX

March 2023

CAPITALIZATION, GUIDANCE AND BUSINESS STRATEGY

Outlook

	Original 2023 Guidance [1]	2023 Guidance at Strip Pricing[1]
Average Daily Production [2]		
Annual Daily Production (boe/d)	**18,000**	**18,000**
Financial Summary ($millions)		
Adjusted Funds Flow From Operations [4]	**285 - 330**	**280**
Capital Expenditures [3]	**200**	**200**
Dividends [6]	**92**	**94**
Exit Adjusted Working Capital [4]	**105 - 150**	**90**
Pricing and Key Assumptions		
Crude Oil – WTI (US$/bbl)	**75.00 – 85.00**	**75.21**
Crude Oil – WCS (CDN$/bbl)	**75.00 – 88.50**	**77.67**

Highlights

First $0.10/share dividend paid January 16th, 2023, based on shareholder record date of December 30th

New pool discoveries at West Nipisi, Greater Peavine and Marten Hills West

Initiation of enhanced oil recovery at Marten Hills West

Capitalization

Headwater Exploration Inc.	***TSX***	**HWX**
Share Price (March 9th, 2023)	*$/sh.*	$6.30
Shares Outstanding (Basic)	*MM*	234
Dilutives [5]	*MM*	6.9
Shares Outstanding (Fully Diluted) [5]	*MM*	240.9
2022 Adjusted Working Capital [4]	*$MM*	$105

Multi-Year Business Strategy

Maintain positive working capital

Continue adding incremental prospects through strategic land acquisitions and accretive M&A

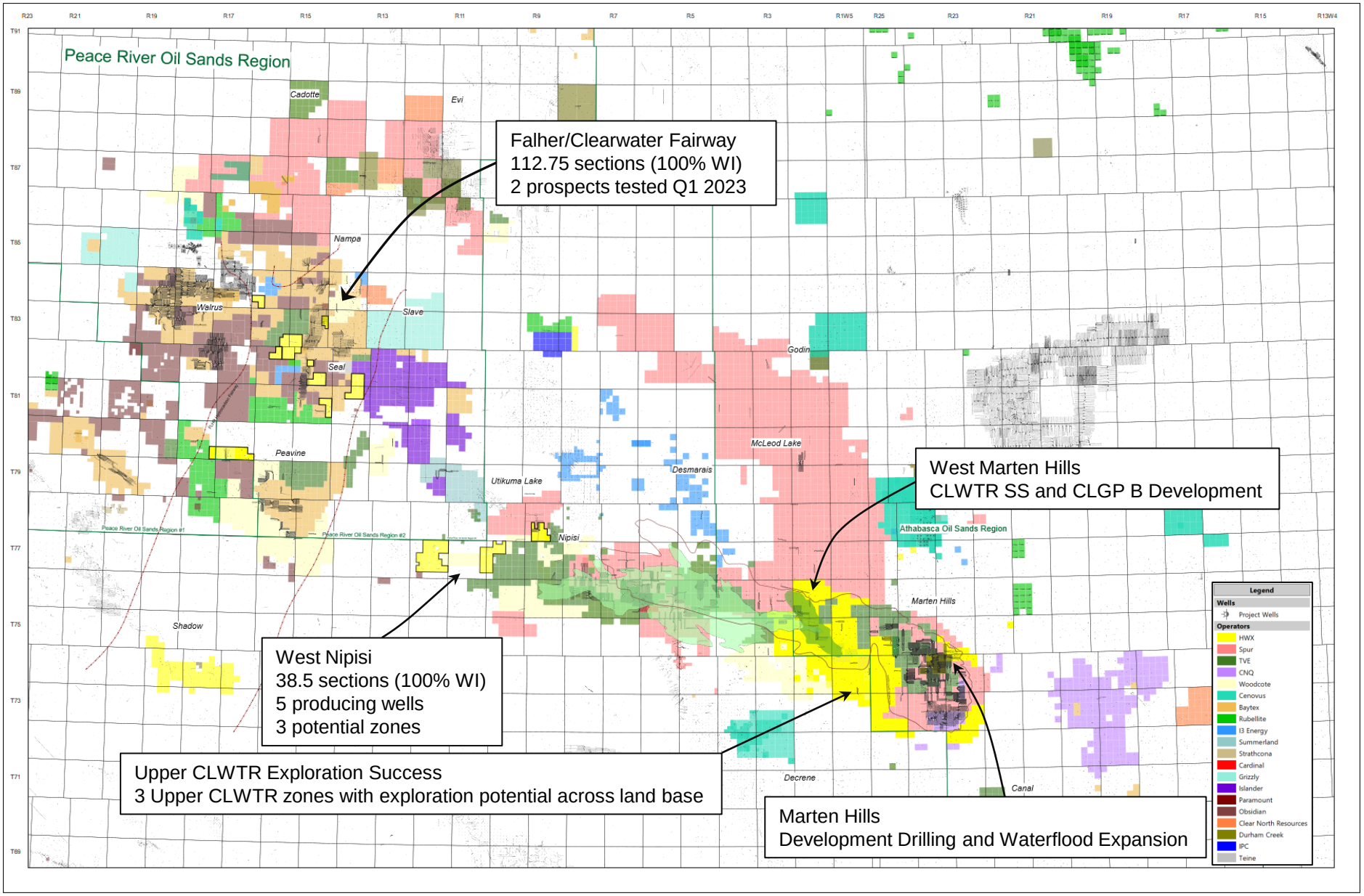
Continue to implement secondary recovery providing asset duration and providing long term return sustainability

Grow the quarterly dividend

See Slide Notes and Advisories including "Non-GAAP Advisory“ and “Dividend Advisory”

REGIONAL CLEARWATER

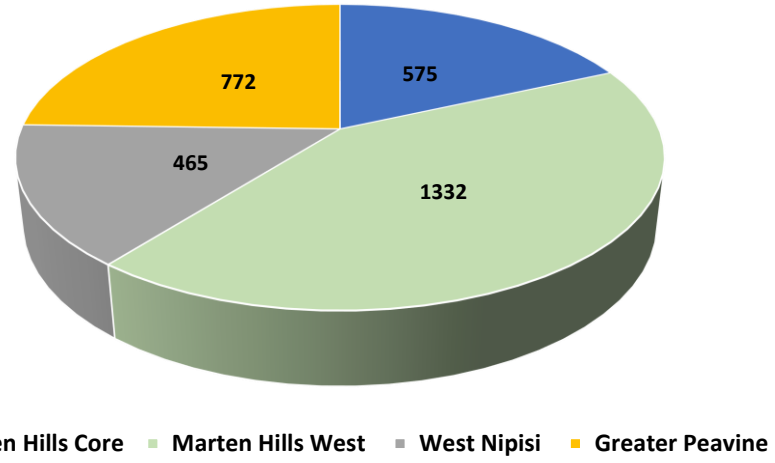
Expanding Exploration Footprint – Total Land Holdings > 400 net sections



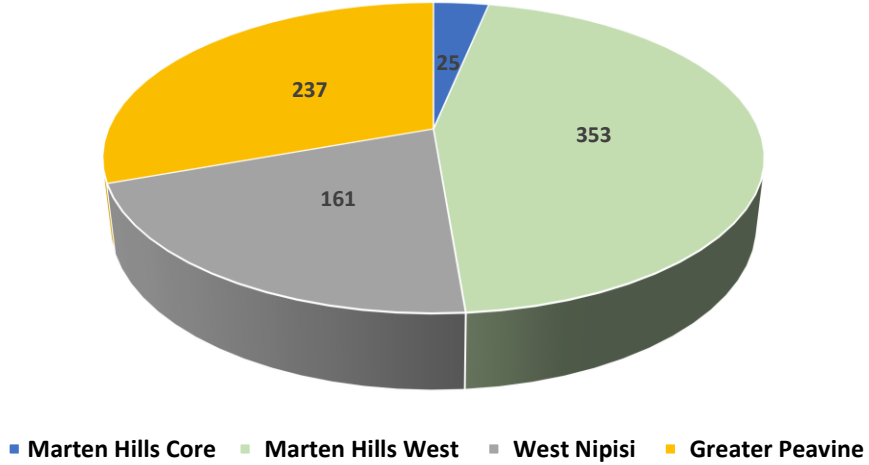
See Slide Notes and Advisories

HEADWATER EXPLORATION DEVELOPMENT STRATEGY

Total Clearwater OOIP of 3.2 Billion Barrels



775 Identified Clearwater Locations



- Identified inventory supports 10+ years of stable production utilizing 50-60 locations per year

Development Strategy @$75 WTI										
	Production Boe/d	Atax Funds Flow $MM	Capital Program (1) $MM	Reinvestment Rate (2) (%)	Production Growth %	Free Cash Flow $MM	Dividend Payment @ $0.40/sh/yr $MM	Post Dividend (3) FCF $MM	Post Dividend FCF per share ($) (3)	Adjusted Working Capital (4) $MM
2023	18,000	280	200	72%		80	94	(14)	(0.06)	90
2024E	20,000	327	165	50%	11%	162	94	70	0.31	160
2025E	22,000	349	146	42%	10%	203	97	120	0.51	280

See “Advisory Relating to Development Strategy” under Advisories. See Slide Notes and Advisories including "Non-GAAP Advisory“, ‘Dividend Advisory” and “OOIP”.

HEADWATER - YEAR END 2022 RESERVES SUMMARY

Reserve Category	2022 Year End Reserves						
	Heavy Oil [1] (Mbbl)	Gas (MMcf)	Total (Mboe)	Year Over Year Change (%)	Reserves Replacement (%)	F&D inc Δ FDC ($/boe)	Recycle Ratio
Proved Producing	13,026	21,526	16,614	69%	245%	21.42	2.8
Total Proved	17,255	23,222	21,126	34%	217%	24.70	2.4
Total Proved Plus Probable	28,723	33,433	34,295	44%	324%	20.38	2.9

NOTES

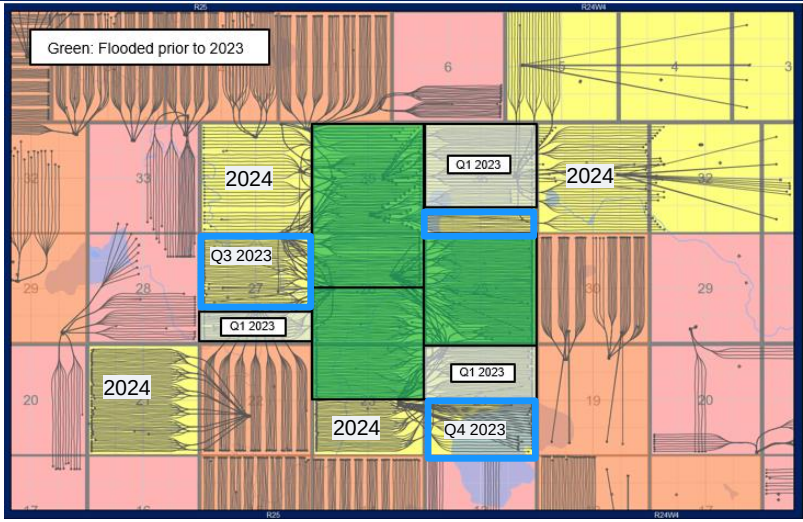
1) Heavy oil volumes include heavy crude oil and natural gas liquids
2) Total future development costs of $94.8 million proved reserves and $159.4 million proved plus probable reserves
3) No undeveloped locations are included for the McCully asset
4) 80 2P undeveloped locations have been included in the Marten Hills area

See Slide Notes and Advisories

MARTEN HILLS CORE AREA

Summary

- Current production of ~12,000 boe/d
- Cumulative recovery to date of 7.7 million bbls representing less than 1.5% of OOIP
- 5.7 MMbbl waterflood associated reserves booked at YE 2022 compared to 0.7 MMbbl at YE 2021



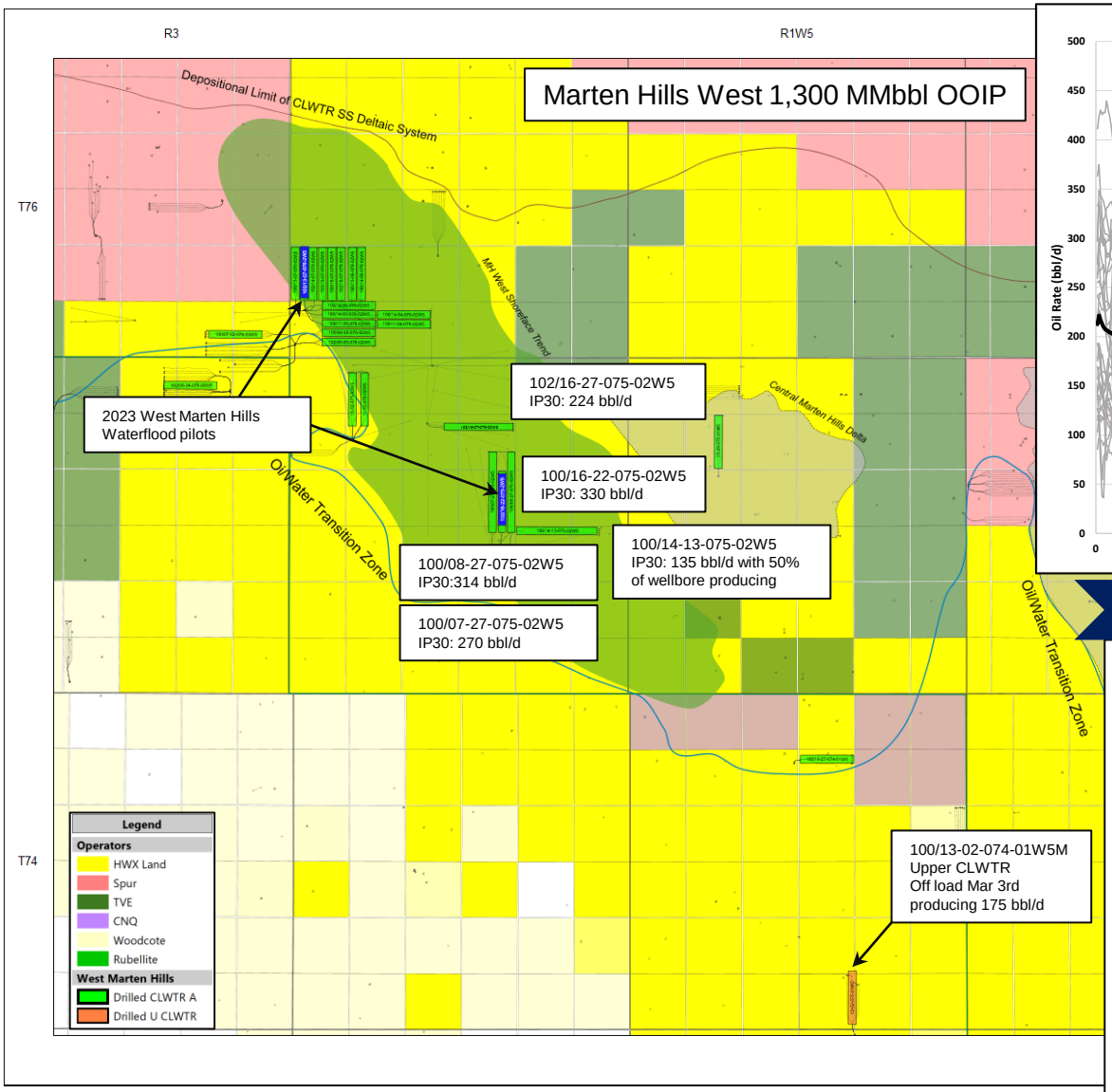
Waterflood

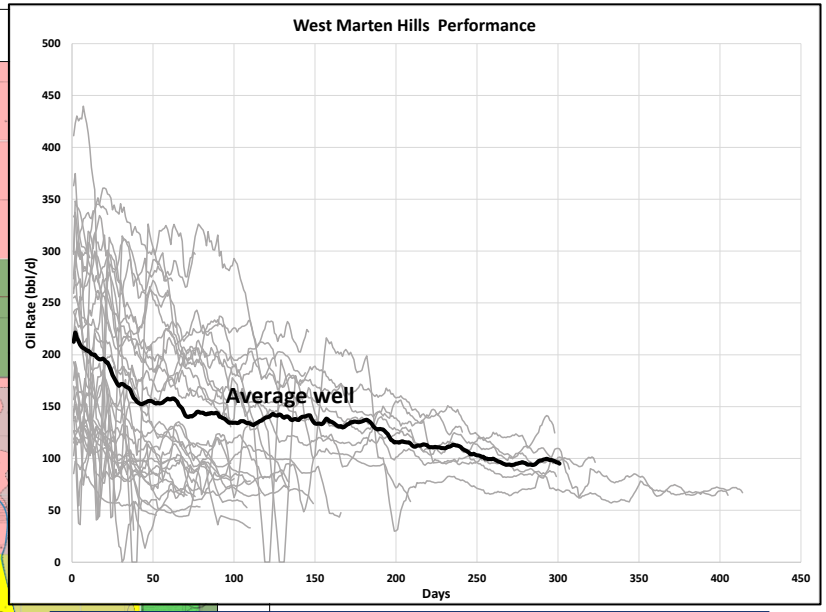
- 5 sections currently under waterflood providing support to >2,500 bbls/d
- 1.5 sections converted in Q1 of 2023 increasing
  - injection rates by 70%
  - voidage replacement ratio from 0.8 to 1.3
- Additional injection conversions and optimization throughout 2023, complete pool under waterflood in 2024

See Advisories including "OOIP"

MARTEN HILLS WEST

Continued Exploration Success / Initiating Waterflood



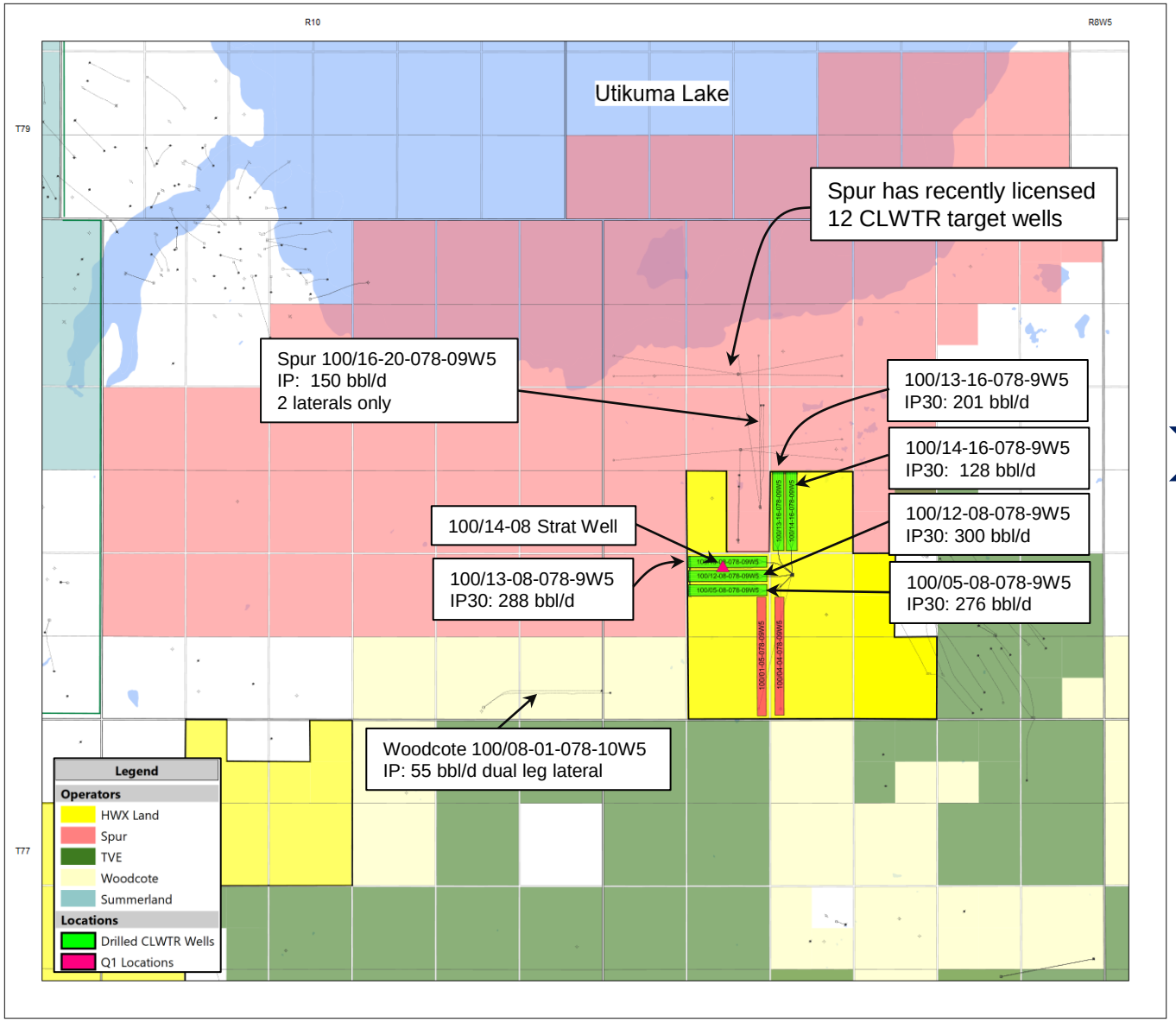


Highlights

- **Exploration discovery well at 13-02-074-01W5**
  - Previously untested Clearwater sand
  - Currently producing 175 bbl/d
  - Sets up multiple new prospects throughout Marten Hills West
- **Drilled four follow up tests to the southern most well at 16-22-075-02W5**
  - Achieved average IP30 rates of 230 bbl/d
  - Identified thicker pay than expected
- **Two waterflood pilots drilled in Q1 2023**
  - Injection has commenced on the northern pilot
  - Southern pilot will commence injection in Q3 2023

See Slide Notes and Advisories including "OOIP"

WEST NIPISI



West Nipisi Development

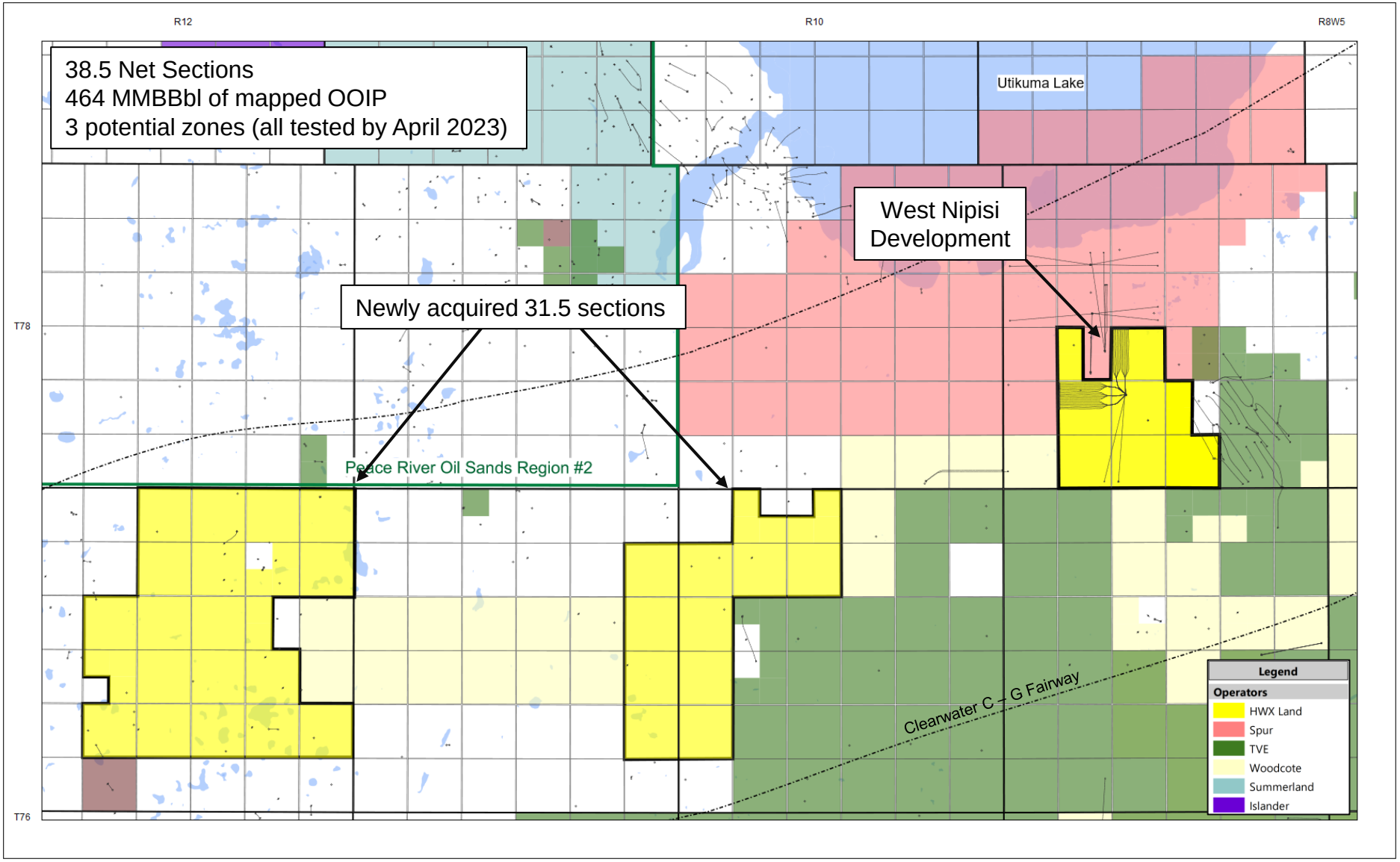
- 7.0 sections of land
- 3 prospective zones with 10-15 mmbbls of OOIP per section
- 5 successful wells drilled to date with an average IP 30 rate of 240 bbl/d

West Nipisi Exploration

- Stratigraphic test well rig released March 5th
- Validated 2 additional zones of interest
- Both zones will be tested with 2 additional wells in Q1 2023

See Slide Notes and Advisories

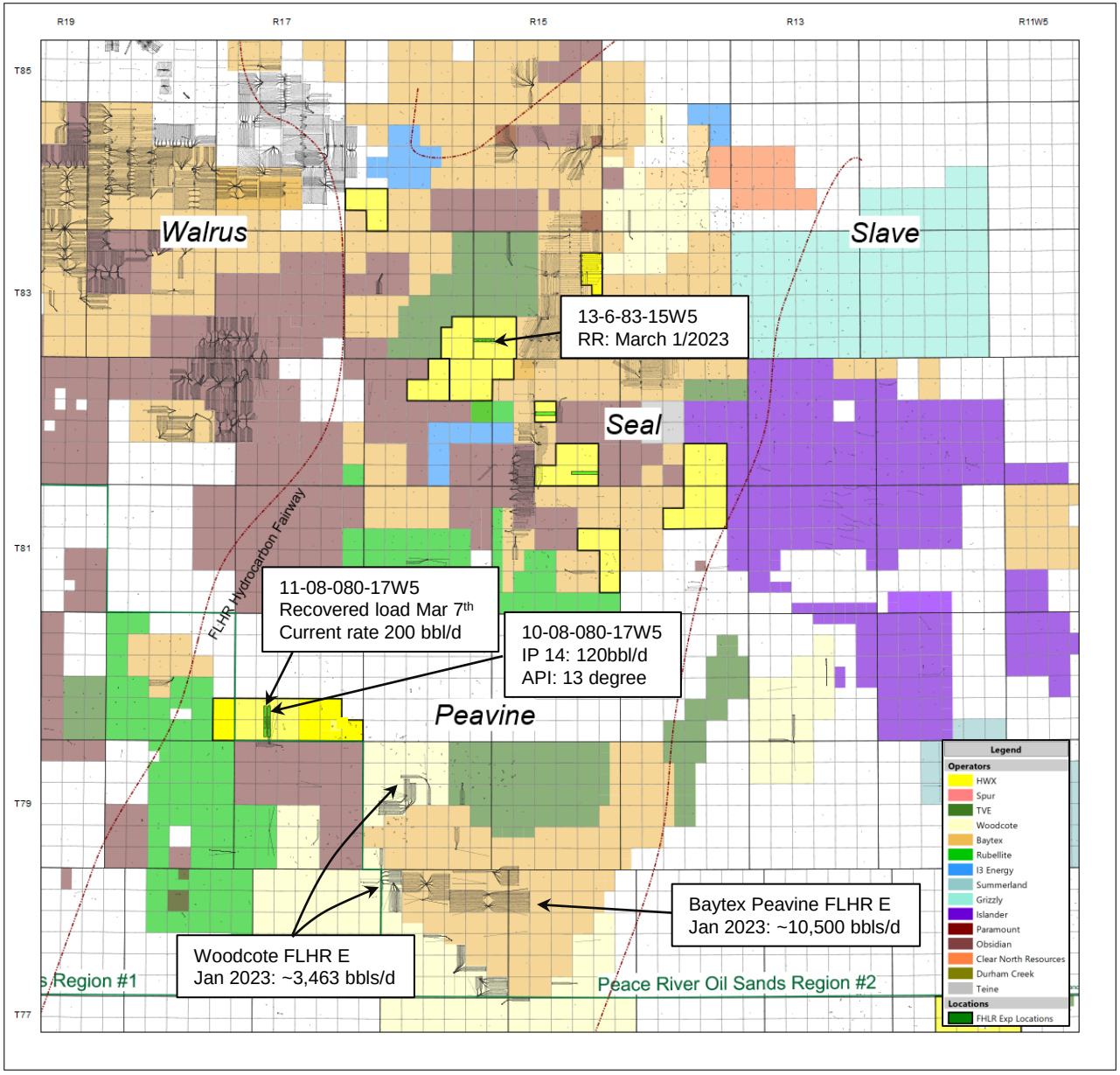
WEST NIPISI EXPANSION



See Advisories including "OOIP"

GREATER PEAVINE

Peavine and Seal



Peavine / Seal Initial Results

Peavine

- 13 sections of land
- Discovery well 10-08-080-17W5
  - IP14 of 120 bbl/d
  - 13° API oil
- Second well 11-08-080-17W5
  - Recently recovered load fluid
  - Currently producing 200 bbl/d
- Fishbone well design to be piloted in the second half of 2023

Seal

- 38.75 sections of land
- 3 prospective zones with 10-20 mmbbls of OOIP per section
- 13-06-83-15W5 on production Mar 5th
  - Currently recovering load fluid

See Slide Notes and Advisories

WHY HEADWATER

Business Strategy	Outcome
Build a sustainable business of combined growth and free cash flow	• 40% production / share growth in 2023 with a 72% re-investment rate generating $80 million of free cash flow
Implement a return of capital strategy	• Quarterly cash dividend of $0.10/share implemented in Q4 2022
Explore and Exploit	• Marten Hills West success resulting in current production of >3,000 boe/d
Add incremental prospects through strategic land acquisitions and M&A	• 151 sections added at Greater Peavine and West Nipisi
Explore and Exploit	• West Nipisi success resulting in current production of ~ 900 bbls/d • 3 new prospects successfully tested to date in Q1 2023
Asset Duration – Implement Enhanced Oil Recovery	• 2,500 bbls/d of core area production stabilized to date • Two Marten Hills West waterflood pilots on-stream in Q1 and Q3 2023
ESG focus	• Released inaugural ESG report Nov 2022 • Minimal uninflated undiscounted corporate ARO of $43 million • Active partner with Treaty 8 Nations supporting indigenous businesses and community initiatives

See Slide Notes and Advisories including "Non-GAAP Advisory“ and “Dividend Advisory”.

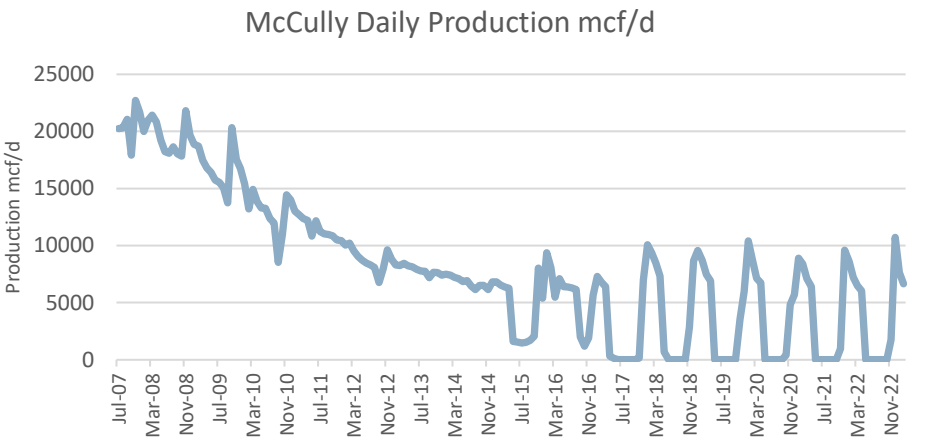
Headwater Exploration Inc.

Appendix

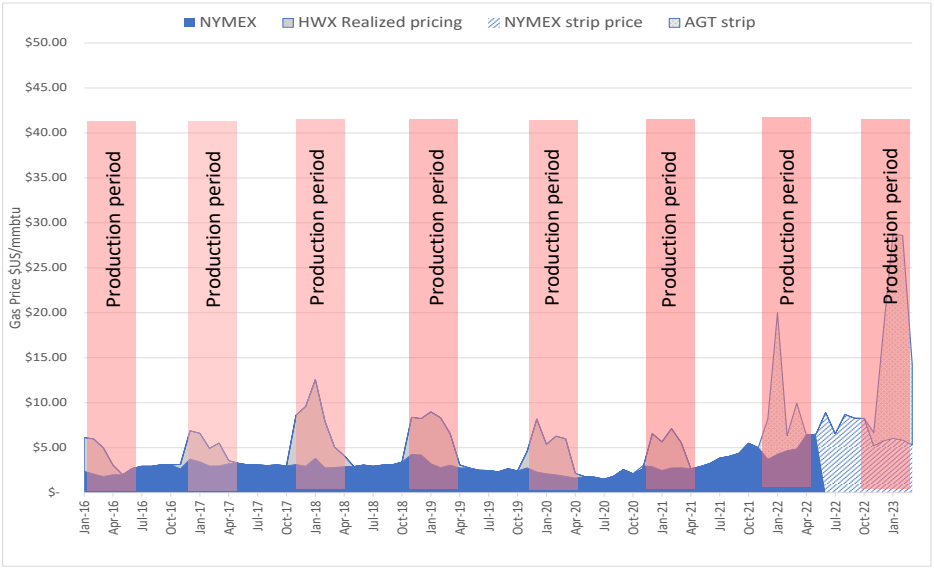
TSX:HWX

MCCULLY PRODUCING ASSET
DRY GAS WITH 100% OWNED INFRASTRUCTURE AND LIMITED LIABILITY

McCully Asset Daily Production



HWX Realized Pricing and Winter 2021/2022 Strip (US$/MMBTU)



Operational Summary

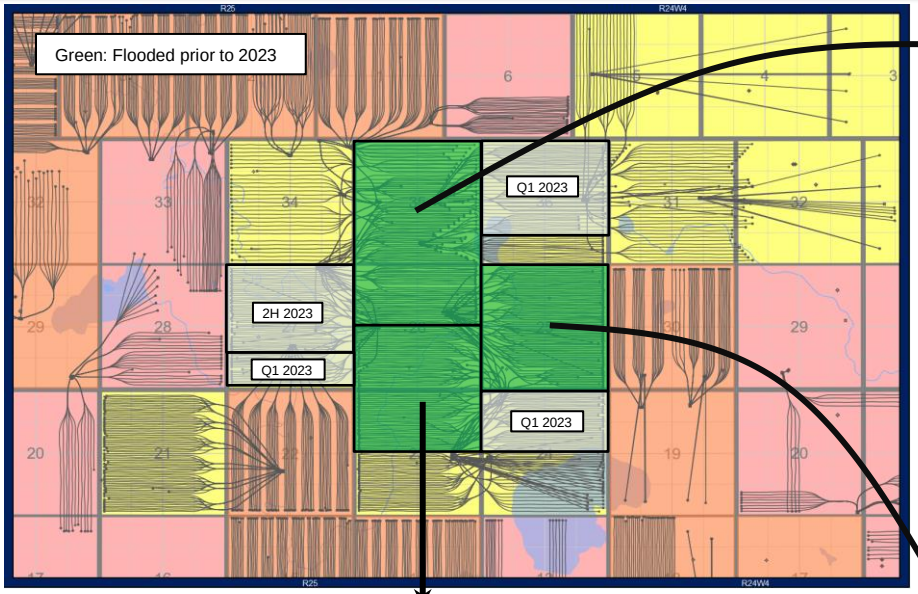
P+P producing RLI [1]	***years***	**15**
Undiscounted uninflated ARO [2]	***$MM***	**11.4**
Average Seasonal Production Rate	***mmscf/d***	**6.6**
2021/22 winter operating cashflow	***$MM***	**18**
2022/23 est. winter operating cashflow	***$MM***	**~22**
Maintenance Capital	***$MM***	**<0.5**

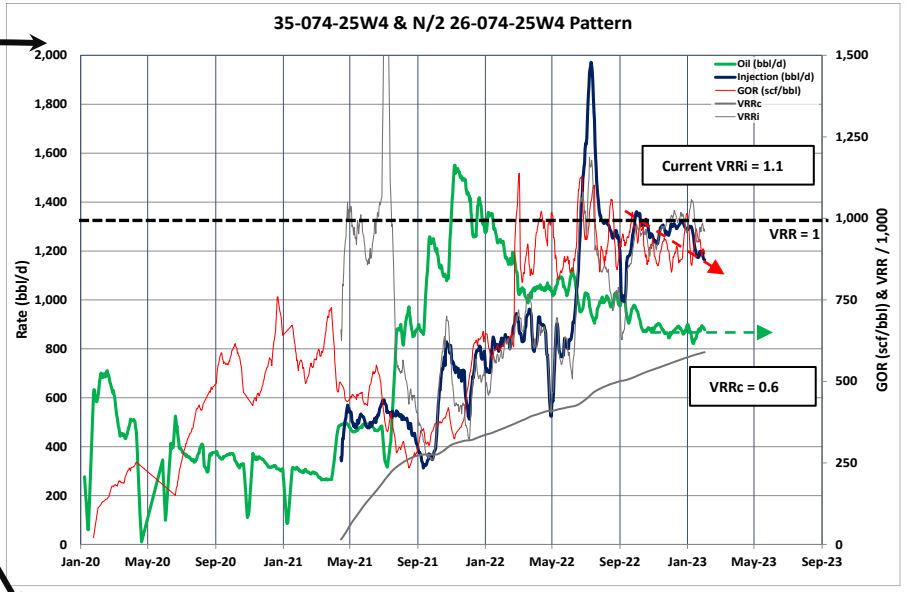
- Asset is produced November through April and shut-in during summer months to capture premium pricing as highlighted in this slide
- Algonquin City-Gate is a unique Boston area demand driven market offering premium winter pricing.

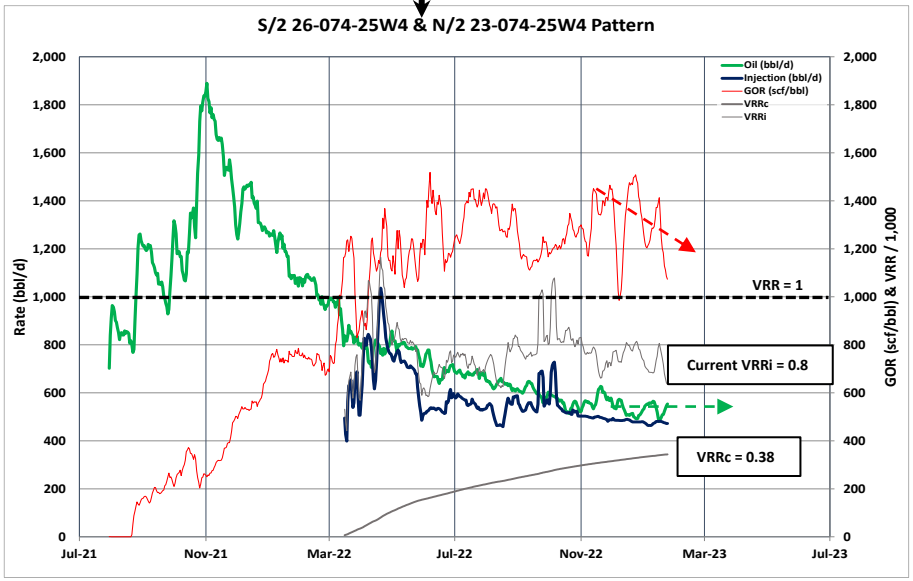
See Slide Notes and Advisories including "Non-GAAP Advisory".

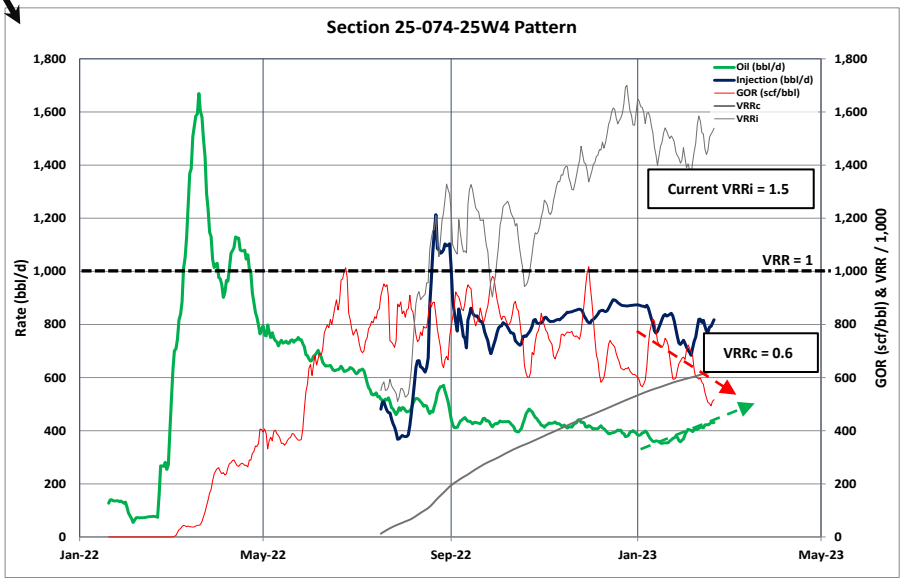
WATERFLOOD IMPLEMENTATION

Waterflood Pilots and 2023 Expansion







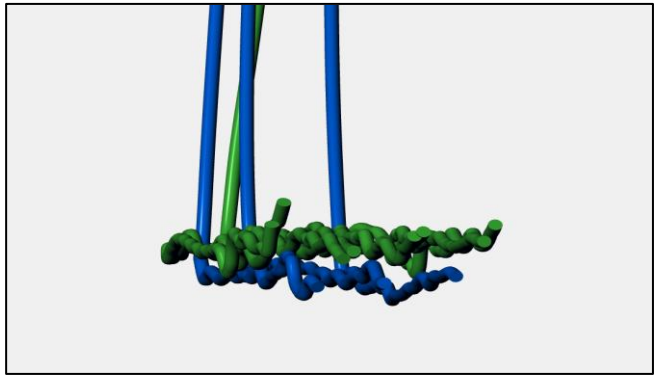


See Advisories

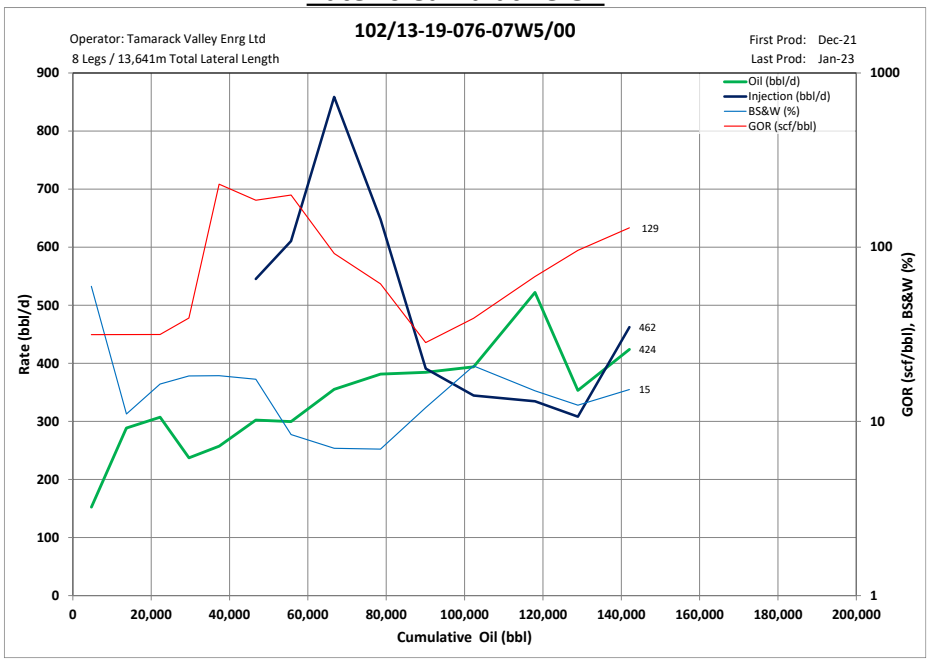
OTHER CLEARWATER WATERFLOOD PILOTS

Tamarack Valley Nipisi Section 19-076-07W5

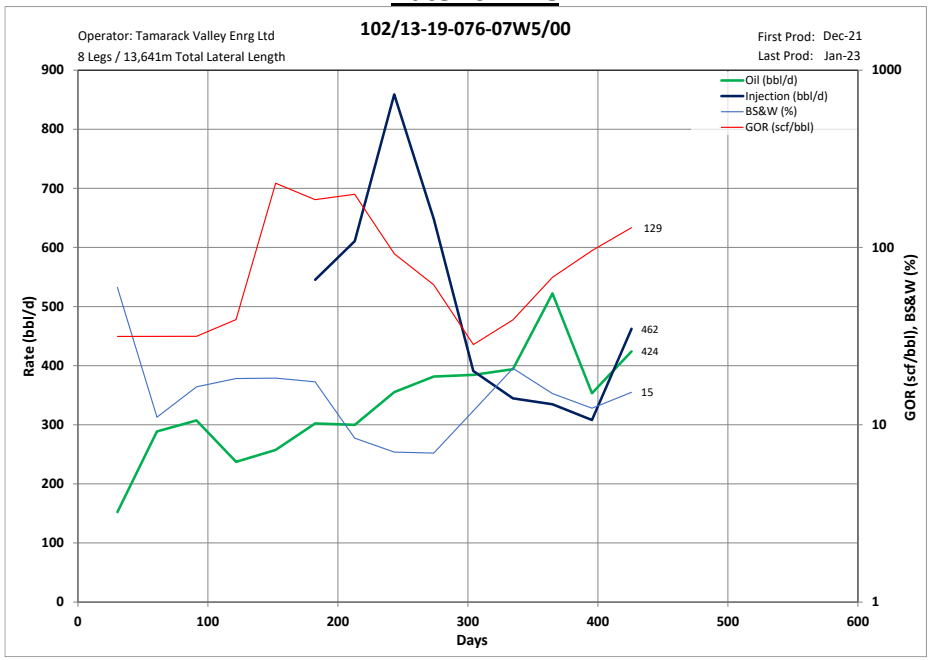
- 8 Leg producer wells
- 3 single leg drilled injectors
- Oil rate increasing with low GOR (<2X Rs)
- Exceptional response with no water breakthrough



Rate vs Cumulative Oil



Rate vs Time

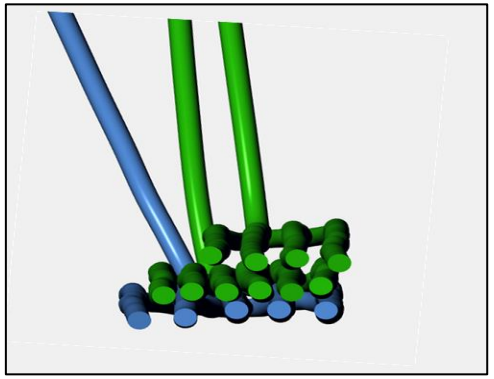


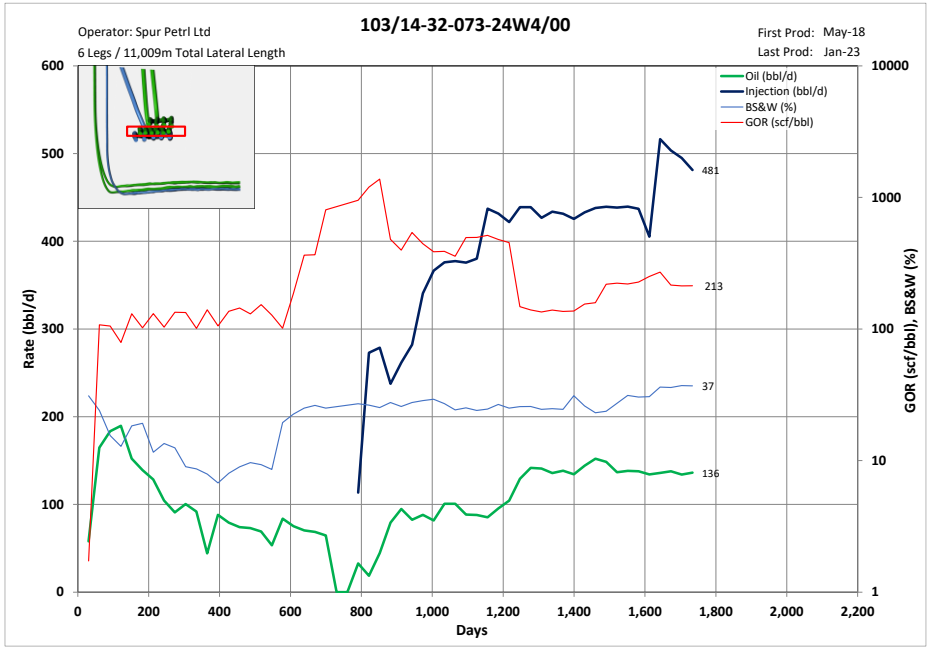
See Slide Notes and Advisories

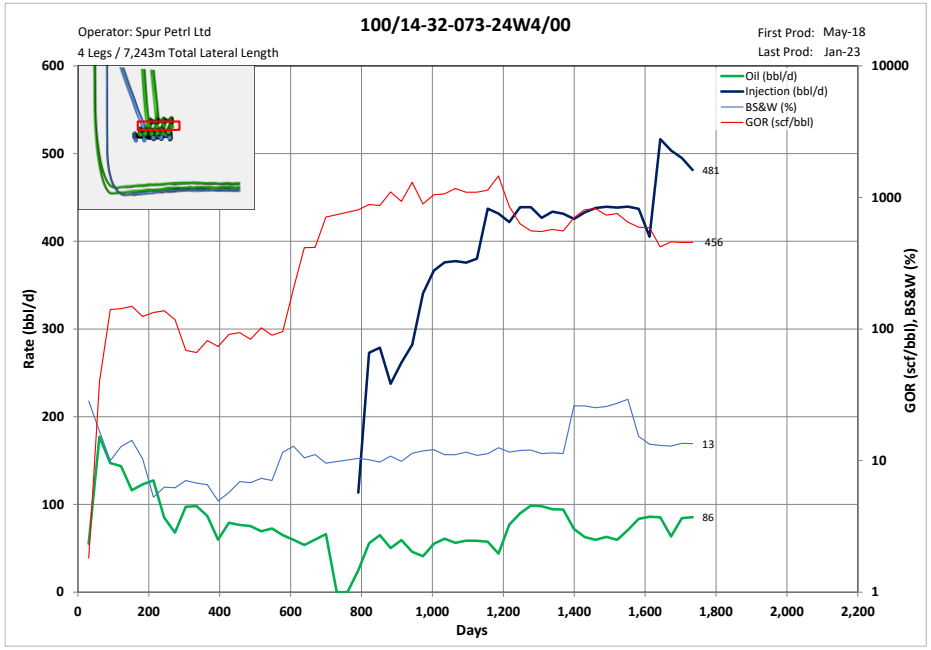
OTHER CLEARWATER WATERFLOOD PILOTS

Spur Marten Hills Section 32-073-24W4 (Grandpa Burger)

- 4 leg producer (F1), 6 leg producer (F2), 5 leg injector (F3)
- Bottom up waterflood
- Gas-Oil-Ratio decreasing
- Continued strong response with no water breakthrough





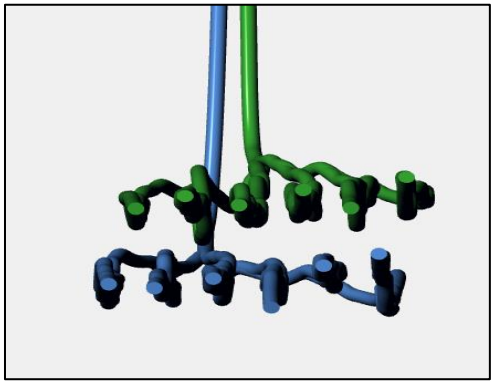


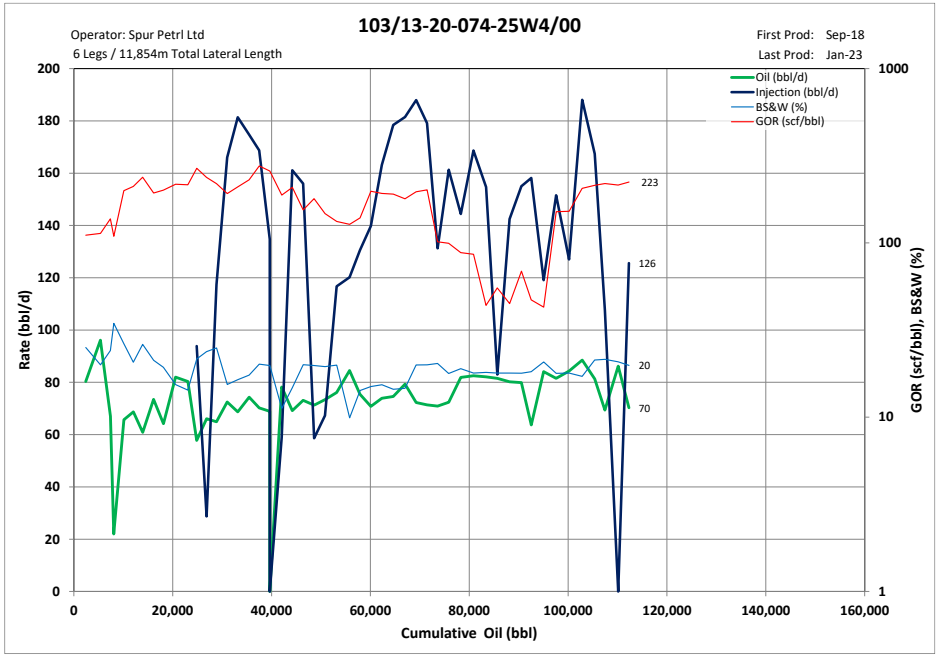
See Slide Notes and Advisories

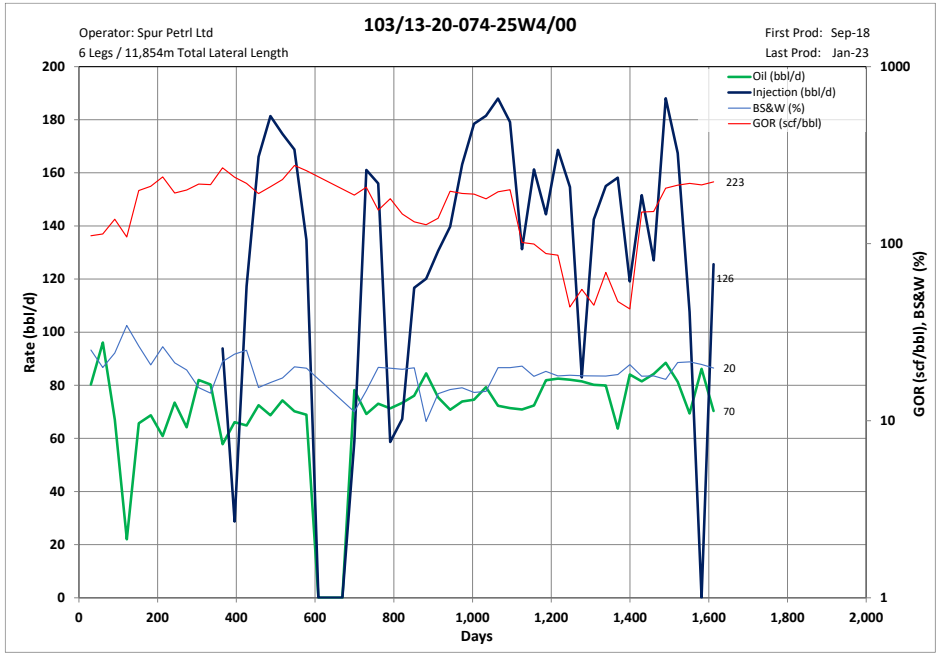
OTHER CLEARWATER WATERFLOOD PILOTS

Spur Marten Hills Section 20-074-25W4

- 6 leg producer (F1), 6 leg injector (F2)
- Bottoms up waterflood
- Continued strong response with no water breakthrough







See Slide Notes and Advisories

EXPERIENCED TEAM

Headwater Exploration Inc.

Management Team

Neil Roszell, P. Eng. *CEO & Chairman*	▪ Former President, CEO and/or Executive Chairman and founder of Raging River Exploration Inc., Wild Stream Exploration Inc. and Wild River Resources Ltd.
Jason Jaskela, P. Eng. *President, COO & Director*	▪ Former COO and founder of Raging River Exploration Inc. and VP Production and founder of Wild Stream Exploration Inc.
Terry Danku, P. Eng. *Vice President, Engineering*	▪ Former VP, Engineering of Raging River Exploration Inc. and Engineering Manager of Wild Stream Exploration Inc.
Jonathan Grimwood, P.Geo *Vice President, Exploration*	▪ Former VP, Exploration of Raging River Exploration Inc., President of and founder of RMP Energy Inc.
Ali Horvath, CA, CPA *CFO & Vice President Finance*	▪ Former Controller and founder of Raging River Exploration Inc. and Wild Stream Exploration Inc.
Scott Rideout *Vice President, Land*	▪ Former VP, Land of Raging River Exploration Inc. and Manager Business Development and Land of Surge Energy Inc.
Brad Christman *Vice President, Production*	▪ Former Manager of Production and Facilities and founder of Raging River Exploration Inc.

Kevin Olson	▪ Former director of Raging River Exploration Inc., Wild Stream Exploration Inc. and Wild River Resources Ltd.
Chandra Henry	▪ Currently CFO & Chief Compliance Officer of Longbow Capital Inc. and Director of Whitecap Resources Inc.
Stephen Larke	▪ Currently Director with Vermilion Energy Inc. and Topaz Energy Corp.
Dave Pearce	▪ Currently Deputy Managing Partner with Azimuth Capital Management and former director of Raging River Exploration Inc.
Phillip Knoll	▪ Director of Corridor since 2010. Formerly CEO of Corridor and currently a director of AltaGas Ltd.
Kam Sandhar	▪ Currently Cenovus's Executive Vice-President, Strategy & Corporate Development
Elena Dumitrascu	▪ Co-founder, Chief Technology Officer of Credivera

SLIDE NOTES

Slide 1

1. Original 2023 guidance as released on November 3, 2022, has been updated for current strip pricing. The assumptions used in the 2023 guidance include: WTI US$75.21/bbl, WCS Cdn$77.67/bbl, AGT US$7.61/mmbtu, foreign exchange rate of US$/Cdn$ of 0.74, blending expense of WCS less $2.00, royalty rate of 17%, operating and transportation costs of $11.50/boe, financial derivatives gains of $1.00/boe, cash taxes of $6.00/boe and G&A and interest income and other expense of $1.05/boe. The AGT price is the average price for the winter producing months in the McCully field which include January to April and November to December.
2. Forecasted 2023 annual average production of 18,000 boe/d is comprised of 16,390 bbls/d of heavy oil, 60 bbls/d of natural gas liquids and 9.3 mmcf/d of natural gas.
3. Capital expenditures is a non-GAAP measure. Please refer to Non-GAAP Advisory.
4. Adjusted funds flow from operations and exit adjusted working capital are capital management measures. Please refer to Non-GAAP Advisory.
5. Basic shares outstanding consists of 234.0 million common shares of Headwater as at March 9, 2023. Fully diluted shares outstanding includes 5.9 million stock options outstanding at a weighted average strike price of $2.74, 0.2 million restricted share units and 0.8 million performance share units.
6. See Dividend Advisory.

Slide 2, 7, 9, 14, 15 & 16

Public data obtained from geoSCOUT.
Management's internal interpretation of pool outline.

Slide 3

Refer to Advisory Relating to Development Strategy.

1. Capital expenditures (also capital program) includes capital spending before acquisitions, dispositions and other corporate expenditures.
2. Reinvestment rate is calculated as capital expenditures divided by adjusted funds flow from operations.
3. Dividend payment per share per year is calculated using basic common shares outstanding and post dividend annual free cash flow per share is calculated as post dividend free cash flow divided by basic common shares outstanding.
4. Adjusted working capital includes proceeds from dilutive instruments assumed to be exercised in the applicable year.
5. Adjusted funds flow from operations (also referred to as adjusted funds flow) and adjusted working capital are capital measurement measures. Capital expenditures (also capital program), free cash flow and post dividend free cash flow are non-GAAP measures. Reinvestment rate and post dividend free cash flow per share are non-GAAP ratios. Please refer to Non-GAAP Advisory.
6. See Dividend Advisory.
7. Management's internal interpretation of OOIP. Refer to OOIP Advisory.
8. Management identified Clearwater locations.

Slide 4

1. Reserves replacement, F&D costs per boe and recycle ratio are non-GAAP ratios. Please refer to Non-GAAP advisory.
2. Refer to "Reserves Information" under Advisories.

Slides 6, 7 & 9

IP30: The average hydrocarbon production rate for the first 30 days of a well's life, post load recovery.
IP: initial production rate of well, post load recovery, for a certain number of days.
Management's internal interpretation of pool outline and OOIP. Refer to OOIP Advisory.

Slide 10

1. ARO as at December 31, 2022.
2. Free cash flow is a non-GAAP measure and reinvestment rate is a non-GAAP ratio. Please refer to Non-GAAP Advisory.
3. See Dividend Advisory.

Slide 12

1. Proved plus probable producing (P+P) reserves life index ("RLI") is calculated by dividing the P+P producing reserves by the average annual production for 2022.
2. As at December 31, 2022.
3. Headwater has made the following assumptions for its 22/23 winter operating cashflow:

		2022/2023E
AGT [1]	US$/mmbtu	$ 8.23
FX	US$/Cdn$	0.74

(1) Pricing reflects natural gas production through November 2022 to April 2023.

4. McCully winter operating cash flow includes financial derivatives. Operating cash flow including financial derivatives is a non-GAAP measure. Please refer to Non-GAAP Advisory.

Forward Looking Statements Advisory

This investor presentation of Headwater Exploration Inc. ("Headwater") contains forward-looking statements and forward-looking information (collectively, "forward-looking statements"). More particularly, this investor presentation contains forward-looking statements concerning: 2023 guidance including annual daily production, capital expenditures and details of such capital expenditures, adjusted funds flow from operations, dividend payments and exit adjusted working capital; Headwater's multi-year business strategy and the expected benefits of such strategy including maintaining positive working capital, continuing to add incremental lands through land acquisitions and accretive M&A, continuing to implement secondary recovery reducing decline rates while providing long term capital stability and growing the quarterly dividend; the expectation to generate 40% production per share growth in 2023 with a 70% reinvestment rate generating free cash flow of $80 million; the expected timing of waterflood activities in the Marten Hills core area and in Marten Hills West; the expected timing of certain future exploration tests; the performance characteristics of the natural gas properties in McCully field including timing of operations, 2022/2023 operating cash flow, P+P reserves life index, average seasonal production rate, maintenance capital and abandonment and reclamation obligations; Headwater's strategy with respect to the development of the Marten Hills assets including certain expected type curve and economics associated with drilling and waterflood operations; the future success associated with waterflood implementation; and the expectation of future M&A activity. Additional forward-looking information includes. In addition, the use of any of the words "guidance" "initial", "scheduled", "can", "will", "prior to", "estimate", "anticipate", "believe", "should", "forecast", "future", "continue", "may", "expect", and similar expressions are intended to identify forward-looking statements.

Additional information on these and other factors that could affect Headwater's operations and financial are included in its Annual Information Form for the year ended December 31, 2022, and other reports on file with Canadian securities regulatory authorities, which may be accessed through the SEDAR website (www.sedar.com).

Statements relating to reserves and resources are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

The forward-looking statements contained in this investor presentation are based on certain key expectations and assumptions made by management of Headwater including but not limited to expectations and assumptions concerning the success of optimization and efficiency improvement projects, the availability of capital, current legislation, receipt of required regulatory approval, the success of future drilling, development and waterflooding activities, the performance of existing wells, the performance of new wells, Headwater's growth strategy, general economic conditions, availability of required equipment and services, prevailing equipment and services costs and prevailing commodity prices, Canada-U.S. exchange rate, and other assumptions identified herein, including certain expectations and assumptions made by Headwater in respect thereof. Although Headwater Management believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because there is no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (including but not limited to operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects, capital expenditures, acquisitions or other corporate transactions; the uncertainty of reserve estimates (including the estimates in respect of the Marten Hills assets); the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), inflation risks, supply chain risks, commodity price and exchange rate fluctuations, the short and long-term impacts of the Covid-19 pandemic, wars (including Russia's military actions in Ukraine), changes in legislation affecting the oil and gas industry, uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures.

This investor presentation contains financial outlook and future oriented financial information (together, "FOFI") about Headwater including the Company's 2023 guidance comprised of expected capital expenditures, dividend payments, adjusted funds flow from operations and adjusted working capital and 2022/2023 operating cash flow from the McCully Field. Such FOFI has been included herein to provide prospective investors with an understanding the plans and assumptions for budgeting purposes and prospective investors are cautioned that the information may not be appropriate for other purposes. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on any financial outlook or FOFI. Headwater's actual results, performance could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits Headwater will derive therefrom. Headwater disclaims any intention or obligation to update or revise any FOFI statements, whether as a result of new information, future events or otherwise, except as required by law.

The information contained in this investor presentation does not purport to be all inclusive or to contain all information that prospective investors and shareholders may require. Prospective investors and shareholders are encouraged to conduct their own analysis and reviews of Headwater, Headwater management and the other information contained in this investor presentation. Without limitation, prospective investors and shareholders should consider the advice of their financial, legal, accounting, tax and other advisors prior to making investment decisions with respect to Headwater securities.

Advisory Relating to Development Strategy (Slide 3)

The Company has presented herein a three-year development strategy. The development strategy is based on a number of assumptions as presented in such slides including, without limitation: the required reinvestment rates in 2023 and beyond required to maintain production; expected results from wells drilled in the areas; expected percentage of lands under waterflood and expected recovery factors resulting from waterfloods and other enhanced oil recovery options; average production per year resulting from such strategy; expected adjusted funds flow from operations, free cash flow and post dividend free cash flow; capital expenditures per year; expectations as to commodity prices, royalty rates, production costs, general and administrative expenses and certain other assumptions. Waterflood results in development strategy are based on management's analysis and interpretation of the results from analogous waterflood projects and pilots in the greater Clearwater area including management's analysis of how such results may apply to the Company's assets. See "Type Curve information and Well Economics" under oil and gas advisories. For the purposes of determining the adjusted funds from operations based on the three-year strategy presented, the following pricing assumptions have been utilized:

		2023E	2024E	2025E
WTI	**US$/bbl**	**$ 75.21**	**$ 75.00**	**$ 75.00**
WCS	**Cdn$/bbl**	**$ 77.67**	**$ 83.70**	**$ 83.70**
AECO	**Cdn$/mmbtu**	**$ 3.33**	**$ 3.32**	**$ 3.84**
AGT (1)	**US$/mmbtu**	**$ 7.61**	**$ 11.05**	**$ 10.89**
FX	**US$/Cdn$**	**0.74**	**0.74**	**0.74**

(1) The AGT price is the average price for the winter producing months in the McCully field which include January – April and November – December of the applicable year.

Such development strategy is not based on a budget or capital expenditures plan approved by the Board of Directors of the Company beyond 2023 and is not intended to present a forecast of future performance or a financial outlook. In addition, such development strategy does not represent management's expectations of the Company's future performance but rather is intended to present readers insight into management's view of the opportunities associated with the Company's assets as used by management for planning and strategy purposes based on the commodity pricing and other assumptions used for such strategy. In addition, the development strategy does not represent an estimate of reserves or resources or the future net present value of reserves or resources.

There is no certainty that the Company will proceed with all of the drilling of wells, enhanced oil recovery plans or other capital expenditures contemplated by the development strategy and even if the Company does proceed with such plans there is no certainty that the reserves or resources recovered will match the expectations used for such strategy. All future drilling, enhanced oil recovery plan and other capital expenditures will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors.

There is no certainty that cash will be available for distribution to shareholders even if all assumptions are met as management and the Board of Directors of the Company have not made any decision to pay dividends or otherwise distribute cash to shareholders. Management and the Board of Directors of the Company may determine to utilize cash for other purposes if determined in the best interests of the Company to do so. See "Dividend Advisory".

The assumptions used for the development strategy presented herein are subject to a number of risks including the risks set out under the forward-looking advisory on the previous slide, the risk factors identified above and the risk factors set out in the Company's Annual Information Form for the year ended December 31, 2022, which is available on SEDAR at www.sedar.com.

NON-GAAP MEASURES AND RATIOS

This investor presentation contains the terms "adjusted funds flow from operations ("AFFO")", "adjusted working capital", "capital expenditures or capital program", "free cash flow", "post dividend free cash flow", "operating cash flow", "reinvestment rate", "post dividend free cash flow per share", "reserves replacement", "F&D costs per boe" and "recycle ratio" which do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS" or, alternatively, "GAAP") and therefore may not be comparable with the calculation of similar measures by other companies. The non-GAAP measures used in this presentation, defined terms outlined below, are used by Headwater as key measures of financial performance and are not intended to represent operating profits nor should they be viewed as an alternative to cash provided by operating activities or other measures of financial performance calculated in accordance with IFRS.

Capital Management Measures

Adjusted funds flow from operations ("AFFO")

Management considers adjusted funds flow from operations to be a key measure to assess the Company's management of capital. In addition to being a capital management measure, adjusted funds flow from operations is used by management to assess the performance of the Company's oil and gas properties. Adjusted funds flow from operations is an indicator of operating performance as it varies in response to production levels and management of production and transportation costs. Management believes that by eliminating changes in non-cash working capital and deducting current income taxes, adjusted funds flow from operations is a useful measure of operating performance. While current income taxes will not be paid until 2023, management believes adjusting for current income taxes in the period incurred is a better indication of the funds generated by the Company.

	Three months ended December 31,		Year ended, December 31,	
	2022	2021	2022	2021
	(thousands of dollars)		*(thousands of dollars)*	
Cash flows provided by operating activities	66,448	47,753	283,925	111,656
Changes in non–cash working capital	6,455	978	10,195	6,260
Current income tax expense	(1,075)	-	(14,393)	-
Adjusted funds flow from operations	71,828	48,731	279,727	117,916

Adjusted working capital

Adjusted working capital is a capital management measure which management uses to assess the Company's

	Year ended December 31,	
	2022	2021
	(thousands of dollars)	
Working capital	109,433	89,775
Contribution receivable (long-term)	1,104	-
Repayable contribution	(6,720)	-
Financial derivative receivable	(419)	(770)
Financial derivative liability	1,520	3,924
Adjusted working capital	104,918	92,929

Non-GAAP Measures

Capital expenditures or capital program

Management utilizes capital expenditures to measure total cash capital expenditures incurred in the period. Capital expenditures represents capital expenditures – exploration and evaluation and capital expenditures – property, plant and equipment in the statement of cash flows in the Company's interim financial statements netted by the government grant.

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
	(thousands of dollars)		*(thousands of dollars)*	
Cash flows used in investing activities	61,957	47,047	232,056	109,127
Proceeds from government grant	780	-	1,988	-
Restricted cash	5,000	1,248	-	1,477
Change in non-cash working capital	(5,223)	748	14,879	29,785
Government grant	(1,837)	-	(4,428)	-
Capital expenditures	60,677	49,043	244,495	140,389

Free cash flow

Management uses free cash flow for its own performance measure and to provide shareholders and potential investors with a measurement of the Company's efficiency and its ability to generate the cash necessary to fund its future growth expenditures. Free cash flow is defined as adjusted funds flow from operations less capital expenditures.

	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
	(thousands of dollars)		*(thousands of dollars)*	
Adjusted funds flow from operations	71,828	48,731	279,727	117,916
Capital expenditures	(60,677)	(49,043)	(244,495)	(140,389)
Free cash flow	11,151	(312)	35,232	(22,473)

Post dividend free cash flow

Post dividend free cash flow is defined as free cash flow net of dividends declared or paid in the period. This measure is used by the Company to assess the funds available for future growth after dividends.

Operating cash flow including financial derivatives

Management uses operating cash flow including financial derivatives as a measure of profitability. Operating cash flow including financial derivatives is defined as sales net of royalties, blending and transportation and production expense plus realized gains or losses on financial derivatives.

Non-GAAP Advisory

Non-GAAP Ratios

Reinvestment Rate

Management believes the reinvestment rate is a useful measure to analyze the ratio of funds generated by the Company and used for reinvestment and is calculated as total capital expenditures divided by AFFO.

Post dividend free cash flow per share

Post dividend free cash flow per share is a useful measure of potential shareholder return and is calculated as post dividend free cash flow divided by basic common shares outstanding.

Reserves Replacement

Reserves replacement is calculated as total reserve additions for the year divided by total production for the year.

F&D cost per boe

F&D costs is used as a measure of capital efficiency. The F&D cost calculation includes all capital expenditure (exploration and development) for that period plus the change in future development capital ("FDC") for that period based on the evaluations completed by GLJ as at December 31, 2021 as compared to December 31, 2022. This total capital including the change in the FDC is then divided by the change in reserves for that period incorporating all revisions and production for that same period. Total proved developed producing F&D is calculated as follows = ($244.5 million (2022 capital expenditures) + $1.5 million (change in FDC associated with proved developed reserves)) / (16,614 mboe – 9,818 mboe +4,687 mboe) = $21.42 per boe. Total proved F&D is calculated as follows = ($244.5 million (2022 capital expenditures) + $6.2 million (change in FDC associated with proved reserves)) / (21,126 mboe – 15,663 mboe +4,687 mboe) = $24.70 per boe. Total proved plus probable F&D is calculated as follows = ($244.5 million (2022 capital expenditures) + $65.0 million (change in FDC associated with proved plus probable reserves)) / (34,295 mboe – 23,790 mboe +4,687 mboe) = $20.38 per boe.

Recycle Ratio

Recycle ratio is used as a measure of capital efficiency. Recycle ratio is calculated as the Company's adjusted funds flow netback of $59.68 per boe divided by F&D costs per boe.

Certain Oil and Gas Advisories

TYPE CURVE INFORMATION AND WELL ECONOMICS

Headwater has presented certain type curve information and well economics for certain development, exploration and waterflood wells in the Clearwater area. The type curve information and well economics presented are based on historical production in respect of Headwater's Clearwater assets as well as production history from analogous Clearwater developments located in close proximity to Headwater's Clearwater assets. Such type curve information is useful in understanding Headwater management's assumptions of well performance in making investment decisions in relation to development and exploration drilling in the Marten Hills area and for determining the success of the performance of development and exploration wells; however, such type curve information and well economics are not necessarily determinative of the production rates and performance of existing and future wells. In addition, the type curves and well economics presented do not reflect the type curves used by GLJ (as defined below) in estimating the reserves volumes attributed to the Marten Hills assets.

EXPLORATION LANDS

This presentation discloses Headwater's newly acquired exploration lands. All exploration lands have specifically been identified by management based on evaluation of applicable geologic, seismic, engineering, analogous information, production and reserves data on prospective acreage and geologic formations. There is no certainty that the Company will develop all or any exploration sections identified and if developed there is no certainty that such development will result in additional oil and gas reserves, resources or production. The sections on which Headwater drills wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results and other factors.

EXPLORATION DRILLING INVENTORY

This presentation discloses the drilling locations and inventory associated with certain of Headwater's exploration prospects. All of the drilling locations and inventory associated with Headwater's exploration prospects are considered unbooked locations. Unbooked locations are internal estimates and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Un-booked locations do not have attributed reserves or resources. Unbooked locations have been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that the Company will drill all unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which the Company drills wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. The majority of the unbooked drilling locations are associated with exploration prospects where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

RESERVES INFORMATION

Headwater currently has reserves in the Marten Hills and West Nipisi areas of Alberta and the McCully Field near Sussex, New Brunswick. The reserves information contained in this presentation in respect of Headwater assets is based on an evaluation by GLJ Ltd. ("GLJ") of Headwater's reserves in its report dated effective December 31, 2022, which was prepared in accordance with standards of the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and NI 51-101 and is based on the average forecast prices as at January 1, 2023, of three independent reserves evaluation firms. Additional information regarding reserves data and other oil and gas information is included in Headwater's Annual Information Form for the year ended December 31, 2022, which may be accessed through the SEDAR website (www.sedar.com).

Reserves are estimated remaining quantities of petroleum anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical, and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are further classified according to the level of certainty associated with the estimates and may be sub-classified based on development and production status. Proved Reserves are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations. Proved Developed Producing Reserves (or PDP Reserves) are a subset of Proved Reserves and are Proved Reserves which are producing at the time of the reserves evaluation. Probable Reserves are those additional quantities of petroleum that are less certain to be recovered than Proved Reserves, but which, together with Proved Reserves, are as likely as not to be recovered.

Certain Oil and Gas Advisories

BARRELS OF OIL EQUIVALENT

The term "boe" or barrels of oil equivalent may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 Mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

OIL AND GAS METRICS

In presenting type curves, inputs and economics information and in this presentation generally, Headwater has used a number of oil and gas metrics which do not have standardized meanings and therefore may be calculated differently from the metrics presented by other oil and gas companies. Such metrics include "P+P producing RLI". P+P producing RLI is calculated by dividing the P+P producing reserves by the average annual production for that period. Corporate decline is calculated by the year over year reduction in the corporate production if the Company is not drilling any additional wells. Such metrics have been included herein to provide readers with additional measures to evaluate the performance of the Marten Hills assets or McCully assets, as applicable; however, such measures are not a reliable indicator of the future performance of Headwater's assets or value of its common shares.

INITIAL PRODUCTION RATES

References in this presentation to initial production rates, other short-term production rates or initial performance measures relating to new wells are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. Accordingly, the Company cautions that the test results should be considered to be preliminary.

ANALOGOUS INFORMATION

Certain information in this investor presentation may constitute "analogous information" as defined in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"), including, but not limited to, information relating to the areas in geographical proximity to the Marten Hills assets and production information related to wells that are believed to be on trend with the Marten Hills assets. Headwater Management believes the information is relevant as it helps to define the characteristics of the Marten Hills assets. Headwater is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor. Such information is not an estimate of the reserves or resources attributable to lands held or to be held by Headwater and there is no certainty that the data and economics information for the Marten Hills assets will be similar to the information presented herein. The reader is cautioned that the data relied upon by Headwater may not be analogous to the Marten Hills assets.

OOIP

Original Oil-In-Place ("OOIP") is equivalent to Total Petroleum Initially-In-Place ("TPIIP") and has been estimated as at December 31, 2022. TPIIP, as defined in the Canadian Oil and Gas Evaluations Handbook, is that quantity of petroleum that is estimated to exist in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered. A portion of the TPIIP is considered undiscovered and there is no certainty that any portion of such undiscovered resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of such undiscovered resources. With respect to the portion of the TPIIP that is considered discovered resources, there is no certainty that it will be commercially viable to produce any portion of such discovered resources. A significant portion of the estimated volumes of TPIIP will never be recovered. The OOIP contained in this presentation has been internally estimated by Headwater management.

DIVIDENDS

The amount of future cash dividends paid by the Company, if any, will be subject to the discretion of the Board and may vary depending on a variety of factors and conditions existing from time to time, including, among other things, adjusted funds from operations, fluctuations in commodity prices, production levels, capital expenditure requirements, acquisitions, debt service requirements and debt levels, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of the Company, the dividend policy of the Company from time to time and, as a result, future cash dividends could be reduced or suspended entirely.