HEADWATER EXPLORATION INC.
Interim Condensed Statements of Financial Position
(unaudited)

(Cdn$ thousands)	March 31, 2025 $	December 31, 2024 $
ASSETS		
Current assets		
Cash and cash equivalents	125,551	142,694
Restricted cash	350	350
Accounts receivable (note 12)	58,570	58,623
Financial derivative receivable (note 12)	149	3,088
Inventories	1,143	1,193
Prepaids and deposits	1,721	1,701
Total current assets	187,484	207,649
Exploration and evaluation assets (note 3)	38,477	30,089
Property, plant and equipment (note 4)	738,824	712,020
Other assets	2,677	2,878
Total assets	967,462	952,636
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	74,450	70,846
Stock-based compensation payable (note 8)	9,903	14,768
Financial derivative liability (note 12)	2,776	2,847
Current portion of lease liability	694	631
Current income tax liability	-	14,673
Dividend payable (note 7)	26,155	23,776
Repayable contribution (note 6)	1,399	1,373
Total current liabilities	115,377	128,914
Lease liability	1,879	2,089
Financial derivative liability (note 12)	-	382
Stock-based compensation payable (note 8)	2,803	6,913
Decommissioning liability (note 5)	53,086	48,603
Repayable contribution (note 6)	11,118	10,916
Deferred income tax liability	59,768	55,360
Total liabilities	244,031	253,177
Shareholders' Equity		
Capital stock (note 7)	487,069	486,984
Contributed surplus	11,007	10,969
Retained earnings	225,355	201,506
Total shareholders' equity	723,431	699,459
Total liabilities and shareholders' equity	967,462	952,636

Subsequent events (note 13)

See accompanying notes to the interim condensed financial statements

Approved on behalf of the Board of Directors:

(signed) "Chandra Henry"
Chandra Henry, CPA, CA, Director

(signed) "Neil Roszell"
Neil Roszell, Executive Chairman

HEADWATER EXPLORATION INC.
Interim Condensed Statements of Income and Comprehensive Income
(unaudited)

	Three months ended March 31,	
	2025	2024
(Cdn$ thousands, except per share data)	$	$
REVENUE		
Sales (note 9)	170,155	134,034
Royalties	(28,665)	(21,844)
Revenue, net of royalties	141,490	112,190
Gains (losses) on financial derivatives (note 12)	(5,652)	273
	135,838	112,463
EXPENSES		
Blending and transportation	17,694	16,136
Production	15,706	12,459
General and administrative	2,849	2,601
Stock-based compensation (note 8)	2,364	2,723
Depletion and depreciation	32,515	30,528
	71,128	64,447
Interest income and other expense (note 10)	472	1,166
Income before income taxes	65,182	49,182
Income taxes		
Current income tax expense	10,770	12,233
Deferred income tax (recovery) expense	4,408	(670)
	15,178	11,563
Net income and comprehensive income	**50,004**	**37,619**
Net income per share (note 7)		
Basic	0.21	0.16
Diluted	0.21	0.16

See accompanying notes to the interim condensed financial statements

HEADWATER EXPLORATION INC.
Interim Condensed Statements of Cash Flows
(unaudited)

Cash flow related to the following activities:	Three months ended March 31, 2025	2024
(Cdn$ thousands)	$	$
OPERATING		
Net income	50,004	37,619
Items not involving cash:		
Unrealized losses on financial derivatives (note 12)	2,486	5,841
Stock-based compensation	2,364	2,723
Depletion and depreciation	32,515	30,528
Income tax expense	15,178	11,563
Non-cash finance charges	683	500
Settlement of decommissioning liability (note 5)	(101)	(95)
Income taxes paid (note 11)	(26,306)	(29,004)
Change in non-cash operating working capital (note 11)	(6,888)	(4,628)
Cash flows provided by operating activities	69,935	55,047
FINANCING		
Payment of lease liability	(199)	(22)
Proceeds from exercise of stock options (note 7)	-	35
Dividends paid	(23,776)	(23,658)
Proceeds from repayable contribution (note 6)	-	709
Cash flows used in financing activities	(23,975)	(22,936)
INVESTING		
Capital expenditures – exploration and evaluation (note 3)	(8,388)	(19,092)
Capital expenditures – property, plant and equipment (note 4)	(54,459)	(46,175)
Government grant (note 6)	-	177
Change in non-cash investing working capital (note 11)	(256)	13,510
Cash flows used in investing activities	(63,103)	(51,580)
Change in cash and cash equivalents	(17,143)	(19,469)
Cash and cash equivalents, beginning of period	142,694	146,052
Cash and cash equivalents, end of period	125,551	126,583

See accompanying notes to the interim condensed financial statements

HEADWATER EXPLORATION INC.
Interim Condensed Statements of Changes in Shareholders' Equity
(unaudited)

(Cdn$ thousands)	Notes	Capital stock $	Contributed surplus $	Retained earnings $	Total shareholders' equity $
Balance at January 1, 2024		**483,013**	**18,970**	**108,515**	**610,498**
Exercise of stock options	7	1,925	(1,890)	-	35
Stock-based compensation	8	-	1,252	-	1,252
Net income		-	-	37,619	37,619
Dividends declared	7	-	-	(23,729)	(23,729)
Balance at March 31, 2024		**484,938**	**18,332**	**122,405**	**625,675**
Balance at January 1, 2025		**486,984**	**10,969**	**201,506**	**699,459**
Exercise of stock options	7	85	(85)	-	-
Stock-based compensation	8	-	123	-	123
Net income		-	-	50,004	50,004
Dividends declared	7	-	-	(26,155)	(26,155)
Balance at March 31, 2025		**487,069**	**11,007**	**225,355**	**723,431**

See accompanying notes to the interim condensed financial statements

HEADWATER EXPLORATION INC.
Notes to the Interim Condensed Financial Statements
(unaudited)

As at and for the three months ended March 31, 2025 and 2024

(All tabular amounts in thousands, unless otherwise stated)

1. NATURE OF OPERATIONS

Headwater Exploration Inc. ("Headwater" or the "Company") is a Canadian resource company engaged in the exploration for and development and production of petroleum and natural gas in Canada. Headwater is a public company existing under the Alberta Business Corporations Act with common shares listed on the Toronto Stock Exchange ("TSX") under the symbol "HWX".

Headwater's principal place of business is located at 1400, 215 – 9th Avenue S.W., Calgary, Alberta, T2P 1K3 and its registered office is located at 2400, 525 – 8th Avenue S.W., Calgary, Alberta, T2P 1G1.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). The unaudited interim condensed financial statements do not include all information required for annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2024. These unaudited interim condensed financial statements have been prepared following the same accounting policies as the Company's audited financial statements for the year ended December 31, 2024.

The timely preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in the audited financial statements for the year ended December 31, 2024.

These unaudited interim condensed financial statements were approved and authorized for issue by the Board on May 1, 2025.

3. EXPLORATION AND EVALUATION ("E&E") ASSETS

The following table reconciles the movements of the Company's E&E assets for the periods:

	March 31, 2025	December 31, 2024
	$	$
Balance, beginning of period	30,089	17,930
Additions	8,388	44,524
Transfers to PP&E (note 4)	-	(32,365)
Balance, end of period	38,477	30,089

The Company concluded there are no indicators of impairment for its E&E assets as at March 31, 2025.

4. PROPERTY, PLANT AND EQUIPMENT (“PP&E”)

The following table reconciles the movements of the Company’s PP&E assets for the periods:

	Oil and gas properties	Corporate	Total
Cost	$	$	$
Balance at December 31, 2023	1,103,098	2,873	1,105,971
Additions	181,531	34	181,565
Transfers from E&E (note 3)	32,365	-	32,365
Changes in decommissioning liability (note 5)	6,302	-	6,302
Balance at December 31, 2024	1,323,296	2,907	1,326,203
Additions (1)	54,939	-	54,939
Changes in decommissioning liability (note 5)	4,180	-	4,180
Balance at March 31, 2025	1,382,415	2,907	1,385,322
Accumulated depletion, depreciation and impairment			
Balance at December 31, 2023	487,227	2,369	489,596
Depletion or depreciation expense	124,519	68	124,587
Balance at December 31, 2024	611,746	2,437	614,183
Depletion or depreciation expense	32,299	16	32,315
Balance at March 31, 2025	644,045	2,453	646,498
Net book value at December 31, 2024	711,550	470	712,020
Net book value at March 31, 2025	738,370	454	738,824

(1) Includes capitalized general and administrative expenses of $1.0 million and capitalized stock-based compensation of $0.5 million.

The Company concluded there are no indicators of impairment for its PP&E assets as at March 31, 2025.

5. DECOMMISSIONING LIABILITY

The following table reconciles the movements of the Company’s decommissioning liability for the periods:

	March 31, 2025	December 31, 2024
	$	$
Balance, beginning of period	48,603	40,951
Additions	2,060	10,725
Settlements	(101)	(95)
Change in estimate (1)	2,120	(4,423)
Accretion (note 10)	404	1,445
Balance, end of period	53,086	48,603
Key assumptions		
Risk free rate	3.2%	3.3%
Inflation rate	1.9%	1.8%

(1) Relates to changes in the inflation rate and risk-free rate. Of this amount, a $0.6 million upward revision is a result of an increase in the inflation rate over the period from 1.8% at December 31, 2024 to 1.9% at March 31, 2025 and a $1.5 million upward revision is a result of a decrease in the risk-free rate over the period from 3.3% at December 31, 2024 to 3.2% at March 31, 2025.

The Company has estimated the net present value of its total decommissioning liabilities to be $53.1 million as at March 31, 2025 (December 31, 2024 - $48.6 million). The total future inflated and undiscounted amount of estimated cash flows required to settle these obligations is $138.7 million (December 31, 2024 - $134.2 million). Management estimates the settlement of these obligations will occur over the next 30 to 35 years.

6. REPAYABLE CONTRIBUTION (NRCan ERF)

In 2022 and 2023, the Company received approval of a total of four claims pursuant to a repayable contribution agreement with the Department of Natural Resources Canada (“NRCan”), under the Emissions Reduction Fund (“ERF”) Onshore Program. All funds have been received by the Company with respect to the four claims.

The Company has recognized a repayable contribution of $14.2 million, undiscounted, and $12.5 million discounted as at March 31, 2025 (December 31, 2024 – $14.2 million and $12.3 million respectively), with respect to claims submitted to the ERF and confirmed by NRCan. The Company discounts the repayable contribution at a weighted average interest rate of 7.7%. The repayable portion of the funds received are to be repaid as follows: 10% on June 30, 2025, 33% on June 30, 2026, and 57% on June 30, 2027.

	March 31, 2025	December 31, 2024
	$	$
Balance, beginning of year	12,289	11,405
Interest (note 10)	228	884
Balance, end of year	12,517	12,289
Current portion of repayable contribution	1,399	1,373
Long-term portion of repayable contribution	11,118	10,916

The Company is in compliance with all terms and conditions of the repayable contribution agreement.

7. CAPITAL STOCK

a) Issued, authorized and outstanding

	March 31, 2025		December 31, 2024	
	Number of shares	Amount	Number of shares	Amount
		$		$
Balance, beginning of period	237,757	486,984	236,580	483,013
Exercise of stock options	17	85	1,177	3,971
Balance, end of period	237,774	487,069	237,757	486,984

Stock Options

During the three months ended March 31, 2025, 47 thousand stock options were exercised for 17 thousand million common shares on a cashless basis. Contributed surplus related to the options exercised of $85 thousand was transferred to capital stock.

During the three months ended March 31, 2024, 1.3 million stock options were exercised for 0.7 million common shares on a cashless basis, and 33 thousand stock options were exercised for 33 thousand common shares for total proceeds of $35 thousand. Contributed surplus related to the options exercised of $1.9 million was transferred to capital stock.

b) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding. The Company uses the treasury stock method to determine the impact of dilutive securities. The reconciling items between basic and diluted average common shares outstanding are stock options, RSUs, PSUs and accrued dividends on RSUs and PSUs.

	Three months ended March 31, 2025	Three months ended March 31, 2024
Weighted average shares outstanding		
Basic	237,772	235,742
Diluted	237,813	237,552

(1) For the three months ended March 31, 2025, RSUs, PSUs and accrued dividends thereon have been excluded as they are antidilutive.

c) Dividends

During the years ended December 31, 2024 and 2023, the Company declared $95.0 million and $94.4 million, respectively, related to its quarterly cash dividend ($0.10 per common share per quarter or $0.40 per common share annualized).

The Company increased its quarterly cash dividend to $0.11 per common share ($0.44 per common share annualized) effective for the dividend to be paid on April 15, 2025 to shareholders of record at the close of business on March 31, 2025. Included in current liabilities is the dividend payable of $26.2 million for the dividend declared on March 13, 2025, and paid out on April 15, 2025.

8. STOCK-BASED COMPENSATION

a) Stock-based compensation expense

The following table summarizes the breakdown of stock-based compensation expense for the periods:

	March 31, 2025	March 31, 2024
	$	$
Stock options	-	149
Deferred share units	790	1,215
Share awards	2,054	1,759
Capitalized stock-based compensation	(480)	(400)
Total stock-based compensation expense	2,364	2,723

b) Share awards

The Company has an awards plan which provides for grants of restricted share units (“RSUs”) and performance share units (“PSUs”) to officers, employees and consultants of the Company. Generally, one third of the RSUs will vest on each of the first, second and third anniversaries of the date of grant and all PSUs will vest on the third anniversary of the date of grant, unless otherwise determined by the Board of Directors. RSUs and PSUs are cash-settled.

PSUs (Cash-Settled)

On November 7, 2024, the Board of Directors approved the cash settlement of PSUs. Previously, these awards had been accounted for as equity-settled. As a result of this modification to the Company's outstanding PSUs from equity-settled to cash-settled, the fair value of the awards previously expensed was reclassified from contributed surplus to stock-based compensation payable. Subsequent to modification, the grant date fair value is used to record the cost of the PSUs and any subsequent remeasurement of the liability is also recognized in the Statement of Income and Comprehensive Income. The amount of stock-based compensation payable and related expense is adjusted based on a performance multiplier ranging from 0 to 2 times.

The following table summarizes the changes in the PSU liability for the periods:

	March 31, 2025	December 31, 2024
	$	$
Balance, beginning of year	16,952	-
Reclassified from contributed surplus	-	11,865
Increase in liability/fair value adjustment (1)	1,636	5,087
Payout (1) (2)	(10,833)	-
Balance, end of year	7,755	16,952
Current portion of stock-based compensation payable	5,194	10,652
Long-term portion of stock-based compensation payable	2,561	6,300

(1) Includes dividend adjustment.
(2) Includes an incremental 693 thousand units cash settled pursuant to a performance multiplier adjustment.

The PSU liability as at March 31, 2025 of $7.8 million is based on a fair value of $6.45 per PSU, which is the Company's closing share price on March 31, 2025.

The following table summarizes the changes in the number of outstanding PSUs for the periods:

	March 31, 2025	December 31, 2024
Outstanding, beginning of period	3,116	1,917
Granted	1,435	1,199
Exercised	(815)	-
Outstanding, end of period	3,736	3,116

RSUs (Cash-Settled)

The following table summarizes the changes in the RSU liability for the periods:

	March 31, 2025	December 31, 2024
	$	$
Balance, beginning of period	1,850	1,188
Increase in liability/fair value adjustment (1)	296	1,718
Payout (1)	(865)	(1,056)
Balance, end of period	1,281	1,850
Current portion of stock-based compensation payable	1,039	1,237
Long-term portion of stock-based compensation payable	242	613

(1) Includes dividend adjustment.

The RSU liability as at March 31, 2025 of $1.3 million is based on a fair value of $6.45 per RSU, which is the Company's closing share price on March 31, 2025.

The following table summarizes the changes in the number of outstanding RSUs for the periods:

	March 31, 2025	December 31, 2024
Outstanding, beginning of period	432	377
Granted	228	207
Forfeited	(5)	(14)
Exercised	(172)	(138)
Outstanding, end of period	483	432

c) Deferred share units ("DSUs")

The Company has a DSU plan which provides for grants of DSUs to non-management directors. Each DSU vests on the date of grant; however, settlement of the DSU occurs when the individual ceases to be a director of the Company. DSUs are to be settled in cash or by payment in common shares acquired through the facilities of the TSX. It is the intention of the Company to settle DSUs in cash.

The following table summarizes the changes in the DSU liability for the periods:

	March 31, 2025	December 31, 2024
	$	$
Balance, beginning of period	2,879	1,741
Increase in liability/fair value adjustment (1)	791	1,138
Balance, end of period	3,670	2,879
Current portion of stock-based compensation payable	3,670	2,879

(1) Includes dividend adjustment.

The DSU liability as at March 31, 2025 of $3.7 million is based on a fair value of $6.45 per DSU, which is the Company's closing share price on March 31, 2025.

The following table summarizes the changes in the number of outstanding DSUs for the periods:

	March 31, 2025	December 31, 2024
Outstanding, beginning of period	400	264
Granted	125	136
Outstanding, end of period	525	400

d) Stock options

The Company has an old and new stock option plan under which options to purchase common shares of the Company may be granted to directors, officers, employees and consultants of the Company. The Company does not intend to grant any further options under the Option Plans.

The following table summarizes the changes in the outstanding stock options for the periods:

	Three months ended March 31, 2025		Year ended December 31, 2024	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	177	$ 4.56	2,508	$ 3.88
Exercised [1]	(47)	$ 4.54	(2,331)	$ 3.82
Options outstanding, end of period	130	$ 4.56	177	$ 4.56
Options exercisable, end of period	130	$ 4.56	177	$ 4.56

(1) The Company's weighted average share price, at the date of exercise, for stock options exercised during the three months ended March 31, 2025 was $7.22 per common share (three months ended March 31, 2024 - $7.31 per common share).

There were no stock options granted in three months ended March 31, 2025, or in the year ended December 31, 2024.

9. SALES

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

	Three months ended March 31, 2025	Three months ended March 31, 2024
	$	$
Heavy oil	153,684	127,446
Natural gas	14,623	5,267
Natural gas liquids	1,032	557
Gathering, processing and transportation	816	764
	170,155	134,034

Included in accounts receivable as at March 31, 2025 is $50.2 million (December 31, 2024 - $56.1 million) of accrued sales related to March 2025 production.

10. INTEREST INCOME AND OTHER EXPENSE

Interest income and other expense consists of the following:

	Three months ended March 31, 2025	Three months ended March 31, 2024
	$	$
Interest income	1,155	1,671
Realized and unrealized foreign exchange gains (losses)	(1)	33
Accretion on decommissioning liability (note 5)	(404)	(309)
Interest on repayable contribution (note 6)	(228)	(214)
Interest on lease liability	(50)	(15)
	472	1,166

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31, 2025	2024
	$	$
Change in non-cash operating working capital:		
Accounts receivable	5,149	(7,357)
Inventories	50	(209)
Prepaids and deposits	(20)	(432)
Accounts payable and accrued liabilities	(369)	3,990
Settlement of stock-based compensation	(11,698)	(620)
	(6,888)	(4,628)
Change in non-cash investing working capital:		
Accounts receivable	(4,229)	(11,639)
Accounts payable and accrued liabilities	3,973	25,149
	(256)	13,510
Cash income taxes paid	26,306	29,004
Cash standby fees paid	83	44
Cash interest received	1,218	1,713

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company include cash and cash equivalents, restricted cash, accounts receivable, financial derivative receivable/liability, deposits, accounts payable and accrued liabilities, dividends payable and repayable contribution. The Company is exposed to financial risks arising from its financial assets and liabilities that include credit risk in addition to market risks associated with commodity prices and foreign exchange rates.

a) The Company is exposed to the following risks:

i) Commodity price risk

Headwater enters into financial derivative commodity contracts to manage the risks associated with fluctuations in commodity prices. All such transactions are conducted in accordance with the Company's established risk management policies. The Company does not use derivative financial instruments for speculative purposes.

The Company had the following outstanding financial derivative commodity contracts as at March 31, 2025:

Commodity	Index	Type	Term	Daily Volume	Contract Price
Natural Gas	AGT (1)	Fixed	Apr 2025	5,000 mmbtu	Cdn$4.64/mmbtu
Natural Gas	AGT	Fixed	Dec 2025 – Jan 2026	2,500 mmbtu	Cdn$17.60/mmbtu
Natural Gas	AGT	Fixed	Dec 2025 - Mar 2026	2,500 mmbtu	Cdn$13.75/mmbtu
Natural Gas	AECO 5A	Fixed	Apr 2025 - Oct 2025	4,000 GJ	Cdn$2.46/GJ
Natural Gas	AECO 5A	Fixed	Apr 2025 - Dec 2025	2,000 GJ	Cdn$2.16/GJ
Crude Oil	WCS Basis (2)	Differential	Apr 2025 – Dec 2025	3,000 bbl	US$13.28/bbl

(1) AGT = Algonquin city-gates
(2) WCS = Western Canadian Select

The following table summarizes the Company's financial derivative gains (losses) on commodity contracts for the periods:

	Three months ended March 31, 2025	Three months ended March 31, 2024
	$	$
Gains (losses) on financial derivatives:		
- realized gains (losses)	(3,166)	6,114
- unrealized losses	(2,486)	(5,841)
Gains (losses) on financial derivatives	(5,652)	273

The following table summarizes the fair value as at March 31, 2025 and the change in fair value for the three months ended March 31, 2025:

	Commodity contracts
	$
Net financial derivative liability, beginning of period	(141)
Unrealized change in fair value (1)	(2,486)
Net financial derivative liability, end of period	(2,627)

The fair value of the net financial derivative liability related to the Company's commodity contracts of $2.6 million as at March 31, 2025 is based on estimated future natural gas and oil prices as of that date. The fair values of these financial derivative commodity contracts are sensitive to changes in the natural gas and oil reference prices. Holding other assumptions constant, if the AECO 5A and AGT price increased by 10% and the WCS differential to WTI decreased by 10%, the fair value of the net financial derivative liability would increase (decrease) by $2.6 million.

ii) Foreign currency risk

The Company is exposed to fluctuations in the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing and from exposure to its U.S. dollar denominated WCS commodity contracts. Headwater may decide to mitigate a portion of this risk by periodically entering into foreign exchange contracts. As at March 31, 2025, Headwater did not have any foreign exchange contracts outstanding.

Fair Value Measurement

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company maximizes the use of observable inputs when preparing calculations of fair value, where possible.

The fair value of cash and cash equivalents, restricted cash, accounts receivable, deposits, accounts payable and accrued liabilities and dividends payable approximate their carrying value due to the short term to maturity of these instruments. The repayable contribution has been discounted at an estimated market rate and therefore carrying value approximates fair value.

The Company's financial derivative receivable/liability is considered Level 2 in the fair value hierarchy.

iii) Credit risk

At March 31, 2025, the expected credit loss on the Company's accounts receivable was $nil. As at March 31, 2025, the Company's receivables consisted of $50.2 million (December 31, 2024 - $56.1 million) from crude oil and natural gas marketers, $1.0 million from commodity contract counterparties (December 31, 2024 - $0.1 million), $6.1 million (December 31, 2024 - $1.9 million) from joint venture partners and $1.3 million (December 31, 2024 - $0.5 million) related to accrued interest and other. With the exception of amounts outstanding from the Company's joint venture partners, trade receivables generally have a 30-day term. The majority of receivables have been collected subsequent to March 31, 2025.

iv) 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 manages liquidity risk through its working capital and an actively managed operating and capital expenditure budgeting process. The Company entered into a $100.0 million credit facility in the fourth quarter of 2022 and increased the associated borrowing base from $100.0 million to $200.0 million in the second quarter of 2024, to add further liquidity. As at March 31, 2025, the Company was holding cash of $125.6 million.

Credit Facilities

The Company has a senior secured revolving syndicated credit facility with the National Bank of Canada and the Bank of Montreal ("the Lenders"). The credit facility is comprised of extendible revolving credit facilities consisting of a $20.0 million operating facility and an $80.0 million syndicated facility. Headwater also has an uncommitted accordion feature that provides the Company with the ability to access an incremental $100.0 million, subject to certain conditions including approval from the Lenders.

As at March 31, 2025, Headwater had not drawn on the credit facility.

The credit facilities have a revolving period of 364 days, extendible annually at the request of the Company, subject to approval of the Lenders. If not extended, the credit facilities will automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period. The borrowing base is subject to semi-annual redeterminations occurring by May 31st and by November 30th of each year. The credit facilities are secured by a demand debenture in the amount of $500 million. Repayments of principal are not required until the maturity date, provided that the borrowings do not exceed the authorized borrowing base and the Company is in compliance with all covenants, representations and warranties.

The credit facility bears interest at a floating market rate with margins charged by the Lenders linked to the Company's senior debt to EBITDA ratio. EBITDA, for the purposes of calculating the senior debt to EBITDA ratio, is calculated as net income adjusted for non-cash items, interest expense and income taxes. Senior debt, for the purposes of calculating the senior debt to EBITDA ratio, is calculated as any debt of the Company excluding the financial derivative liability and repayable contribution.

The credit facility is not subject to any financial covenants. Additionally, distributions are permitted subject to compliance with a Board approved distributions policy.

b) Management of capital

The Company's objectives when managing capital are to i) deploy capital to provide an appropriate return on investment to its shareholders; ii) maintain financial flexibility in order to preserve the Company's ability to meet financial obligations; and iii) maintain a capital structure that provides financial flexibility to execute strategic acquisitions. To aid in managing the capital structure, the Company monitors adjusted working capital and adjusted funds flow from operations.

During the years ended December 31, 2024 and 2023, the Company declared $95.0 million and $94.4 million, respectively, related to its quarterly cash dividend ($0.10 per common share per quarter or $0.40 per common share annualized).

The Company increased its quarterly cash dividend to $0.11 per common share ($0.44 per common share annualized) effective for the dividend to be paid on April 15, 2025 to shareholders of record at the close of business on March 31, 2025. Included in current liabilities is the dividend payable of $26.2 million for the dividend declared on March 13, 2025, and paid out on April 15, 2025.

Subsequent to March 31, 2025, the TSX approved Headwater's Normal Course Issuer Bid ("NCIB") to purchase for cancellation up to 19,020,755 common shares during the period commencing on May 6, 2025.

The Company's strategy is designed to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying crude oil and natural gas assets. Key indicators of changing economic conditions include adjusted working capital and adjusted funds flow from operations. Headwater considers its capital structure to include shareholders' equity and working capital. In order to maintain or adjust its capital structure, the Company may from time to time issue new common shares, seek debt financing, change its future return of capital policy and adjust its capital spending to manage working capital.

In order to facilitate the management of its capital expenditures and working capital, the Company prepares annual budgets which are updated quarterly depending upon varying factors including current and forecast crude oil and natural gas prices, capital expenditures and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

i) Adjusted working capital

Management considers adjusted working capital to be a key measure to assess the Company's liquidity and capital management.

	As at March 31, 2025	As at December 31, 2024
	$	$
Working capital	72,107	78,735
Repayable contribution	(11,118)	(10,916)
Financial derivative receivable	(149)	(3,088)
Financial derivative liability	2,776	2,847
Adjusted working capital	63,616	67,578

ii) Adjusted funds flow from operations

Management considers adjusted funds flow from operations to be a key measure to assess the Company's management of capital. Adjusted funds flow from operations is an indicator as to whether adjustments are necessary to the level of capital expenditures. For example, in periods where adjusted funds flow from operations is negatively impacted by reduced commodity pricing, capital expenditures may need to be reduced or curtailed to preserve the Company's capital structure and return of capital policy. Management believes that by excluding the impact of changes in non-cash working capital and adjusting for current income taxes in the period, adjusted funds flow from operations provides a useful measure of Headwater's ability to generate the funds necessary to manage the capital needs of the Company.

	Three months ended March 31, 2025	2024
	$	$
Cash flows provided by operating activities	69,935	55,047
Changes in non-cash working capital	6,888	4,628
Current income taxes	(10,770)	(12,233)
Income taxes paid	26,306	29,004
Adjusted funds flow from operations	92,359	76,446

Adjusted working capital and adjusted funds flow from operations are not standardized measures and, therefore, may not be comparable with the calculation of similar measures of other entities.

13. SUBSEQUENT EVENTS

a) NCIB

Subsequent to March 31, 2025, the TSX approved Headwater's NCIB to purchase for cancellation up to 19,020,755 common shares during the period commencing on May 6, 2025, and terminating on the earlier of: (i) the date on which the Company has acquired all common shares sought pursuant to the NCIB; or (ii) to May 5, 2026, unless earlier terminated at the option of the Company, upon prior notice being given to the TSX.

b) Dividend

Subsequent to March 31, 2025, the Company declared a cash dividend of $0.11 per common share. The dividend will be paid on July 15, 2025, to shareholders of record at the close of business on June 30, 2025.

c) Financial derivative contracts

Subsequent to March 31, 2025, Headwater entered into the following commodity contracts:

Commodity	Index	Type	Term	Daily Volume	Contract Price
Crude Oil	WCS Basis	Differential	Oct 2025 – Dec 2025	1,000 bbl	US$13.90/bbl
Natural Gas	AECO 5A	Fixed	Apr 2026 – Sep 2026	1,000 GJ	Cdn$2.90/GJ