



HEADWATER EXPLORATION INC.

ANNUAL INFORMATION FORM

Year Ended December 31, 2025

Dated March 5, 2026

TABLE OF CONTENTS

ABBREVIATIONS AND CONVERSIONS.....	2
NOTES ON RESERVES DATA AND OTHER OIL AND GAS INFORMATION	3
CERTAIN DEFINITIONS.....	5
FORWARD-LOOKING STATEMENTS.....	6
NON-GAAP FINANCIAL MEASURES	9
THE CORPORATION	9
GENERAL DEVELOPMENT OF THE BUSINESS	9
DESCRIPTION OF THE BUSINESS	14
STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION	18
DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION	33
DIVIDEND POLICY.....	39
DESCRIPTION OF SHARE CAPITAL	40
MARKET FOR SECURITIES	40
RISK FACTORS.....	41
INDUSTRY CONDITIONS	67
LEGAL PROCEEDINGS.....	76
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	76
AUDIT COMMITTEE INFORMATION	77
TRANSFER AGENT AND REGISTRAR	79
MATERIAL CONTRACTS	79
INTEREST OF EXPERTS.....	79
ADDITIONAL INFORMATION.....	80

Schedule "A" – Form 51-101F3 - Report of Management and Directors on Oil and Gas Disclosure

Schedule "B" – Form 51-101F2 - Report on Reserves Data by Independent Qualified Reserves Evaluator

Schedule "C" – Audit Committee Mandate



ABBREVIATIONS AND CONVERSIONS

Oil and Natural Gas Liquids		Natural Gas	
Bbl	barrel	Mcf	thousand cubic feet
Bbls	barrels	MMcf	million cubic feet
MBbls	thousand barrels	Mcf/d	thousand cubic feet per day
MMBbls	million barrels	MMcf/d	million cubic feet per day
Mstb	1,000 stock tank barrels	MMbtu	million British Thermal Units
Bbls/d	barrels per day	Bcf	billion cubic feet
BOPD	barrels of oil per day	GJ	gigajoule
NGLs	natural gas liquids	MM	million
STB	standard tank barrels		

Other	
AECO	A natural gas storage facility located at Suffield, Alberta
AGT	Algonquin City-Gate natural gas pricing point on the Algonquin gas pipeline system
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale
BOE	barrel of oil equivalent of natural gas and crude oil on the basis of 1 BOE for 6 Mcf of natural gas
BOE/d	barrel of oil equivalent per day
m ³	cubic metres
MBOE	1,000 barrels of oil equivalent
MMBOE	1,000,000 barrels of oil equivalent
Mcfe	thousand of cubic feet equivalent
NYMEX	New York Mercantile Exchange
\$000s	thousands of dollars
\$M	thousands of dollars
\$MM	millions of dollars
WCS	Western Canadian Select, a heavy sour Canadian crude oil blended at Port Hardisty, Alberta with a nominal API gravity of 20.5 degrees
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

Disclosure provided herein in respect of BOEs of Mcfes may be misleading, particularly if used in isolation. A BOE and Mcfe conversion ratio of 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. Given 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 at 6:1 may be misleading as an indication of value.

To Convert From	To	Multiply By
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
Bbls	cubic metres	0.159
cubic metres	Bbls oil	6.290
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres (Alberta)	hectares	0.400
hectares (Alberta)	acres	2.500



NOTES ON RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Caution Respecting Reserves Information

The determination of oil, NGLs and natural gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of Proved Reserves and Probable Reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery. The estimation and classification of reserves requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions.

The recovery and reserve estimates of oil, NGLs and natural gas reserves provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein. The estimated future net revenue from the production of Headwater's anticipated oil, NGLs and natural gas reserves does not represent the fair market value of Headwater's proposed reserves.

Oil and Gas Definitions

Certain terms used in this Annual Information Form in describing reserves and other oil and natural gas information are defined below. Certain other terms and abbreviations used in this Annual Information Form, but not defined or described, are defined in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**") or the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101 or the COGE Handbook, as applicable.

"**API gravity**" means the American Petroleum Institute gravity expressed in degrees in relation to liquids, which is a measure of how heavy or light a petroleum liquid is compared to water. If a petroleum liquid's API gravity is greater than 10, it is lighter and floats on water; if less than 10, it is heavier than water and sinks. API gravity is thus a measure of the relative density of a petroleum liquid and the density of water, but it is used to compare the relative densities of petroleum liquids;

"**developed reserves**" are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing;

"**development costs**" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the crude oil and natural gas from the reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to: (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines, to the extent necessary in developing the reserves; (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and well equipment such as casing, tubing, pumping equipment and wellhead assembly; (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and (d) provide improved recovery systems;

"**development well**" means a well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive;

"**exploration costs**" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and natural gas reserves, including costs of



drilling exploration wells and exploration type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as "prospecting costs") and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are: (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies (collectively sometimes referred to as "geological and geophysical costs"); (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records; (c) dry hole contributions and bottom hole contributions; (d) costs of drilling and equipping exploration wells; and (e) costs of drilling exploration type stratigraphic test wells;

"**exploration well**" means a well that is not a development well, a service well or a stratigraphic test well;

"**forecast prices and costs**" means future prices and costs that are:

- (a) generally accepted as being a reasonable outlook of the future; or
- (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which Headwater is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in subparagraph (a);

"**gross**" means: (a) in relation to an issuer's interest in production or reserves, its "company gross reserves", which are its working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the issuer; (b) in relation to wells, the total number of wells in which an issuer has an interest; and (c) in relation to properties, the total area of properties in which an issuer has an interest;

"**net**" means: (a) in relation to an issuer's interest in production or reserves its working interest (operating or non-operating) share after deduction of royalty obligations, plus its royalty interests in production or reserves; (b) in relation to an issuer's interest in wells, the number of wells obtained by aggregating the issuer's working interest in each of its gross wells; and (c) in relation to an issuer's interest in a property, the total area in which the issuer has an interest multiplied by the working interest owned by the issuer;

"**P+P Reserves**" means Proved Reserves plus Probable Reserves;

"**Probable Reserves**" are those additional reserves that are less certain to be recovered than Proved Reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated P+P Reserves;

"**Proved Reserves**" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved Reserves;

"**Reserves**" are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: (i) analysis of drilling, geological, geophysical and engineering data; (ii) the use of established technology; and (iii) specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates;

"**Reserves Data**" has the meaning set forth under the heading "*Statement of Reserves Data and Other Oil and Gas Information*" in this Annual Information Form;

"**undeveloped reserves**" are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production.



They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned. In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status; and

"**working interest**" means the percentage of undivided interest held by an issuer in the oil and/or natural gas or mineral lease granted by the mineral owner, Crown or freehold, which interest gives the issuer the right to "work" the property (lease) to explore for, develop, produce and market the leased substances.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserve estimates are prepared). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves; and
- (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the estimated P+P Reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods. Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in the COGE Handbook.

CERTAIN DEFINITIONS

In this Annual Information Form, the words and phrases below have the following meanings, unless the context otherwise requires:

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended, including any regulations promulgated thereunder;

"**AER**" means the Alberta Energy Regulator;

"**Board**" means the board of directors of the Corporation;

"**Common Shares**" means common shares in the capital of Headwater;

"**Corporation**" or "**Headwater**" means Headwater Exploration Inc., a corporation existing under the ABCA;

"**Credit Facility**" means, collectively, our operating facility and syndicated facility with a syndicate of lenders, as more particularly described under the heading "*General Development of the Business – Recent Developments – Year 2024 – Credit Facility*";

"**ES&S Committee**" means the Environment, Safety & Sustainability Committee of the Board;



"ESG" means environmental, social and governance;

"GLJ" means GLJ Ltd.;

"IFRS" means International Financial Reporting Standards;

"M&NP" means the Maritimes & Northeast Pipeline;

"McDaniel" means McDaniel & Associates Ltd.;

"McDaniel Report" means the independent reserves assessment prepared by McDaniel dated January 15, 2026, evaluating the oil and gas properties of the Corporation as at December 31, 2025;

"NI 51-102" means National Instrument 51-102 – *Continuous Disclosure Obligations*;

"OPEC+" means the Organization of the Petroleum Exporting Countries and certain additional plus countries;

"Shareholders" means holders of Common Shares;

"Tax Act" means the *Income Tax Act* (Canada) R.S.C. 1985, c.1 (5th Supp.), as amended;

"TSX" means the Toronto Stock Exchange;

"United States" or "U.S." means the United States of America; and

Unless otherwise specified, information in this Annual Information Form is as at the end of the Corporation's most recently completed financial year, being December 31, 2025.

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

All dollar amounts herein are in Canadian dollars, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

The information herein contains forward-looking statements or forward-looking information (collectively, "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar expressions. Such statements and assumptions also include, but are not limited to, those relating to: the expectation that 60% of corporate heavy oil production will be supported by secondary recovery by December 31, 2026 and resulting decline rates; the potential for the Corporation to pursue further development of the McCully Field assets to supply natural gas to the undersupplied market in Atlantic Canada; Headwater's focus, business plan and business strategy; Headwater's intent to provide attractive long-term shareholder returns by focusing on asset quality and sustainability while maintaining a pristine balance sheet; Headwater's plan to grow production while maintaining a strong balance sheet; Headwater's plans to utilize its free cash flow and working capital to provide financial flexibility for future development and acquisitions; Headwater's expectations that it will maintain a strong balance sheet with significant liquidity to enable future internal development opportunities and potential acquisitions; Headwater's intent to add incremental prospects through strategic land acquisitions and accretive mergers and acquisitions; Headwater's expectations that it will continue to implement secondary recovery reducing decline rates and providing long-term return of capital stability; Headwater's commitment to returning excess free cash to Shareholders; the anticipated benefits to be derived from the Corporation's hedging policy; the expectation



that there will continue to be excess demand in the New England natural gas market; the anticipated benefits to be derived from the Corporation's intermittent production strategy; intentions to test the ERP (as defined herein) in 2026; the availability of applicable exemptions from the moratorium in New Brunswick in respect of the Corporation's operations in the Sussex region; Headwater's plans to develop all proved and probable undeveloped reserves within four years; future development costs and the anticipated funding sources; Headwater's expectations that interest or other funding costs will not make further development of any of its NGLs, conventional natural gas, shale gas and heavy crude oil assets uneconomic; Headwater's plans to explore for new oil and natural gas plays on its undeveloped land base and proactively work to secure new prospective opportunities; Headwater's belief that all of its undeveloped wells on its properties in New Brunswick require fracture stimulation to be commercially productive; the Corporation's anticipated capital expenditures in 2026; the Corporation's development plans for its assets including the anticipated costs and timing thereof; land expiries; expected abandonment and reclamation costs; that the Corporation may consider issuing Common Shares or other securities as consideration for future acquisitions; the performance characteristics of the Corporation's oil and natural gas properties; the quantity of the Corporation's reserves; future crude oil, NGLs and natural gas production levels; drilling plans; anticipated future crude oil, natural gas and NGLs prices and currency, exchange, inflation and interest rates; the tax horizon of Headwater; future supply of and demand for oil and natural gas; expectations regarding Headwater's ability to raise capital and to continually add to reserves through acquisitions and development; Headwater's belief that it is in material compliance with current applicable environmental and tax legislation; Headwater's dividend policy and the future payment of dividends; the Corporation's expectations that it will cash settle its outstanding restricted share units and outstanding performance share units; potential effects of regulatory regimes; expectations regarding the implementation of changes to certain rules and regulations and the anticipated effects of various rules and regulations on the Corporation; and treatment under government regulatory and taxation regimes. All statements relating to "reserves" are also deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

Forward-looking statements are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Headwater believes that the expectations reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements because Headwater can give no assurance that such expectations will prove to be correct.

In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the applicability and impacts to the Corporation's business of (i) tariffs and other trade measures that have been or may be implemented or changed by the U.S. and Canadian governments, and (ii) the upcoming USMCA (as defined herein) review; that the Corporation will be able to capitalize on potential asset consolidations and/or other acquisition opportunities in the current economic environment; factors that could result in the change in timing or cancellation of future development of Headwater's assets; that royalty regimes will not be subject to material modification; that the Corporation will be able to obtain skilled labour and other industry services at reasonable rates; that the timing and amount of capital expenditures and implementation thereof will be consistent with the Corporation's expectations; that the conditions in general economic and financial markets will not continue to vary materially; that drilling and other equipment will be available on acceptable terms; that government regulations and laws will not change materially; that future operating costs will be consistent with the Corporation's expectations; the impact of increasing competition; the general stability of the economic and political environment in which Headwater operates; the timely receipt of any required regulatory approvals; the ability of Headwater to obtain qualified staff, equipment and services in a timely manner; future drilling results; the ability of Headwater to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and exploration; the timing, capacity and costs of pipeline, storage and facility construction and expansion and the ability of Headwater to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Headwater operates; that Headwater will have sufficient financial resources to pay a dividend in the future; that the Board will declare dividends in the future; and the ability of Headwater to successfully market its oil and natural gas products.



A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to: the risks to the Corporation's business relating to (i) tariffs and other trade measures that have been or may be implemented or changed by the U.S. and Canadian governments, and (ii) the upcoming USMCA review; risks associated with volatility of commodity prices and stock exchanges; risks associated with the Russian-Ukrainian conflict and the conflicts in the Middle East (including the U.S., Israel and Iran conflict); risks associated with oil and natural gas exploration, development, exploitation, production, marketing and transportation; changes to the Corporation's capital budget; loss of markets; currency and interest rate fluctuations; the risk that the Corporation may not have sufficient financial resources in the future to pay a dividend; the risk that the Board may not declare dividends in the future or that Headwater's dividend policy changes; imprecision of reserve estimates; environmental risks; competition from other producers; risks of natural disasters, including wildfires, impacting the Corporation's operations; risks of pandemics and impacts resulting therefrom; incorrect assessment of the value of acquisitions; the risk that the Corporation may not receive regulatory approvals on a timely basis, or at all; failure to realize the anticipated benefits of acquisitions; our ability to access sufficient capital from internal and external sources; the risk that the Corporation's capital expenditures in 2026 may be greater than anticipated; the risk that future demand for natural gas in New England may be less than anticipated; the risk that there may not be any exemptions to the moratorium available to the Corporation in respect of its Sussex operations; the risk that interest or other funding costs may make further development of the Corporation's NGLs, conventional natural gas, shale gas and heavy crude oil assets uneconomic; the risk that Headwater may not return its excess free cash to its Shareholders; the risk that the Corporation's abandonment and reclamation costs may be greater than anticipated; the risk that Headwater may not remain in material compliance with applicable environmental and/or tax legislation; and the risk factors outlined under "*Risk Factors*" and elsewhere herein.

The forward-looking statements contained herein are as of March 5, 2026 and are subject to change after this date. 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 forward-looking statements. Except as required by law, Headwater disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Readers are further cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. For a full description of the risk factors, please see "*Risk Factors*" in this Annual Information Form.

This Annual Information Form contains information that may be considered a financial outlook under applicable securities laws about the Corporation's potential financial position, including, but not limited to: Headwater's commitment to returning excess free cash to its Shareholders; the Corporation's anticipated capital expenditures in 2026; the Corporation's development plans for its assets including the anticipated costs and timing thereof; expected abandonment and reclamation costs; and the tax horizon of Headwater, all of which are subject to numerous assumptions, risk factors, limitations and qualifications, including those set forth in the above paragraphs. The actual results of operations of the Corporation and the resulting financial results will vary from the amounts set forth in this Annual Information Form and such variations may be material. This information has been provided for illustration only and with respect to future periods are based on budgets and forecasts that are speculative and are subject to a variety of contingencies and may not be appropriate for other purposes. Accordingly, these estimates are not to be relied upon as indicative of future results. Except as required by applicable securities laws, the Corporation undertakes no obligation to update such financial outlook. The financial outlook contained in this Annual Information Form was made as of the date of this Annual Information Form and was provided for the purpose of providing further information about the Corporation's potential future business operations. Readers are cautioned that the financial outlook contained in this Annual Information Form is not conclusive and is subject to change.



NON-GAAP FINANCIAL MEASURES

In this Annual Information Form, the Corporation uses the term "capital expenditures". Capital expenditures is a non-GAAP financial measure that does not have a standardized meaning prescribed under IFRS and therefore may not be comparable to a similar measure presented by other entities. 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 Corporation's audited annual financial statements netted by the government grant received by the Corporation towards such expenditures. This measure should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. For further information, readers should refer to the section entitled "*Non-GAAP and Other Financial Measures*" located in the management's discussion and analysis of the Corporation for the year ended December 31, 2025, available on the Corporation's SEDAR+ profile at www.sedarplus.ca.

	Year ended December 31,		
	2025 (\$M)	2024 (\$M)	2023 (\$M)
Cash flows used in investing activities	227,885	226,852	243,714
Proceeds from government grant	-	354	1,200
Change in non-cash working capital	403	(4,340)	(8,594)
Government grant	-	-	(2,474)
Capital expenditures	228,288	222,866	233,846

THE CORPORATION

General

Headwater is the corporation resulting from the amalgamation under the ABCA on May 13, 1996 of Corridor Resources Inc. and Contwoyto Goldfields Limited. On June 14, 2011, the articles of the Corporation were amended to increase the minimum and maximum number of directors of the Corporation to three directors and nine directors, respectively. On March 4, 2020, the Corporation filed Articles of Amendment to change its name from "Corridor Resources Inc." to "Headwater Exploration Inc.". On May 13, 2021, the articles of the Corporation were amended to increase the maximum number of directors of the Corporation to thirteen directors. The Corporation has no material subsidiaries.

The head office of Headwater 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.

The Common Shares trade on the TSX under the symbol "HWX".

GENERAL DEVELOPMENT OF THE BUSINESS

History and Development

The following is a summary description of the development of Headwater's business during the last three completed financial years.

Year 2025

Entrance into a New Operating Area within the Clearwater

On January 6, 2025, Headwater announced a new partnership with the Bigstone Cree Nation. The new farmout agreement with the Bigstone Cree Nation contemplates Headwater drilling up to four commitment wells with



commensurate bonus payments paid by the Corporation, which would result in Headwater earning leases across 34.5 sections of highly prospective land in the Greater Pelican area. The agreement was subject to final approval of Indian Oil and Gas Canada, which approval was received in February 2025.

In addition, in September 2025, Headwater entered into an agreement to acquire 10 sections of land in the Greater Pelican area adjacent to the Bigstone Cree Nation block for total consideration of 1,000,000 Common Shares. Pursuant to the agreement, Headwater also has an 18-month option to acquire an additional offsetting 8 sections of land for an additional 750,000 Common Shares.

Normal Course Issuer Bid (“NCIB”)

On May 1, 2025, Headwater announced TSX approval of its 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) May 5, 2026, unless earlier terminated at the option of the Corporation, upon prior notice being given to the TSX.

During the year ended December 31, 2025, Headwater utilized its NCIB which resulted in approximately 1.05 million Common Shares being purchased for cancellation at an average price of \$7.30 per Common Share for total consideration of \$7.7 million.

In connection with its NCIB, Headwater established an automatic securities purchase plan with a designated broker whereby the Common Shares may be repurchased at times when such purchases would otherwise be prohibited pursuant to regulatory restrictions or self-imposed blackout periods. Under the automatic securities purchase plan and before entering into a self-imposed blackout period, the Corporation may, but is not required to, request that the designated broker make purchases under the NCIB. Such purchases will be made at the discretion of the designated broker, within parameters established by the Corporation prior to the blackout periods. Outside of the blackout periods, purchases are made at the discretion of the Corporation’s management. The automatic securities purchase plan constitutes an “automatic plan” for purposes of applicable Canadian securities legislation and has been approved by the TSX.

Headwater Director Changes

On May 8, 2025, Cheree Stephenson was elected to the Board at the Corporation’s Annual General Meeting. Phil Knoll, Devery Corbin and Elena Dumitrasu did not stand for re-election.

On July 23, 2025, Karen Nielsen was appointed to the Board.

Capital Budget

On December 3, 2025, the Board approved Headwater's initial 2026 capital expenditure budget of \$185 million.

Combined Operations

Headwater achieved corporate annual average production of 22,776 BOE/d, consisting of 20,707 Bbls/d of heavy crude oil, 11.5 MMcf/d of natural gas and 160 Bbls/d of NGLs in 2025. The Corporation executed its 2025 capital expenditure program of \$228.3 million, drilling a total of 62 (61.0 net) crude oil wells, 38 (38.0 net) injection wells, 5 (5.0 net) stratigraphic test wells and 1 (1.0 net) water source well.

Clearwater Operations

Headwater’s Clearwater operations includes production within the Marten Hills core and Marten Hills west areas, Greater Peavine, Greater Nipisi and its newest producing area, Greater Pelican. With respect to its Clearwater operations, Headwater spent approximately \$224.5 million on capital expenditures in 2025 and achieved annual



average production of 22,280 BOE/d, consisting of 20,707 Bbls/d of heavy crude oil, 8.5 MMcf/d of natural gas and 158 Bbls/d of NGLs. The Corporation drilled 62 (61.0 net) crude oil wells, 38 (38.0 net) injection wells and 1 (1.0 net) source well.

Headwater commenced production from the newly discovered Grand Rapids zone in Marten Hills West in May 2025, with the new zone contributing over 2,000 bbls/d to corporate production as at December 31, 2025.

The Corporation continued to focus on secondary recovery efforts throughout 2025. In December 2025, Headwater commenced its first polymer flood in the Greater Pelican area. At December 31, 2025, Headwater had approximately 50% of corporate heavy oil production supported by secondary recovery and expects 60% of corporate heavy oil production to be supported by December 31, 2026.

McCully Operations

As part of its production optimization strategy, the Corporation shut-in its natural gas production in the McCully Field in New Brunswick on May 1, 2025, and resumed production on December 1, 2025. Headwater's natural gas production averaged 3.0 MMcf/d and its NGLs production averaged 2 Bbls/d in 2025 from the McCully Field. No development operations occurred in 2025 as the lifting of the fracking moratorium in the Sussex region remained uncertain.

Year 2024

Quarterly Dividend

On December 5, 2024, the Corporation announced an increase to 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.

Capital Budget

On March 7, 2024, the Board approved an increase to the 2024 capital expenditure budget from \$180 million to \$200 million. On November 7, 2024, Headwater announced that due to strong well results and waterflood success, the Board approved a further increase to the 2024 capital expenditure budget from \$200 million to \$220 million.

On December 5, 2024, the Board approved Headwater's initial 2025 capital expenditure budget of \$225 million.

Headwater Management Changes

On December 5, 2024, as part of Headwater's ongoing long-term succession planning, Headwater announced that effective January 1, 2025, Terry Danku would transition from Vice President, Engineering to Executive Vice President, Jeff Magee (formerly Engineering Manager) would be promoted to Vice President, Engineering and Wade Hein (formerly Production Manager) would be promoted to Vice President, Operations. In addition, Headwater announced that Jon Grimwood (formerly Vice President New Ventures) would be stepping back from his executive position at Headwater but would remain full-time as a senior technical advisor.

Chief Financial Officer

On October 1, 2024, Ali Horvath, the Chief Financial Officer of Headwater returned from maternity leave and Georgia Little, who had been acting as Interim Vice President, Finance and Chief Financial Officer took on the role of Vice President, Finance.

Credit Facility



During the second quarter of 2024, the Corporation amended its Credit Facility to increase the total borrowing base to \$200.0 million from \$100.0 million. Pursuant to the increase in borrowing base, and so long as no event of default has occurred, the Corporation may request one or more increases in the commitment amount from the current commitment amount of \$100.0 million to a maximum total commitment amount of \$200.0 million. Each increase may not be less than \$1.0 million and the Corporation's lenders have no obligation to participate in any requested increase in commitment. The Credit Facility is secured by a demand debenture in the amount of \$500 million. As at December 31, 2024 and December 31, 2025, the Corporation had not drawn on the Credit Facility.

Combined Operations

Headwater achieved corporate annual average production of 20,310 BOE/d, consisting of 19,095 Bbls/d of heavy crude oil, 6.9 MMcf/d of natural gas and 67 Bbls/d of NGLs in 2024. The Corporation executed its 2024 capital expenditure program of \$222.9 million, drilling a total of 76.0 net crude oil wells at a 100% success rate.

Clearwater Operations

With respect to its Clearwater operations, Headwater spent approximately \$208.1 million on capital expenditures in 2024 and achieved annual average production of 19,717 BOE/d, consisting of 19,005 Bbls/d of heavy crude oil, 3.9 MMcf/d of natural gas and 65 Bbls/d of NGLs. The Corporation drilled 96 (96.0 net) wells including 74 (74.0 net) crude oil wells, 19 (19.0 net) injection wells and 3 (3.0 net) source wells/stratigraphic tests. Of the 74 (74.0 net) crude oil wells drilled, 60 (60.0 net) crude oil wells were in Marten Hills West, 8 (8.0 net) crude oil wells were in Greater Nipisi and 6 (6.0 net) crude oil wells were in Greater Peavine.

The Corporation continued to focus on secondary recovery efforts in Marten Hills throughout 2024. At December 31, 2024, Headwater had approximately 35% of corporate heavy oil production stabilized by secondary recovery.

In the fourth quarter of 2024, the construction of a third-party natural gas gathering system in Marten Hills West, which aims to conserve Headwater's natural gas in the area, was completed for approximately \$33 million. The system was commissioned on December 17, 2024 and the Corporation was reimbursed for the construction costs by the third-party. The Corporation and the third-party also entered into a long-term take-or-pay contract.

Land Accumulation outside of Clearwater Acreage

In 2024, Headwater continued its pursuit of organic growth opportunities beyond the boundaries of the Clearwater acreage adding 36 net sections across Western Canada.

McCully Operations

As part of its production optimization strategy, the Corporation shut-in its natural gas production in the McCully Field in New Brunswick on May 1, 2024, and resumed production on December 1, 2024. Headwater's natural gas production averaged 3.0 MMcf/d and its NGLs production averaged 2 Bbls/d in 2024 from the McCully Field. No development operations occurred in 2024 as the lifting of the fracking moratorium in the Sussex region remained uncertain.

Year 2023

Capital Budget

On August 3, 2023, the Board approved an increase to Headwater's 2023 capital expenditure budget from \$200 million to \$225 million. On November 9, 2023, the Board approved a further increase to Headwater's 2023 capital expenditure budget from \$225 million to \$235 million.

On December 7, 2023, the Board approved Headwater's initial 2024 capital budget of \$180 million.



Headwater Succession Plan

On November 9, 2023, as part of Headwater's ongoing long-term succession planning, Headwater announced that effective January 1, 2024, Jason Jaskela would transition from President and Chief Operating Officer to President and Chief Executive Officer of Headwater, Neil Roszell, the former Chair and Chief Executive Officer, would transition to the role of Executive Chair, and Brad Christman would assume the role of Chief Operating Officer of Headwater from his previous role of Vice President, Production.

Interim Vice President, Finance and Chief Financial Officer

On September 14, 2023, Georgia Little, Controller of Headwater, was appointed as Interim Vice President, Finance and Chief Financial Officer of Headwater while Ali Horvath, the Vice President, Finance and Chief Financial Officer of Headwater, was on maternity leave.

Executive Appointment

On August 3, 2023, Headwater announced that Jon Grimwood, the former Vice President, Exploration, was appointed as Vice President, New Ventures of Headwater while Dieter Deines was appointed as Vice President, Exploration of Headwater effective September 1, 2023.

Combined Operations

Headwater achieved corporate annual average production of 18,038 BOE/d, consisting of 16,466 Bbls/d of heavy crude oil, 8.8 MMcf/d of natural gas and 98 Bbls/d of NGLs in 2023.

Clearwater Operations

With respect to its Clearwater operations, Headwater spent approximately \$222 million on capital expenditures in 2023 and achieved annual average production of 17,578 BOE/d, consisting of 16,466 Bbls/d of heavy crude oil, 6.1 MMcf/d of natural gas and 95 Bbls/d of NGLs. The Corporation drilled 101 (101.0 net) wells including 90 (90.0 net) crude oil wells, 8 (8.0 net) injection wells and 3 (3.0 net) source wells/stratigraphic tests. The majority of Headwater's crude oil wells were drilled in Marten Hills West, establishing Marten Hills West as the Corporation's largest producing area with production exceeding 10,500 Bbls/d of heavy crude oil in the fourth quarter of 2023. Headwater also drilled 5 (5.0 net) crude oil wells in West Nipisi, 4 (4.0 net) crude oil wells in Seal and 2 (2.0 net) crude oil well in Peavine at a 100% success rate. Headwater was successful in drilling 2 (2.0) net Stingray wells in Marten Hills West and Seal proving a new technology to increase reservoir exposure.

During 2023, Headwater entered into an agreement with a third-party to construct a natural gas gathering system in Marten Hills West. As discussed above, upon completion of the project it was agreed that the Corporation would be reimbursed by the third-party for the construction costs (which were initially expected to be \$22.5 million) and would enter into a long-term take-or-pay contract with the third-party.

Land Accumulation outside of Clearwater Acreage

In 2023, Headwater continued its pursuit of organic growth opportunities in and beyond the boundaries of the Clearwater acreage adding 198 net sections to the Corporation's land base. At December 31, 2023, Headwater had accumulated a total of 155 net sections of land outside of the Clearwater acreage across numerous oil fairways in Western Canada.

McCully Operations

As part of its production optimization strategy, the Corporation shut-in its natural gas production in the McCully Field in New Brunswick in May 2023 and resumed production on December 1, 2023. Headwater's natural gas



production averaged 2.7 MMcf/d and its NGLs production averaged 3 Bbls/d in 2023 from the McCully Field. No development operations occurred in 2023 as the lifting of the fracking moratorium in the Sussex region remained uncertain.

Significant Acquisitions

There were no significant acquisitions completed by the Corporation during its most recently completed financial year for which disclosure is required under Part 8 of NI 51-102.

DESCRIPTION OF THE BUSINESS

The Corporation is a Canadian resource company currently engaged in the exploration for, and development and production of, petroleum and natural gas in the Western Canadian Sedimentary Basin and onshore in New Brunswick. Headwater acquired high quality oil production, reserves and lands in the Clearwater play in the Marten Hills area of Alberta in December 2020. Headwater has continued its pursuit of organic growth opportunities in and beyond the boundaries of the Clearwater acreage.

In addition, the Corporation currently has low decline natural gas production and reserves in the McCully Field near Sussex, New Brunswick and a shale gas prospect in New Brunswick. The historic assets of the Corporation in New Brunswick provide production and free cash flow for the Corporation's operations. To the extent that the New Brunswick government's fracking moratorium is lifted in respect of the Corporation's assets in the McCully Field, the Corporation may pursue further development of such assets to supply natural gas to the undersupplied market in Atlantic Canada.

Business Strategy

Headwater's business strategy is to provide attractive long-term shareholder returns by focusing on asset quality and sustainability while maintaining a pristine balance sheet.

Headwater seeks to execute this strategy by:

- ***Growing base production while maintaining a strong balance sheet.*** Headwater plans to utilize its free cash flow and working capital to provide financial flexibility for future development and acquisitions. Headwater expects to maintain its strong balance sheet with significant liquidity to enable future internal development opportunities and potential acquisitions. As at December 31, 2025, Headwater had working capital of approximately \$30.0 million and no bank debt.
- ***Continue adding incremental prospects through strategic land acquisitions and accretive mergers and acquisitions.*** In 2025, Headwater announced a new partnership with the Bigstone Cree Nation. The new farmout agreement with the Bigstone Cree Nation resulted in Headwater earning leases across 34.5 sections of highly prospective land in the Greater Pelican area. Following the entering into of the Bigstone Cree Nation farmout agreement, the Corporation acquired an additional 10 sections of land with an option to acquire 8 more sections in the Greater Pelican area. Headwater continues its pursuit of organic growth opportunities in and beyond the boundaries of the Clearwater acreage. Headwater explores for new oil and natural gas plays on its undeveloped land base and proactively works to secure other new and prospective opportunities.
- ***Continue to implement secondary recovery reducing decline rates and providing long-term return of capital stability.*** As at December 31, 2025, Headwater had approximately 50% of its corporate heavy oil production supported under secondary recovery. The Corporation expects that 60% of corporate heavy oil production will be supported by secondary recovery by year-end 2026, resulting in decline rates of less than 20%.



- **Return of capital with a sustainable dividend and opportunistic NCIB.** On November 3, 2022, in conjunction with the Corporation's continued success, Headwater announced its inaugural quarterly cash dividend of \$0.10 per Common Share. On December 5, 2024, Headwater announced that it would increase its quarterly dividend to \$0.11 per Common Share commencing with the dividend to be paid on April 15, 2025, to Shareholders of record on March 31, 2025. To date, Headwater has paid out cumulative dividends of \$317.6 million to Shareholders (\$1.34 per Common Share). Headwater remains committed to returning excess free cash to Shareholders.

On May 1, 2025, Headwater announced TSX approval of its NCIB to purchase for cancellation up to 19,020,755 Common Shares. During the year ended December 31, 2025, Headwater utilized its NCIB which resulted in approximately 1.05 million Common Shares being purchased for cancellation at an average price of \$7.30 per Common Share for total consideration of \$7.7 million.

See "*Industry Conditions*" and "*Risk Factors*" for further details.

Specialized Skill and Knowledge

The Corporation relies on specialized skills and knowledge to: gather, interpret and process geophysical data; drill and complete wells; design and operate production facilities; evaluate and complete acquisitions of assets; and for numerous additional activities required to explore for and produce oil and natural gas. The Corporation has employed a strategy of contracting consultants and other service providers to supplement the skills and knowledge of its permanent staff in order to provide the specialized skills and knowledge to undertake its oil and natural gas operations effectively. See "*Directors and Executive Officers of the Corporation*".

Reorganizations

There have been no material reorganizations of the Corporation in the last three completed financial years or proposed for the current financial year.

Personnel

As of December 31, 2025, the Corporation had 35 employees and 9 consultants in the Calgary head office, 1 employee in Halifax, 3 employees in the field in New Brunswick, 32 consultants in the field in Alberta and 1 consultant in the field in New Brunswick.

Marketing

Headwater's heavy crude production from the Clearwater area is sold to various creditworthy counterparties at current market prices. These heavy crude oil contracts are short-term in nature, at market terms and in the ordinary course of business. The Corporation has various take-or-pay pipeline service agreements to deliver its heavy oil production from Headwater's oil processing facility in Marten Hills to market that expire in 2030-2035. The Corporation also has a 4-year take-or-pay processing and pipeline agreement for its heavy oil production delivered to a third-party facility in the Greater Nipisi area. In conjunction with the commissioning of a third-party natural gas gathering system in Marten Hills West in December of 2024, Headwater entered into a long-term fixed take-or-pay contract with both a minimum daily volume commitment and a cumulative minimum volume commitment. For details of the Corporation's transportation agreements in place as at December 31, 2025, see the Corporation's audited financial statements for the year ended December 31, 2025, which have been filed on SEDAR+ and may be viewed under the Corporation's profile at www.sedarplus.ca. Headwater sells its natural gas production from the Marten Hills area through a marketing agreement with a creditworthy counterparty which is at market terms and in the ordinary course of business.

The Corporation produces natural gas from the McCully Field in New Brunswick, which is connected to the M&NP that supplies customers in the Maritimes and the New England market in the northeastern U.S. The New England



market has in recent years been characterized by excess demand during the winter season resulting in elevated prices for natural gas as compared to prices in other areas of North America, and this excess demand is expected to continue until new pipeline infrastructure is available to increase the supply of natural gas into this market. The Corporation sells all of its share of the natural gas produced from the McCully Field to a single purchaser pursuant to a marketing contract which terminates on April 30, 2027. This agreement is at market terms and in the ordinary course of business.

The production, transportation, processing and marketing of natural gas from Nutrien Ltd.'s ("**Nutrien**") share of the production from the McCully Field are subject to agreements with Nutrien. Nutrien's share of natural gas production is either taken in kind for use at the Nutrien potash facility, located near Sussex, New Brunswick or delivered to the Corporation's midstream facilities for sale by Nutrien to the Maritimes market and New England market.

A key component of the Corporation's production optimization strategy related to its McCully assets is to enter into financial hedges to mitigate the risks associated with the volatility of natural gas prices during the winter heating season when natural gas is produced from the McCully Field.

The Corporation has also adopted a hedging policy – see "*Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Forward Contracts*". For details of the Corporation's forward contracts in place as at December 31, 2025 and subsequent to December 31, 2025, see the Corporation's audited financial statements for the year ended December 31, 2025, which have been filed on SEDAR+ and may be viewed under the Corporation's profile at www.sedarplus.ca. See "*Risk Factors – Prices, Markets and Marketing*".

Cyclical and Seasonal Nature of Industry

Headwater's operational results and financial condition are dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely recently and are determined by supply and demand factors. The energy business is cyclical in nature and heavily influenced on macroeconomic cycles and other factors affecting supply and demand. In periods of economic expansion and growth, the demand for energy increases as economies build inventory and productive capacity. Generally speaking, in periods of economic contraction or recession, demand for energy declines. These macroeconomic cycles often impact global, North American and local prices for commodities, particularly oil and gas prices. In addition, the actions of OPEC+ and other oil producing countries and other factors impacting supply of oil will impact the price of oil. Weather and general economic conditions, as well as conditions in other oil and natural gas regions, also impact supply and demand of commodity prices and costs. Any decline in oil and natural gas prices could have an adverse effect on Headwater's financial condition. Headwater mitigates such price risk through closely monitoring the various commodity markets and establishing hedging programs, as deemed necessary, to lock-in high netbacks on production volumes.

The Corporation produces natural gas from the McCully Field in New Brunswick, which is connected to the M&NP that supplies customers in the Maritimes and the New England market in the northeastern U.S. The New England market has in recent years been characterized by excess demand during the winter season resulting in elevated prices for natural gas as compared to prices in other areas of North America, and this excess demand is expected to continue until new pipeline infrastructure is available to increase the supply of natural gas into this market. As a result, the Corporation shut-in its production from the McCully Field in the summer months and only produces in the winter months when prices are higher.

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. In anticipation of the operational delays associated with "spring break up", the Corporation takes certain steps to mitigate interruption to its activities including, scheduling drilling and completion activities on preconstructed multi-well pads to be executed throughout the spring break up season and setting up extra storage where possible to



mitigate downtime. Through the duration of spring break up, drilling and exploratory activities slow and the Corporation's production which is not otherwise tied-in may be shut-in temporarily if access is limited.

In addition, extreme cold weather, heavy snowfall and heavy rainfall in the winter months and forest fires in the summer months may restrict the Corporation's ability to access its properties, cause operational difficulties, including damage to machinery, or contribute to personnel injury as a result of dangerous working conditions. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity (including temporary production shut-ins), damage to the Corporation's equipment or injury to its personnel.

See "*Risk Factors – Prices, Markets and Marketing*" and "*Risk Factors – Climate Change*".

Environmental Considerations and Protection

The Corporation is required to comply with various federal, provincial and municipal laws related to climate change and protection of the environment. Compliance with such laws affect a variety of aspects of the Corporation's operations including, among others, abandonment and reclamation of wells, facilities and related infrastructure, flaring and venting of natural gas, water usage and disposal, greenhouse gas emissions and clean-ups of spills.

Headwater uses minimal fresh water in its drilling operations by utilizing oil-based mud. The oil-based mud is recycled and reused within the program which results in reduced costs for the Corporation. Headwater's Marten Hills waterflood utilizes saline and produced water, without any freshwater usage. Headwater believes in well abandonment and site restoration in a timely manner to ensure minimal damage to the environment and lower overall costs.

The federal government and certain provincial governments have enacted legislation aimed at discouraging the use of fossil fuels in an effort to decrease greenhouse gas emissions. Over the long-term, laws designed to curb the use of fossil fuels in Canada and other countries could have an impact on the demand for fossil fuels and have a negative impact on the price of oil and natural gas, which would have an effect on the Corporation's financial results and ultimately the sustainability of the Corporation's business model. Headwater does not currently have any facilities that exceed current emissions thresholds that would subject Headwater to more onerous requirements; however, regulations relating to greenhouse gas ("**GHG**") emissions are continuing to evolve and it is uncertain how any new (or amended) regulations will impact the Corporation's operations and financial results. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation*".

Although Headwater operates in compliance with all applicable regulations and ensures that all staff and contractors employ sound practices to protect the environment and to ensure employee and public health and safety, occasionally fluid spills and other incidents threatening the environment may occur. The costs of cleaning up such spills could negatively affect the Corporation's financial and operating results as the Corporation incurs costs and utilizes resources in cleaning up such spills. In 2025, the Corporation did not have any material spills or releases.

Health, Safety, Environmental and Social Policies

Under its mandate, the Board oversees the health, safety and environmental compliance and protection by the Corporation; however, it has delegated certain of its responsibilities for the oversight of health, safety and environmental matters to the ES&S Committee, which is comprised of independent directors of the Corporation. In addition to the oversight of Headwater's environmental and safety practices by the Board and the ES&S Committee, management, employees and all contractors will be responsible and accountable for the Corporation's overall health, safety and environmental program. Headwater operates in compliance with all applicable regulations and ensures that all staff and contractors employ sound practices to protect the environment and to ensure employee and public health and safety.



Headwater maintains a safe and environmentally responsible workplace and provides training, equipment and procedures to all individuals in adhering to its policies. It also solicits and takes into consideration input from neighbours, communities and other stakeholders in regard to protecting people and the environment.

Headwater has a corporate Environment Management System which is continuously updated and meets regulatory guidelines. Procedures are put in place to ensure that the utmost care is taken in the day-to-day management of the Corporation's properties with an emphasis on incident prevention. In addition, Headwater requires each of its field workers to have completed industry standard courses.

The Corporation also has an Emergency Response Plan (the "ERP") which is prepared in accordance with applicable regulations. The ERP is designed to provide the Corporation with policies, practices and procedures to be implemented in the event of an emergency situation that arises at or as a result of Headwater's operations, including but not limited to, a serious injury or fatality, fire or explosion, uncontrolled or hazardous product release and oil or hazardous chemical spill. The purpose of the ERP is to protect the health, safety and welfare of the public and workers and minimize potential adverse environmental effects. Management intends to test the ERP in 2026 with exercises and drills to ensure its effectiveness and its procedures are revised to ensure the Corporation is adhering to the highest industry standards.

Under its mandate, the ES&S Committee oversees the health, safety and environmental compliance and protection by the Corporation. As part of this mandate, the ES&S Committee requires management to provide a report at each quarterly ES&S Committee meeting outlining any environmental or safety incidents that occurred or areas of concern that have arisen since the previous quarterly ES&S Committee meeting and considers whether any changes should be implemented. The ES&S Committee and the Board also receive periodic updates from management on implemented or proposed legislative or regulatory changes that may affect the Corporation's operations. Under its mandate, the ES&S Committee provides reports and make recommendations to the Board as determined necessary on environment, health and safety matters that are relevant to the Corporation. In addition, periodically, the ES&S Committee and/or the Board discusses and reviews Headwater's environmental, health and safety policies and, with management input, makes suggestions to ensure that the Corporation is adhering to best practices within the industry.

Competitive Conditions

Headwater is a member of the petroleum industry, which is highly competitive at all levels. Headwater competes with other companies for all of its business inputs, including exploitation and development prospects, access to commodity markets, acquisition opportunities, available capital and staffing. See "*Risk Factors – Industry Competition*".

Headwater strives to be competitive by maintaining a strong financial condition and by utilizing current technologies to enhance exploitation, development and operational activities.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The statement of reserves data and other oil and natural gas information set forth below (the "**Reserves Data**") is based upon the evaluation by McDaniel with an effective date of December 31, 2025, contained in the McDaniel Report dated January 15, 2026.

Disclosure of Reserves Data

The Reserves Data summarizes the NGLs, conventional natural gas, shale gas and heavy crude oil reserves associated with the Corporation's assets and the net present values of future net revenue for such reserves using forecast prices and costs. The tables below are a combined summary of the Corporation's NGLs, conventional natural gas, shale gas and heavy crude oil reserves and the net present value of future net revenue attributable to such reserves as evaluated in the McDaniel Report based on forecast price and cost assumptions. The NGLs, conventional natural gas,



shale gas and heavy crude oil reserve estimates presented in the McDaniel Report are based on the guidelines contained in the COGE Handbook and the reserve definitions contained in both NI 51-101 and the COGE Handbook. A summary of those definitions are set forth under the heading "*Notes on Reserves Data and Other Oil and Gas Information*" in this Annual Information Form. McDaniel was engaged to provide evaluations of Proved Reserves and P+P Reserves and no attempt was made to evaluate possible reserves. Additional information not required by NI 51-101 has been presented to provide continuity and additional information, which Headwater believes is important to the readers of this information.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There are numerous uncertainties inherent in estimating quantities of NGLs, conventional natural gas, shale gas and heavy crude oil reserves and the future cash flows attributed to such reserves. The reserves and associated cash flow information set forth in this Annual Information Form are estimates only. The recovery and reserve estimates of the NGLs, conventional natural gas, shale gas and heavy crude oil reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual NGLs, conventional natural gas, shale gas and heavy crude oil reserves may be greater than or less than the estimates provided herein. In general, estimates of economically recoverable NGLs, conventional natural gas, shale gas and heavy crude oil reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of NGLs, conventional natural gas, shale gas, heavy crude oil, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, among others, estimates of the economically recoverable NGLs, conventional natural gas, shale gas and heavy crude oil reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves may vary and such variations may be material. The actual production, revenues, taxes and development and operating expenditures with respect to the reserves associated with the Corporation's assets may vary from the information presented herein and such variations could be material.

In accordance with the requirements of NI 51-101, the Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 and the Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2 are attached as Schedules "A" and "B" hereto, respectively.

Headwater's reserves are located primarily in the Clearwater area of Alberta, Canada and in the McCully Field in New Brunswick, Canada. Please note that rounding errors may occur in the tables set forth below in this Statement of Reserves Data and Other Oil and Gas Information.



Reserves Data (Forecast Prices and Costs)

SUMMARY OF OIL AND GAS RESERVES as of December 31, 2025 FORECAST PRICES AND COSTS

Reserve Category	Conventional Natural Gas		Shale Gas		Heavy Crude Oil		Natural Gas Liquids		Total Oil Equivalent	
	Gross (MMcf)	Net (MMcf)	Gross (MMcf)	Net (MMcf)	Gross (MBbl)	Net (MBbl)	Gross (MBbl)	Net (MBbl)	Gross (MBOE)	Net (MBOE)
PROVED										
Developed Producing	21,035	19,445	719	693	40,734	31,166	166	140	44,526	34,663
Developed Non-Producing	17	15	1,498	1,444	268	251	2	2	523	496
Undeveloped	4,203	3,698	-	-	22,455	18,944	74	65	23,229	19,625
TOTAL PROVED	25,255	23,158	2,217	2,138	63,458	50,362	242	206	68,278	54,784
PROBABLE										
Developed Producing	5,208	4,783	179	173	12,275	8,757	42	34	13,215	9,617
Developed Non-Producing	5	4	502	484	74	69	1	1	159	151
Undeveloped	5,051	4,391	-	-	21,924	17,656	88	74	22,854	18,462
TOTAL PROBABLE	10,263	9,178	681	656	34,272	26,482	131	108	36,227	28,230
TOTAL PROVED PLUS PROBABLE	35,518	32,336	2,898	2,794	97,730	76,844	372	315	104,505	83,014

Note:

- (1) Columns may not add due to rounding.

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE as at December 31, 2025 FORECAST PRICES AND COSTS⁽¹⁾

RESERVES CATEGORY	Before Income Tax Discounted at (%/year)					After Income Taxes Discounted at (%/year) ⁽²⁾				
	0 (\$000s)	5 (\$000s)	10 (\$000s)	15 (\$000s)	20 (\$000s)	0 (\$000s)	5 (\$000s)	10 (\$000s)	15 (\$000s)	20 (\$000s)
PROVED										
Developed Producing	1,580,469	1,300,038	1,094,813	948,758	840,512	1,308,397	1,085,217	917,035	796,776	707,466
Developed Non-Producing	22,085	18,085	15,045	12,732	10,937	16,475	13,596	11,340	9,605	8,252
Undeveloped	564,417	435,380	339,626	267,516	212,359	434,931	326,944	247,782	188,757	144,004
TOTAL PROVED	2,166,971	1,753,503	1,449,485	1,229,007	1,063,808	1,759,803	1,425,757	1,176,158	995,138	859,722
PROBABLE										
Developed Producing	586,691	330,407	219,190	160,577	125,390	451,769	253,987	168,386	123,340	96,308
Developed Non-Producing	7,650	5,364	3,953	3,040	2,413	5,860	4,056	2,979	2,289	1,818
Undeveloped	801,768	600,813	461,668	363,067	291,500	617,386	458,869	349,768	272,873	217,354
TOTAL PROBABLE	1,396,109	936,584	684,811	526,684	419,304	1,075,014	716,912	521,132	398,502	315,479
TOTAL PROVED PLUS PROBABLE	3,563,080	2,690,087	2,134,296	1,755,691	1,483,111	2,834,817	2,142,669	1,697,291	1,393,641	1,175,202

Notes:

- (1) The estimated values of future net revenues disclosed do not represent fair market value.
(2) Based on Headwater's estimated tax pools as at December 31, 2025. The after-tax net present value of Headwater's oil and natural gas properties reflects the income tax burden on the properties on a stand-alone basis and takes into account Headwater's existing tax pools. It does not consider tax planning.



**TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
as at December 31, 2025
FORECAST PRICES AND COSTS⁽¹⁾**

RESERVES CATEGORY	REVENUE (\$000s)	ROYALTIES (\$000s)	OPERATING COSTS (\$000s)	DEVELOPMENT COSTS (\$000s)	ABANDONMENT AND RECLAMATION COSTS ⁽²⁾ (\$000s)	FUTURE NET REVENUE BEFORE INCOME TAXES (\$000s)	FUTURE INCOME TAXES (\$000s)	FUTURE NET REVENUE AFTER INCOME TAXES (\$000s)
Proved Reserves	4,824,856	956,497	1,153,511	401,177	146,700	2,166,971	407,168	1,759,803
Proved Plus Probable Reserves	7,657,536	1,592,025	1,744,842	587,674	169,915	3,563,080	728,263	2,834,817

Notes:

- (1) The estimated values of future net revenues disclosed do not represent fair market value.
(2) For more information, see "Statement of Reserves Data and Other Oil and Gas Information – Significant Factors or Uncertainties – Additional Information about Abandonment and Reclamation Costs".

**FUTURE NET REVENUE
BY PRODUCTION TYPE
as of December 31, 2025
FORECAST PRICES AND COSTS**

RESERVES CATEGORY	PRODUCTION TYPE	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (\$000s) ⁽²⁾	UNIT VALUE ⁽³⁾
Proved Reserves	Heavy Crude Oil ⁽¹⁾	1,369,973	\$27.25/Bbl
	Conventional Natural Gas ⁽¹⁾	68,791	\$5.79/Mcf
	Shale Gas ⁽¹⁾	10,720	\$5.02/Mcf
	Total⁽²⁾	1,449,485	
Proved Plus Probable Reserves	Heavy Crude Oil ⁽¹⁾	2,043,619	\$26.64/Bbl
	Conventional Natural Gas ⁽¹⁾	77,806	\$5.26/Mcf
	Shale Gas ⁽¹⁾	12,871	\$4.61/Mcf
	Total⁽²⁾	2,134,296	

Notes:

- (1) Including by-products (including NGLs). The McDaniel Report does not separately report on the Future Net Revenue for NGLs.
(2) Columns may not add due to rounding.
(3) Unit values are calculated using the 10% discount rate divided by the major product type net reserves for each group.

Pricing Assumptions

The following tables set forth the benchmark reference prices, as at December 31, 2025, reflected in the Reserves Data. The forecast of prices, inflation and exchange rates provided in the table below were computed using the



average of the forecasts by GLJ, McDaniel and Sproule ERCE (formerly Sproule Associates Limited) effective as at January 1, 2026.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS⁽¹⁾
as of December 31, 2025
FORECAST PRICES AND COSTS

Year	Crude Oil				Edmonton Liquids Prices	
	WTI Crude Oil (US\$/Bbl)	Edmonton Light Crude 40° API (Cdn\$/Bbl)	Alberta Heavy Crude Oil at Hardisty (Cdn\$/Bbl)	WCS Crude Oil Stream Quality at Hardisty (Cdn\$/Bbl)	Edmonton Cond. & Natural Gasolines (Cdn\$/Bbl)	Edmonton Butanes (Cdn\$/Bbl)
Forecast ⁽⁴⁾						
2026	59.92	77.54	60.09	65.13	80.01	36.95
2027	65.10	83.60	64.94	70.43	86.19	39.79
2028	70.28	90.17	71.16	76.90	92.83	42.87
2029	71.93	92.32	72.84	78.71	95.04	43.89
2030	73.37	94.17	74.30	80.29	96.94	44.77
2031	74.84	96.06	75.80	81.90	98.89	45.66
2032	76.34	97.98	77.32	83.53	100.86	46.58
2033	77.87	99.93	78.87	85.20	102.88	47.51
2034	79.42	101.93	80.46	86.91	104.94	48.46
2035	81.01	103.97	82.08	88.65	107.04	49.43
2036	82.63	106.05	83.72	90.42	109.18	50.42

Thereafter escalation rate of 2.0%

Year	Natural Gas					
	Natural Gas AECO Spot (Cdn\$/MMBtu)	NYMEX Henry Hub (US\$/MMBTU)	AGT Premium to Henry Hub ⁽²⁾ (Cdn\$/MMbtu)	McCully Gas Price ⁽³⁾ (Cdn\$/MMbtu)	Inflation Rate %/Year	Exchange Rate ⁽⁴⁾ (US\$/Cdn\$)
Forecast ⁽⁵⁾						
2026	3.00	3.74	9.38	16.14	2.00	0.73
2027	3.30	3.78	9.25	15.31	2.00	0.74
2028	3.49	3.85	8.87	15.07	2.00	0.74
2029	3.58	3.93	8.98	9.31	2.00	0.74
2030	3.65	4.01	9.08	9.08	2.00	0.74
2031	3.72	4.09	9.19	9.19	2.00	0.74
2032	3.80	4.17	9.30	9.30	2.00	0.74
2033	3.88	4.26	9.41	9.41	2.00	0.74
2034	3.95	4.34	9.53	9.53	2.00	0.74
2035	4.03	4.43	9.64	9.64	2.00	0.74
2036	4.11	4.52	9.76	9.76	2.00	0.74
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.00	0.74

Notes:

- (1) This summary table identifies benchmark reference pricing schedules that might apply to a reporting issuer.
- (2) Not a published forecast. McDaniel's estimate of the AGT premium to Henry Hub including the Maritime Adder.
- (3) The forecast McCully gas price is used by McDaniel in calculating the net present value of Headwater's future natural gas net revenues from the McCully Field. The McCully gas price is determined by adjusting the forecast AGT gas prices for heat content and marketing conditions. The McCully gas price in years 2026-2028 reflects only the winter producing months (January to April and December) to correlate to the intermittent production strategy employed by the



Corporation to capture seasonal premium pricing. After 2028, the McDaniel Report assumes Headwater produces volumes from its reserves continuously over the year and as such, McCully pricing reflects the full year.

- (4) The exchange rate used to generate the benchmark reference prices in this table.
(5) As at December 31, 2025.

The weighted average historical prices realized, before financial derivative contracts, by the Corporation for the year ended December 31, 2025, were \$6.43/Mcf for natural gas, \$71.53/Bbl for NGLs and \$77.56/Bbl for heavy crude oil. The weighted average historical price of heavy crude oil net of costs to blend was \$74.32/Bbl.

Reconciliation of Changes in Reserves

The following table sets out the reconciliation of the gross reserves of the Corporation as at December 31, 2025 as compared to December 31, 2024:

Reserves Reconciliation of Corporation Total Reserves									
By Principal Product Type									
(Forecast Prices and Costs)									
FACTORS	Conventional Natural Gas			Shale Gas			Heavy Crude Oil		
	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)	Gross Proved (MBbl)	Gross Probable (MBbl)	Gross Proved Plus Probable (MBbl)
December 31, 2024⁽¹⁾	28,523	13,080	41,603	2,232	702	2,934	37,663	22,307	59,969
Extensions and Improved Recovery ⁽³⁾	2,834	1,908	4,743	-	-	-	18,223	12,806	31,029
Technical Revisions ⁽⁴⁾	(1,772)	(4,704)	(6,475)	21	(21)	-	15,551	(737)	14,814
Discoveries	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	(186)	(21)	(207)	-	-	-	(421)	(103)	(524)
Production	(4,145)	-	(4,145)	(36)	-	(36)	(7,558)	-	(7,558)
December 31, 2025⁽²⁾	25,255	10,263	35,518	2,217	681	2,898	63,458	34,272	97,730

Reserves Reconciliation of Corporation Reserves						
By Principal Product Type						
(Forecast Prices and Costs)						
FACTORS	Natural Gas Liquids			Total Oil Equivalent		
	Gross Proved (MBbl)	Gross Probable (MBbl)	Gross Proved Plus Probable (MBbl)	Gross Proved (MBOE)	Gross Probable (MBOE)	Gross Proved Plus Probable (MBOE)
December 31, 2024⁽¹⁾	286	175	461	43,075	24,778	67,853
Extensions and Improved Recovery ⁽³⁾	49	33	83	18,744	13,158	31,902
Technical Revisions ⁽⁴⁾	(32)	(77)	(109)	15,227	(1,601)	13,626
Discoveries	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-
Economic Factors	(3)	-	(4)	(455)	(107)	(562)
Production	(58)	-	(58)	(8,313)	-	(8,313)
December 31, 2025⁽²⁾	242	131	372	68,278	36,227	104,505

Notes:

- (1) As evaluated by McDaniel as at December 31, 2024, using the average of the forecasts by GLJ, McDaniel and Sproule ERCE (formerly Sproule Associates Limited) and costs as at such date.



- (2) As evaluated in the McDaniel Report.
- (3) Extensions are additional reserves due to the increase in the 2025 capital expenditure program. Improved recovery is a result of additional reserves related to enhanced oil recovery activities.
- (4) Technical revisions include all changes in reserves due to well performance.
- (5) Columns may not add due to rounding.

Additional Information Relating to Reserves Data

Undeveloped Reserves

Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production. Probable undeveloped reserves are those reserves that are less certain to be recovered than Proved Reserves and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

On May 27, 2016, the Government of New Brunswick announced its decision to continue the moratorium on hydraulic fracturing for an indefinite period. Headwater believes that all undeveloped wells in the McCully Field require hydraulic fracture stimulation to be commercially productive. As a result of this announcement, Headwater's undeveloped wells requiring hydraulic fracture stimulations in New Brunswick no longer meet the necessary conditions to qualify as reserves and the Corporation together with the independent qualified reserves evaluator of the Corporation at that time made the decision in June 2016 to eliminate all undeveloped reserves from its estimates of reserves.

The Corporation attributed certain proved and probable undeveloped reserves in the Clearwater area. The Corporation plans to develop all of its proved and probable undeveloped reserves within four years (with 58% of such reserves expected to be developed within two years); however, these locations will continue to be re-evaluated to assess their relative economic merits when compared to other projects available to the Corporation. Undeveloped reserves planned to be developed beyond two years are scheduled in that manner due to various factors including access to capital, limitations on egress and pricing uncertainty.

See "Risk Factors – Hydraulic Fracturing" and "Risk Factors – Exploration, Development and Production Risks" and other factors noted in "Risk Factors".

The following tables set forth the proved undeveloped reserves and the probable undeveloped reserves, each by product type, attributed to the Corporation's assets for the years ended December 31, 2025, 2024 and 2023 and also the remaining cumulative proved undeveloped reserves and the probable undeveloped reserves as at the end of such years.

Proved Undeveloped Reserves

	Conventional Natural Gas (MMcf)		Shale Gas (MMcf)		Heavy Crude Oil (MBbl)		Natural Gas Liquids (MBbl)		Oil Equivalent (MBOE)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
2023	2,072	2,206	-	-	7,667	9,796	32	34	8,044	10,198
2024	2,762	4,525	-	-	7,814	12,429	48	79	8,322	13,262
2025	2,181	4,203	-	-	13,674	22,455	38	74	14,075	23,229

Notes:

- (1) "First Attributed" refers to reserves first attributed at the year end of the corresponding fiscal year.
- (2) Columns may not add due to rounding.



McDaniel has assigned 23,229 MBOE of proved undeveloped reserves in the McDaniel Report under forecast prices and costs, together with \$397.8 million of associated undiscounted future capital expenditures with substantially all scheduled to be developed in the first three forecast years.

Probable Undeveloped Reserves

Year	Conventional Natural Gas (MMcf)		Shale Gas (MMcf)		Heavy Crude Oil (Mbbbl)		Natural Gas Liquids (Mbbbl)		Oil Equivalent (MBOE)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
	2023	4,397	4,946	-	-	6,442	9,341	89	97	7,264
2024	2,959	5,241	-	-	6,121	12,135	52	92	6,666	13,100
2025	2,370	5,051	-	-	12,384	21,924	42	88	12,820	22,854

Notes:

- (1) "First Attributed" refers to reserves first attributed at the year end of the corresponding fiscal year.
- (2) Columns may not add due to rounding.

McDaniel has assigned 22,854 MBOE of probable undeveloped reserves in the McDaniel Report under forecast prices and costs, together with \$186.5 million of associated undiscounted future capital expenditures with substantially all scheduled to be developed in the first four forecast years.

Significant Factors or Uncertainties

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, commodity prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year end oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

In addition, higher than estimated operating costs would substantially reduce Headwater's netback, which in turn would reduce the amount of cash available for reinvestment in drilling opportunities. This becomes most relevant during periods of low commodity prices when profits are more significantly impacted by high costs.

On March 27, 2015, the Government of New Brunswick enacted *An Act to Amend the Oil and Natural Gas Act* which created a moratorium on all forms of hydraulic fracturing in New Brunswick. On May 27, 2016, the New Brunswick Government announced its decision to continue the moratorium for an indefinite period, though recent amendments suggest that exemptions may be available for operations in the Sussex region. Headwater believes that all undeveloped wells on its properties in New Brunswick require hydraulic fracture stimulation to be commercially productive. As a result of this announcement, Headwater has determined that it will not undertake any drilling or completion activities or incur associated capital expenditures in New Brunswick until the moratorium is lifted. As a result, Headwater's undeveloped wells in New Brunswick requiring hydraulic fracturing no longer meet the necessary



conditions to qualify as reserves. See "Risk Factors – Hydraulic Fracturing", "Risk Factors – Exploration, Development and Production Risks" and other factors noted in "Risk Factors".

Additional Information about Abandonment and Reclamation Costs

The Corporation's total future abandonment and site reclamation costs are based on information published by the AER with respect to the AER liability management programs in Alberta, standard engineering techniques and management's estimate of costs to remediate, reclaim and abandon wells and facilities having regard to Headwater's working interest and the estimated timing of the costs to be incurred in future periods. Headwater has developed a process to calculate these estimates, which considers applicable regulations, actual and anticipated costs, type of well or facility and geographic location. McDaniel has determined that Headwater's estimates of its abandonment and reclamation costs are reasonable and have included these costs in the McDaniel Report. All costs associated with the process of restoring the Corporation's properties that have been disturbed by oil and gas activities to a standard imposed by applicable government or regulatory authorities have been deducted for the purposes of calculating the net present value of the future net revenue associated with the Corporation's reserves.

Headwater estimates that the total cost to abandon and reclaim all existing wells (including inactive wells) and related facilities and infrastructure as of December 31, 2025, is approximately \$69.9 million on an undiscounted, uninflated basis. The abandonment and reclamation costs in New Brunswick include 41 (32.0 net) oil and gas wells (producing and non-producing), the gas processing plant and transmission pipeline, and in Alberta 567 (565.5 net) wells (inclusive of producing and non-producing oil and gas wells, abandoned, water source, observation, stratigraphic test and injection wells) with related multi-well battery infrastructure, the joint natural gas processing facility and the oil processing facility and 7 (7.0 net) wells in Saskatchewan.

The McDaniel Report included the full estimated undiscounted future abandonment and reclamation costs on all existing wells with reserves, inactive wells with no reserves assigned and related facilities and infrastructure plus all forecast estimates of abandonment and reclamation costs attributable to future development activity associated with the reserves.

Of the undiscounted future abandonment and reclamation costs to be incurred over the life of Headwater's P+P Reserves, approximately \$169.9 million (undiscounted) and \$24.3 million (10% discounted) has been deducted in estimating the future net revenue in the McDaniel Report, which represents the Corporation's total existing estimated abandonment and reclamation costs, plus all forecast estimates of abandonment and reclamation costs attributable to future development activity associated with the reserves.

Additional information related to the Corporation's estimated share of future environmental and reclamation obligations for the working interest properties (including all abandonment and reclamation costs associated with all existing wells, facilities and infrastructure) can be found in Headwater's audited financial statements for the year ended December 31, 2025 and the accompanying management's discussion and analysis, which have been filed on SEDAR+ and may be viewed under the Corporation's profile at www.sedarplus.ca.



Future Development Costs

The following table sets forth development costs deducted in the estimation of the future net revenue attributable to the reserve categories noted below.

Year	Forecast Prices and Costs	
	Proved Reserves (\$M)	Proved Plus Probable Reserves (\$M)
2026	122,950	141,850
2027	144,520	146,048
2028	121,163	162,800
2029	12,544	136,977
2030	-	-
Thereafter	-	-
Total: Undiscounted	401,177	587,674
Discounted 10%	348,273	488,348

The future development costs for both Proved Reserves and P+P Reserves are expected to be funded through future cash flow provided by operating activities and from the Corporation's existing working capital. As at December 31, 2025, Headwater's anticipated capital expenditures in 2026 include anticipated costs for exploration and development activities in Alberta of \$185 million which is in excess of the future development costs utilized for estimating the future net revenue of both the Corporation's Proved Reserves and P+P Reserves as set out in the McDaniel Report. The 2026 capital expenditure budget includes expenditures for maintenance and growth capital, waterflood capital and exploration capital that are not contained in the McDaniel Report. Headwater's capital program does not include any new acquisition opportunities, which would likely be financed through existing working capital, the Credit Facility or debt or equity financings, if necessary. Headwater may also consider issuing Common Shares or other securities as consideration for future acquisitions.

Headwater's 2026 capital expenditure program includes insignificant capital spending in New Brunswick due to the hydraulic fracturing moratorium currently in effect in New Brunswick.

There can be no guarantee that funds will be available or that the Board will allocate funding to develop all of the reserves attributable in the McDaniel Report. Failure to develop those reserves may have a negative impact on Headwater's future cash flow.

The interest or other costs of external funding are not included in the reserves and future net revenue estimates set forth above and may reduce the reserves and future net revenue to some degree depending upon the funding sources utilized. Headwater does not anticipate that interest or other funding costs would make further development of any of the NGLs, conventional natural gas, shale gas and heavy crude oil assets uneconomic.

Factors that could result in the change in timing or cancelled future developments include, but are not limited to, changing economic and technical conditions, surface access issues, the availability of services and access to pipeline or processing facilities.

See "Statement of Reserves Data and Other Oil and Gas Information – Description of Principal Properties" for a description of the Corporation's exploration and development plans and expenditures.



Other Oil and Gas Information

Description of Principal Properties

Clearwater Operations, Alberta

The Corporation's Clearwater operations are located in northern Alberta and include production within the Marten Hills core and Marten Hills west areas, Greater Peavine, Greater Nipisi and its newest producing area, Greater Pelican. Clearwater operations primarily target conventional heavy oil from Cretaceous-aged formations including the Clearwater, Falher, Grand Rapids and Wabiskaw. These formations are characterized as conventional reservoirs, with variability throughout, but in general are oil-bearing zones that are approximately 5-20 metres in thickness. The various formations' reservoir characteristics provide for development under the application of open-hole multilateral wells targeted at a vertical depth of approximately 500 to 800 metres. Clearwater operations are highly amenable for secondary recovery. At December 31, 2025, Headwater had approximately 50% of corporate heavy oil production supported by secondary recovery.

The Corporation's heavy oil production (average 18 - 22° API) must be blended with diluent during the winter months to reduce the viscosity of the heavy oil to meet downstream pipeline specifications. The annual average production from the Corporation's Clearwater assets in 2025 was 22,280 BOE/d (20,707 Bbls/d of heavy crude oil, 8.5 MMcf/d of natural gas and 158 Bbls/d of NGLs). The Corporation's realized price received for its heavy crude oil is determined by the quality of the crude compared to the benchmark reference price and quality of WCS.

As at December 31, 2025, Headwater's Clearwater assets included 326 (326.0) net producing oil wells, 26 (24.5 net) non-producing oil wells and 2 (2.0) net non-producing natural gas wells with related multi-well battery infrastructure, the joint natural gas processing facility and the oil processing facility. There are also 104 (104.0) net injection wells supporting secondary recovery efforts.

The McDaniel Report assigned gross P+P Reserves of 97,730 MBbl of heavy oil, 20.2 MMcf of natural gas and 354 MBbl of NGLs to the Corporation's properties in the Clearwater area as at December 31, 2025.

Headwater sells its heavy crude production to various creditworthy counterparties. These heavy crude oil contracts are short-term in nature, at market terms and in the ordinary course of business. Headwater sells its natural gas production from the Clearwater area through a marketing agreement with a creditworthy counterparty which is at market terms and in the ordinary course of business.

Headwater has various transportation commitments, which are long-term in nature, and intended to secure market access for its heavy oil production. For details of the Corporation's transportation commitments, see the Corporation's audited financial statements for the year ended December 31, 2025, which have been filed on SEDAR+ and may be viewed under the Corporation's profile at www.sedarplus.ca.

The joint gas processing facility built in 2021 allows Headwater to achieve gas conservation from all production in the core development area of Marten Hills. On December 17, 2024, a third-party natural gas gathering system in Marten Hills West was commissioned resulting in a meaningful amount of Headwater's natural gas in the area being conserved.

New Brunswick – McCully Field

The McCully Field, located approximately 12 kilometres northeast of Sussex, New Brunswick, includes natural gas production from the Hiram Brook formation, a conventional tight sandstone, and a portion of the Frederick Brook shale, an unconventional shale resource. Within the McCully Field there is 1 (1.0 net) non-producing oil well, 32 (24.0 net) producing natural gas wells and 8 (7.0 net) non-producing natural gas wells.



The McDaniel Report assigned gross P+P Reserves of 18.2 MMcf of natural gas and 18 MBbl of NGLs to the Corporation's properties in New Brunswick as at December 31, 2025.

Headwater sells all of its share of the natural gas produced from the McCully Field to a single purchaser pursuant to a marketing contract which terminates on April 30, 2027. This agreement is at market terms and in the ordinary course of business.

The production, transportation, processing and marketing of natural gas from Nutrien's share of the production from the McCully Field are subject to agreements with Nutrien. Nutrien's share of natural gas production is either taken in kind for use at the Nutrien potash mill, located near Sussex, New Brunswick or delivered to Headwater's midstream facilities for sale by Nutrien to the Maritimes market and New England market.

Oil and Gas Wells

The following table sets forth the number and status of wells as at December 31, 2025 in which Headwater has a working interest. All of the wells in which Headwater has an interest are located in the Provinces of Alberta and Saskatchewan and onshore in the Province of New Brunswick.

	Oil Wells				Natural Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
New Brunswick	-	-	1	1.0	32	24.0	8	7.0
Saskatchewan	-	-	1	1.0	-	-	-	-
Alberta	326	326.0	26	24.5	-	-	2	2.0
Total	326	326.0	28	26.5	32	24.0	10	9.0

Note:

- (1) Excludes abandoned, water source, observation, stratigraphic test and injection wells.

Properties with no Attributed Reserves

The following table sets out the developed and undeveloped land holdings of Headwater as at December 31, 2025.

	Undeveloped Acres		Developed Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
New Brunswick	209,823	191,556	7,118	5,338	216,941	196,894
Saskatchewan	42,036	42,036	160	160	42,196	42,196
Alberta	476,510	474,510	59,559	59,319	536,069	533,829
Total	728,369	708,102	66,837	64,817	795,206	772,919

The Corporation expects approximately 51 sections of undeveloped land holdings to expire during the year ended December 31, 2026. Headwater closely monitors land expirations as compared to its development program with the strategy of minimizing undeveloped land expirations relating to significant identified opportunities.

Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves

The development of properties with no attributed reserves can be affected by a number of factors including, but not limited to, project economics, forecasted price assumptions, cost estimates, well type expectations and access to infrastructure. These and other factors could lead to the delay or the acceleration of projects related to these properties.



Forward Contracts

Headwater's operational results and financial condition will be dependent upon the prices received for its heavy crude oil, NGLs, conventional natural gas and shale gas production. Heavy crude oil, NGLs, conventional natural gas and shale gas prices have fluctuated widely in recent years. Any upward or downward movement in heavy crude oil, NGLs, conventional natural gas and shale gas prices could have an effect on Headwater financial condition. For details on the various factors affecting oil and natural gas prices, see "*Industry Conditions – Pricing and Marketing in Canada*".

Additionally, the Corporation is exposed to fluctuations of 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. See "*Risk Factors – Variations in Foreign Exchange Rates and Interest Rates*".

Headwater's hedging activities could expose Headwater to losses or gains. Headwater could be subject to credit risk associated with the parties with which it contracts. Headwater strives to mitigate this credit risk by entering into contracts with stable and creditworthy parties and through the frequent review of Headwater's exposure to these entities. For details of the Corporation's forward contracts, see the Corporation's audited financial statements for the year ended December 31, 2025, which have been filed on SEDAR+ and may be viewed under the Corporation's profile at www.sedarplus.ca. See "*Risk Factors – Hedging*".

Tax Horizon

Headwater has approximately \$471.4 million of tax pools available, consisting primarily of Canadian Development Expense, Canadian Oil and Gas Property Expense and Undepreciated Capital Cost.

Headwater recorded approximately \$40.2 million of current income tax expense for the year ended December 31, 2025, and expects to continue to pay income tax in future years. For more information, see Note 11 "Income Taxes" in Corporation's audited financial statements for the year ended December 31, 2025, available on Headwater's website at www.headwaterexp.com and on SEDAR+ at www.sedarplus.ca.

Exploration and Development Activities

Headwater incurred minimal capital expenditures related to exploration or development activities in New Brunswick during the year ended December 31, 2025, and does not have any plans to conduct significant exploration and development activities in New Brunswick until the moratorium on hydraulic fracturing in New Brunswick is lifted.

Headwater incurred exploration and development expenditures of approximately \$228.3 million in Western Canada, primarily in Alberta, during the year ended December 31, 2025. See "*Statement of Reserves Data and Other Oil and Gas Information – Description of Principal Properties*".

On December 3, 2025, the Board approved a 2026 capital budget of \$185 million. See "*General Development of the Business – History and Development – Recent Developments*". The capital budget is expected to result in 2026 annual average production of 24,500 BOE/d (22,500/d of heavy crude oil, 11.3 MMcf/d of natural gas and 120 Bbls/d of NGLs). See "*Statement of Reserves Data and Other Oil and Gas Information – Description of Principal Properties*".

The following table sets forth the gross and net exploration and development wells that Headwater participated in during the year ended December 31, 2025. See "*Other Oil and Gas Information – Description of Principal Properties*" for a description of Headwater's current and proposed exploration and development activities.



	Exploration Wells ⁽¹⁾		Development Wells ⁽²⁾	
	Gross	Net	Gross	Net
Oil	1	1.0	61	60.0
Gas	-	-	-	-
Service	-	-	-	-
Stratigraphic test	5	5.0	-	-
Dry hole	-	-	-	-
Total	6	6.0	61	60.0

Notes:

- (1) Includes wells licensed as exploration.
- (2) Includes wells licensed as development.
- (3) In 2025, Headwater drilled 38 (38.0 net) injection wells and 1 (1.0 net) water source well.

Costs Incurred

The following table summarizes capital expenditures related to activities attributable to the Corporation's oil and gas assets for the year ended December 31, 2025:

(\$ thousands)	Year ended December 31, 2025
Property Acquisition	
<i>Proved Properties</i>	-
<i>Unproved Properties⁽¹⁾</i>	28,483
Exploration Costs ⁽²⁾	6,485
Development Costs ⁽³⁾	193,320
Total capital expenditures	228,288

Notes:

- (1) In addition to costs incurred of \$28.5 million, the Corporation also acquired \$7.7 million of land in the Greater Pelican area in exchange for 1 million Common Shares. The acquisition closed on September 25, 2025, and the fair value was determined using Headwater's closing share price on the closing date.
- (2) Includes lease rentals, seismic costs and costs associated with drilling, completing and equipping the Corporation's exploration wells.
- (3) Includes capitalized general and administrative expenses and corporate office costs.

Production Estimates

The following table sets out the volume of working interest production estimated for the year ended December 31, 2026, which is reflected in the estimate of future net revenue for the Corporation's gross Proved Reserves and gross P+P Reserves disclosed in the tables contained under "*Disclosure of Reserves Data*".

	Conventional Natural Gas (Mcf/d)	Shale Gas (Mcf/d)	Heavy Crude Oil (Bbls/d)	Natural Gas Liquids (Bbls/d)	Total (BOE/d)
Proved					
Developed Producing	8,380	96	19,341	106	20,860
Developed Non-Producing	-	-	-	-	-
Undeveloped	684	-	3,630	12	3,756
Total Proved	9,063	96	22,971	118	24,616
Total Probable	597	1	1,800	10	1,910
Total Proved Plus Probable	9,660	97	24,771	128	26,526



The gross production estimated for the year ended December 31, 2026 reflected in the estimate of future net revenue for gross P+P Reserves from the Corporation's Clearwater properties is 24,771 Bbls/d of heavy crude oil, 7.2 MMcf/d of natural gas and 125 Bbls/d of NGLs. The gross production estimated for the year ended December 31, 2026, reflected in the estimate of future net revenue for the Corporation's gross P+P Reserves from the McCully Field in New Brunswick is 2.6 MMcf/d of natural gas and 3 Bbls/d of NGLs.

Production History

The following table summarizes certain information in respect of the Corporation's production, prices received, royalties paid, production costs, transportation costs and resulting netback for the periods indicated below.

	Quarter Ended 2025				Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31, 2025
Average Daily Production⁽¹⁾					
Natural Gas (MMcf/d) ⁽²⁾	14.5	10.8	8.4	12.1	11.5
NGLs (Bbls/d)	142	185	169	143	160
Heavy Crude Oil (Bbls/d)	19,511	20,249	20,948	22,091	20,707
Combined (BOE/d)	22,066	22,235	22,523	24,259	22,776
Average Net Sales Prices Received⁽³⁾					
Natural Gas (\$/Mcf) ⁽²⁾	11.22	2.22	0.28	8.82	6.43
NGLs (\$/Bbl)	80.82	70.38	71.28	64.29	71.53
Heavy Crude Oil (\$/Bbl)	83.76	73.75	74.66	66.34	74.32
Combined (\$/BOE)	81.94	68.80	70.12	65.20	71.30
Royalties Paid⁽⁵⁾					
Natural Gas (\$/Mcf) ⁽²⁾	0.34	(0.17)	(0.17)	0.22	0.10
Natural gas liquids (\$/Bbl)	19.87	12.46	13.53	11.47	14.14
Heavy Crude Oil (\$/Bbl)	15.96	14.08	13.64	11.11	13.61
Combined (\$/BOE)	14.47	12.84	12.74	10.29	12.52
Production Costs⁽⁴⁾⁽⁵⁾					
Natural Gas (\$/Mcf) ⁽²⁾	1.55	2.46	3.18	2.43	2.30
Natural gas liquids (\$/Bbl)	-	-	-	-	-
Heavy Crude Oil (\$/Bbl)	7.82	6.86	6.26	6.57	6.85
Combined (\$/BOE)	7.93	7.44	7.01	7.21	7.39
Transportation Costs⁽⁵⁾					
Natural Gas (\$/Mcf) ⁽²⁾	-	-	-	-	-
Natural gas liquids (\$/Bbl)	-	-	-	-	-
Heavy Crude Oil (\$/Bbl)	6.12	6.21	6.10	6.15	6.14
Combined (\$/BOE)	5.41	5.65	5.68	5.59	5.59
Netback⁽⁶⁾					
Natural Gas (\$/Mcf) ⁽²⁾	9.33	(0.08)	(2.73)	6.17	4.03
Natural gas liquids (\$/Bbl)	60.95	57.92	57.75	52.82	57.38
Heavy Crude Oil (\$/Bbl)	53.85	46.61	48.65	42.51	47.72
Combined (\$/BOE)	54.13	42.87	44.69	42.11	45.81

Notes:

- (1) Before deduction of royalties.
- (2) Natural gas production includes both conventional natural gas and shale natural gas. In 2025, shale natural gas was produced out of 3 wells in the McCully Field.
- (3) Sales prices are before hedging, net of costs to blend and do not include revenue from gathering, processing and transportation.
- (4) This figure includes all field production expenses.
- (5) Headwater did not record production costs and transportation costs for NGLs as Headwater only had nominal sales of NGLs in 2025 and therefore information is included in the combined BOE.
- (6) Calculated using average sales volumes in the period.



In 2025, the Corporation derived the majority of its production from Headwater's Clearwater properties in Alberta. The gross working interest production from its Clearwater properties in 2025 was 20,707 Bbls/d of heavy oil, 8.5 MMcf/d of natural gas and 158 Bbls/d of NGLs. The McCully Field contributed 3.0 MMcf/d of natural gas and 2 Bbls/d of NGLs to the Corporation's total production in 2025.

DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION

The names, provinces and countries of residence of each of the directors and executive officers of the Corporation, positions held with the Corporation, and the period each has served as a director or executive officer of the Corporation are as follows:

Name and Place of Residence	Office Held
Neil J. Roszell, P.Eng Alberta, Canada	Executive Chair and a Director (since March 4, 2020; Chief Executive Officer from March 4, 2020 to January 1, 2024)
Jason Jaskela, P.Eng Alberta, Canada	President, Chief Executive Officer and a Director (President and Director since March 4, 2020; Chief Executive Officer since January 1, 2024)
Brad Christman Alberta, Canada	Chief Operating Officer (since January 1, 2024) (Vice President, Production from March 4, 2020 to January 1, 2024)
Ali Horvath, CPA, CA Alberta, Canada	Chief Financial Officer (since October 1, 2024) (Vice President, Finance and Chief Financial Officer from March 4, 2020 to October 1, 2024)
Terry Danku, P.Eng Alberta, Canada	Executive Vice President (since January 1, 2025) (Vice President, Engineering from March 4, 2020 to January 1, 2025)
Dieter Deines Alberta, Canada	Vice President, Exploration (since September 1, 2023)
Georgia Little, CPA, CA Alberta, Canada	Vice President, Finance (since October 1, 2024) (Interim Vice President, Finance and Chief Financial Officer from October 16, 2023 to October 1, 2024)



Name and Place of Residence	Office Held
Scott Rideout Alberta, Canada	Vice President, Land (since March 4, 2020)
Wade Hein Alberta, Canada	Vice President, Operations (since January 1, 2025)
Jeff Magee Alberta, Canada	Vice President, Engineering (since January 1, 2025)
Chandra Henry ⁽¹⁾⁽²⁾ , CPA, CFA, ICD.D Alberta, Canada	Director (since March 4, 2020)
Stephen Larke ⁽²⁾⁽⁴⁾ , B. Comm, CFA, ICD.D Alberta, Canada	Director (since March 4, 2020)
Karen Nielsen ⁽³⁾⁽⁴⁾ Alberta, Canada	Director (since July 23, 2025)
Kevin Olson ⁽³⁾⁽⁴⁾ Alberta, Canada	Lead Independent Director (since March 4, 2020)
David Pearce ⁽²⁾⁽³⁾ Alberta, Canada	Director (since March 4, 2020)
Kam Sandhar ⁽¹⁾⁽³⁾ Alberta, Canada	Director (since December 2, 2020)
Cheree Stephenson ⁽¹⁾⁽⁴⁾ Alberta, Canada	Director (since May 8, 2025)
Edward (Ted) Brown Alberta, Canada	Corporate Secretary (since March 4, 2020)

Notes:

- (1) Member of the Audit Committee.
- (2) Member of Corporate Governance and Compensation Committee.
- (3) Member of the Reserves Committee.
- (4) Member of the ES&S Committee.

Headwater's directors will hold office until the next annual general meeting of the Shareholders or until each director's successor is appointed or elected pursuant to the ABCA.

As at March 5, 2026, the directors and executive officers of Headwater, as a group, beneficially owned or controlled or directed, directly or indirectly, 15 million Common Shares or approximately 6% of the issued and outstanding Common Shares.

Principal Occupation

Profiles of the directors and executive officers of Headwater and the particulars of their respective principal occupations during the last five years are set forth below.



Neil Roszell, Executive Chair and a Director

Mr. Roszell is a professional engineer with 30+ years of industry experience. Mr. Roszell was the Executive Chair and Chief Executive Officer of Headwater until January 1, 2024, at which time he transitioned to Executive Chairman. Prior thereto, Mr. Roszell was the President and Chief Executive Officer of Raging River Exploration Inc. ("**Raging River**") from 2012 until June 5, 2017, when he transitioned into the role of Executive Chair and Chief Executive Officer until Raging River's sale to Baytex Energy Corp. ("**Baytex**") in August 2018, following which Mr. Roszell acted as Chair of Baytex from August 2018 until December 2019. Mr. Roszell was the President and Chief Executive Officer of Wild Stream Exploration Inc. ("**Wild Stream**") from 2009 to 2012. He was also the President and Chief Executive Officer of Wild River Resources Ltd. ("**Wild River**") from 2007 until 2009. Mr. Roszell was the President and Chief Operating Officer of Prairie Schooner Energy Ltd. ("**Prairie Schooner**") from August 2004 until September 2006. Mr. Roszell was Vice President, Engineering of Great Northern Exploration Ltd. from September 2001 to June 2004. Mr. Roszell received a Bachelor of Applied Science degree in Engineering from the University of Regina in 1991.

Jason Jaskela, President, Chief Executive Officer and a Director

Mr. Jaskela is a professional engineer with 25+ years of industry experience. Mr. Jaskela was the President and Chief Operating Officer of Headwater until January 1, 2024 where he transitioned to President and Chief Executive Officer. Prior thereto, Mr. Jaskela was the Vice President, Production of Raging River from March 2012 until March 17, 2014, when he expanded his role to Chief Operating Officer and held that position until Raging River's sale to Baytex in August 2018, following which he was the Executive Vice President and Chief Operating Officer at Baytex until September 2019. From October 2009 to April 2010, he held the position of Manager Engineering with Wild Stream and was the Vice President, Production of Wild Stream from April 2010 until 2012. Prior to Wild Stream, Mr. Jaskela held senior engineering roles with Encana Corporation (May 2000 – May 2006) and Mahalo Energy Ltd. (May 2006 – October 2009). Mr. Jaskela graduated with a Bachelor of Science degree in Engineering in 2000.

Brad Christman, Chief Operating Officer

Mr. Christman has over 20 years of industry experience in Canada and in the United States. Mr. Christman was the Vice President, Production of Headwater until January 1, 2024, where he transitioned to Chief Operating Officer. Mr. Christman was the Manager, Production and Facilities at Raging River from March 2012 until Raging River's sale to Baytex in August 2018, following which Mr. Christman was the Manager, Production and Facilities at Baytex until March 2020. Prior to Raging River, Mr. Christman worked as an Area Coordinator at Wild Stream.

Ali Horvath, Chief Financial Officer

Ms. Horvath has over 15 years of management, accounting and corporate finance experience. Ms. Horvath was previously a founder and the Controller of Raging River and prior thereto a Senior Financial Accountant with Wild Stream. Prior to Wild Stream, Ms. Horvath worked in the audit and assurance practice of PricewaterhouseCoopers LLP. Ms. Horvath has a Bachelor of Management degree from the University of Lethbridge. Ms. Horvath is a Chartered Professional Accountant and serves on the board of directors of Lycos Energy Inc.

Terry Danku, Executive Vice President

Mr. Danku is a professional engineer with over 20 years of industry experience. Mr. Danku held the title of Vice President, Engineering from March 4, 2020 to January 1, 2025, when he transitioned to the role of Executive Vice President. Mr. Danku held several officer positions at Raging River from 2014 through 2018, including Vice President, Engineering, Vice President, Business Development and Vice President, Exploitation. Previously, Mr. Danku held a Team Lead position at Surge Energy Inc. ("**Surge**") and Senior engineering roles at Pace Oil & Gas Ltd. (April 2012 – October 2013), Wild Stream (May 2011 – March 2012) and Encana Corporation (July 2002 – April 2011). Mr. Danku graduated with a Bachelor of Science degree in Engineering from the University of Saskatchewan in 2002.



Dieter Deines, Vice President, Exploration

Mr. Deines has over 20 years of experience as a geologist working in the oil and gas industry. Mr. Dienes has been the Vice President, Exploration of Headwater since September 1, 2023. Prior to joining Headwater, Mr. Deines served as the Geology Manager of Tundra Oil & Gas Ltd. from 2018 through 2023. Prior thereto, Mr. Dienes worked as Senior Exploration Geologist or Exploration Geologist at a number of oil and gas companies including RMP Energy Inc., NuVista Energy Ltd., Rider Resources Ltd., Berens Energy Ltd. and Burlington Resources Inc. Mr. Deines has a Bachelor of Science in Geology from the University of Calgary and an Environmental Science Honours Diploma in Watershed Management from the Lethbridge College. Mr. Deines is a Registered Member of the Association of Professional Engineers and Geoscientists of Alberta (APEGA).

Georgia Little, Vice President, Finance

Ms. Little was appointed Interim Vice President, Finance and Chief Financial Officer of Headwater on October 16, 2023 while Ali Horvath, the Vice President, Finance and Chief Financial Officer of Headwater, was on maternity leave. Following Ms. Horvath's return from maternity leave, Ms. Little took on the title of Vice President, Finance. Prior thereto, Ms. Little was the Controller of Headwater since April 2020. Prior to joining Headwater, Ms. Little served as the Vice President, Finance at Nauticol Energy Ltd. and also served as Controller of various other oil and gas companies. Prior to these roles, Ms. Little worked in the audit and assurance practice of KPMG LLP. Ms. Little has a Bachelor of Commerce degree with distinction from the University of Calgary and is a Chartered Professional Accountant.

Scott Rideout, Vice President, Land

Mr. Rideout is a land professional with over 20 years of industry experience. Mr. Rideout was the Vice President, Land at Raging River from July 2014 until Raging River's sale to Baytex in August 2018, following which Mr. Rideout was the Vice President, Land at Baytex until January 2020. Mr. Rideout held roles of increasing responsibility at Surge from October 2010 until July 2014 where he most recently held the position of Manager, Business Development and Land. Prior to joining Surge, he was a Land Negotiator at Galleon Energy Inc., Kereco Energy Ltd., Provident Energy Trust and Talisman Energy Inc. Mr. Rideout has a Bachelor of Arts degree in Economics from the University of Calgary.

Wade Hein, Vice President, Operations

Mr. Hein was appointed Vice President of Operations on January 1, 2025. Prior thereto, Mr. Hein served as Production Manager of Headwater since April 2023 and worked as a Production Engineer since December 2020. Prior to joining Headwater, Mr. Hein held exploitation and production engineering roles at Surge, Penn West Exploration and Integra Engineering. Mr. Hein has a Bachelor of Science degree in Mechanical Engineering from the University of Saskatchewan.

Jeff Magee, Vice President, Engineering

Mr. Magee was appointed Vice President of Engineering on January 1, 2025. Prior thereto, Mr. Magee served as Engineering Manager of Headwater since August 2023 and worked as an Exploitation Engineer since December 2020. Prior to joining Headwater, Mr. Magee worked as an Area Engineer at Baytex and held numerous engineering roles at Raging River. Mr. Magee has a Bachelor of Science degree in Petroleum Engineering from Montana Technological University.

Chandra Henry, Director

Ms. Henry has more than 25 years of progressive experience in finance, treasury, risk, taxation and operations within the financial services industry crossing multiple geographic and business segments. She is currently the Chief Financial Officer and Chief Compliance Officer of Longbow Capital Inc., a private equity firm investing in the North American energy markets. Prior to her role with Longbow, Ms. Henry held various senior finance positions, including



Chief Financial Officer of WestBlock Inc. (2018 – 2019), Director of Finance for GMP Securities L.P. (2016 – 2017) and Chief Financial Officer for FirstEnergy Capital Corp. (2001 – 2016). Ms. Henry has a Bachelor of Commerce degree from the University of Calgary and has earned the Chartered Professional Accountant (CPA, CA), Chartered Financial Analyst (CFA) and Institute of Corporate Directors (ICD.D) designations. In addition, Ms. Henry is a Fundamentals of Sustainability Accounting (FSA) Credential Holder. Ms. Henry previously served as a director of Whitecap Resources Inc., Bonavista Energy Corporation and Pengrowth Energy Corporation.

Stephen Larke, Director

Mr. Larke has over 25 years of experience in energy capital markets, including research, sales, trading and equity finance and currently serves on the board of directors of Topaz Energy Corp. and Vermilion Energy Inc. He is formerly an Operating Partner and Advisory Board member with Azimuth Capital Management ("**Azimuth**"), an energy-focused private equity fund based in Calgary, Alberta. Prior to joining Azimuth, Mr. Larke was Managing Director and Executive Committee member with Calgary-based Peters & Co. Mr. Larke has a Bachelor of Commerce degree (Distinction) from the University of Calgary and has earned the Chartered Financial Analyst (CFA) and Institute of Corporate Directors (ICD.D) designations. In addition, Mr. Larke is a Fundamentals of Sustainability Accounting (FSA) Credential Holder.

Karen Nielsen, Director

Ms. Nielsen has over 35 years of industry experience. From 2021 through 2025, Ms. Nielsen served in a variety of roles, culminating in the position of Executive Vice-President and Chief Commercial Officer, at ATCO EnPower, a subsidiary of ATCO Ltd. focused on sustainable energy solutions. Prior to that, Ms. Nielsen served as the Chief Development Officer of Seven Generations Energy Ltd., a TSX listed oil and gas company. Previously Ms. Nielsen served as the Lead Independent Director at Crew Energy Inc. Ms. Nielsen has a Bachelor of Engineering degree in Electrical and Electronics Engineering from the University of Saskatchewan and is a professional engineer with APEGA. In addition, Ms. Nielsen has earned the Institute of Corporate Directors (ICD.D) designation.

Kevin Olson, Director

Mr. Olson has over 30 years of industry experience and currently serves on the board of directors of Lycos Energy Inc. Mr. Olson is a former board member of Baytex, Raging River, Wild Stream, Wild River and Prairie Schooner Petroleum Ltd. Mr. Olson has managed four early-stage energy funds and served as a director of a variety of exploration and production companies and petroleum services companies. Formerly, Mr. Olson was Vice President, Corporate Finance at FirstEnergy Capital Corp. and Vice President, Corporate Development for Northrock Resources Ltd. Mr. Olson holds a Bachelor of Commerce degree (Distinction) majoring in finance and accounting from the University of Calgary.

David Pearce, Director

Mr. Pearce has a Bachelor of Science in Mechanical Engineering (Honors) and has been a Deputy Managing Partner at Azimuth since November 2008, currently serving as Deputy Chairman. Mr. Pearce is currently a director at Baytex. Mr. Pearce was also formerly a director of Raging River (March 2012) until the sale to Baytex in August 2018. Mr. Pearce was also with Northrock Resources Ltd. from June 1999 to January 2008 where he held several senior officer positions, including President and Chief Executive Officer. Prior thereto, Mr. Pearce was Vice President, Corporate Development at Fletcher Challenge Canada.

Kam Sandhar, Director

Mr. Sandhar is currently the Executive Vice President and Chief Financial Officer of Cenovus Energy Inc. ("**Cenovus**"). Mr. Sandhar has nearly 20 years of experience in the oil and gas industry and has extensive expertise in strategy, business development, finance and investor relations. Prior to his current role at Cenovus, Mr. Sandhar held a variety of other positions including Executive Vice President, Strategy and Corporate Development and Senior Vice



President, Conventional. Prior to joining Cenovus in 2013, Mr. Sandhar spent 9 years at Peters & Co. Limited where he served as a Principal and Oil and Gas Analyst, covering a wide array of Canadian, U.S. and international oil and gas companies. Mr. Sandhar started his career at Deloitte LLP where he focused on oil and gas audit and taxation. Mr. Sandhar is a Chartered Professional Accountant and a member of the Chartered Professional Accountants of Alberta. He holds a Bachelor of Commerce degree from the University of Calgary.

Cheree Stephenson, Director

Ms. Stephenson has 25 years of experience in the oil and gas industry including 15 years of executive level experience focused on corporate finance and development, financial reporting, stakeholder engagement and communication, risk management and corporate governance. Since 2020, Ms. Stephenson has served as the Vice-President, Finance and Chief Financial Officer of Topaz Energy Corp., a TSX listed royalty and energy infrastructure company. Ms. Stephenson's previous experience includes serving as Vice-President, Finance and Chief Financial Officer of Petrus Resources Ltd. and Controller of Peyto Exploration & Development Corp. after commencing her career at Ernst & Young LLP. Ms. Stephenson is a Chartered Professional Accountant (CPA, CA) and holds a Bachelor's of Commerce degree from the Haskayne School of Business at the University of Calgary.

Edward (Ted) Brown, Corporate Secretary

Mr. Brown is a Partner and Co-Leader of the Business Law Group at the law firm Burnet, Duckworth & Palmer LLP, where his practice concentrates in corporate finance, mergers and acquisitions and corporate governance. Mr. Brown has a Bachelor of Arts degree in Economics and Bachelor of Laws degree from the University of Manitoba.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No current or proposed director or officer or securityholder holding a sufficient number of securities of Headwater to affect materially the control of Headwater has, within the last ten years prior to the date of this document, been a director, chief executive officer or chief financial officer of any issuer (including Headwater) that: (i) while the person was acting in the capacity as director, chief executive officer or chief financial officer, was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, that was in effect for a period of more than thirty (30) consecutive days; or (ii) was subject to an order that resulted, after the director, executive officer or securityholder holding a sufficient number of securities of Headwater to affect materially the control of Headwater ceased to be a director, chief executive officer or chief financial officer of an issuer, in the issuer being the subject of a cease trade or similar order or an order that denied the relevant issuer access to any exemption under securities legislation, for a period of more than thirty (30) consecutive days, which resulted from an event that occurred while that person was acting as a director, chief executive officer or chief financial officer of the issuer.

Other than as described below, no current or proposed director or officer or securityholder holding a sufficient number of securities of Headwater to affect materially the control of Headwater has, within the last ten years prior to the date of this document, been a director or executive officer of any company (including Headwater) that, while such person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement for compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

On December 8, 2021, Kaisen Energy Corp. ("**Kaisen**"), of which David Pearce was a director, sought and obtained protection under the *Companies' Creditors Arrangement Act* ("**CCAA**") pursuant to an Order (the "**Initial Order**") of the Court of Queen's Bench of Alberta (the "**Court**"). The Initial Order authorized Kaisen to begin a Court-supervised restructuring and granted Kaisen various relief, including but not limited to, an initial stay of proceedings against Kaisen and its assets, appointing Ernst & Young Inc. as Monitor (the "**Monitor**"), and provided Kaisen the opportunity to prepare and file a plan of arrangement (the "**Plan**") under the CCAA for the consideration of its creditors and other stakeholders. Affected creditors voted in favour of the Plan on January 27, 2022, and a Plan Sanction Order was



issued by the Court on February 1, 2022. The Plan was fully implemented by the Monitor as of March 16, 2022, which resulted in Kaisen successfully exiting CCAA proceedings.

No current or proposed director or officer or securityholder holding a sufficient number of securities of Headwater to affect materially the control of Headwater has, within the last ten years prior to the date of this document, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or securityholder.

No current or proposed director or officer or securityholder holding a sufficient number of securities of Headwater to affect materially the control of Headwater has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Some of the directors and officers of the Corporation are also directors, officers and/or promoters of other reporting and non-reporting issuers. Accordingly, conflicts of interest may arise which could influence these persons in evaluating possible acquisitions or in generally acting on behalf of the Corporation, notwithstanding that they are bound by the provisions of the ABCA to act at all times in good faith in the interest of the Corporation and to disclose such conflicts to the Corporation if and when they arise. To the best of its knowledge, the Corporation is not aware of the existence of any material conflicts of interest between any of their directors and officers as of the date hereof.

DIVIDEND POLICY

Cash dividends are declared and paid following the end of each fiscal quarter to Shareholders of record on the last business day of each such fiscal quarter or such other date as determined from time to time by the Board. Unless otherwise specified, all dividends paid or to be paid by Headwater are designated as "eligible dividends" under the Tax Act.

The following quarterly cash dividends on the Common Shares were declared and paid by Headwater for the periods indicated:

Record Date	Payment Date	Cash Dividend Per Common Share
December 31, 2024	January 15, 2025	\$0.10
March 31, 2025	April 15, 2025	\$0.11
June 30, 2025	July 15, 2025	\$0.11
September 29, 2025	October 15, 2025	\$0.11
December 31, 2025	January 15, 2026	\$0.11

On March 5, 2026, the Board approved a quarterly cash dividend of \$0.11 per Common Share to be paid on April 15, 2026 to Shareholders of record at the close of business on March 31, 2026.

Headwater will monitor the impact of all issues affecting its business and the necessity to adjust its quarterly dividends and capital programs as conditions evolve. During periods of volatile commodity prices, Headwater may reduce or suspend the dividend. See "*Risk Factors – Dividends*".

Headwater's long-term objective is to set its dividend policy at prudent levels while withholding sufficient funds to finance capital expenditures required to grow its current production base. This in turn, is expected to provide a stronger base of cash flow from operating activities leading to consistent dividends into the future. Headwater's



dividend policy is reviewed quarterly and is based on a number of factors, including but not limited to, commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates, available investment opportunities and the satisfaction of the liquidity and solvency tests imposed by the ABCA for the declaration and payment of dividends.

The payment of dividends by a corporation is governed by the liquidity and insolvency tests described in the ABCA. Pursuant to the ABCA, after the payment of a dividend, the Corporation must be able to pay its liabilities as they become due and the realizable value of its assets must be greater than its liabilities and the legal stated capital of its outstanding securities. All of the Common Shares will be entitled to an equal share in any dividends declared and paid.

Cash dividends are not guaranteed. Historical cash dividends may not be reflective of future cash dividends, which will be subject to review by the Board taking into account our prevailing financial circumstances at the relevant time. Although Headwater intends to make dividends of its available cash to Shareholders, these cash dividends may be reduced or suspended. Actual dividend amounts paid will depend on numerous factors and conditions existing from time to time, including but not limited to, commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates, available investment opportunities and the satisfaction of the liquidity and solvency tests imposed by the ABCA for the declaration and payment of dividends. See "*Risk Factors – Dividends*".

DESCRIPTION OF SHARE CAPITAL

Common Shares

The authorized share capital of the Corporation includes an unlimited number of Common Shares without nominal or par value of which, as at March 5, 2026, 237,762,877 Common Shares are issued and outstanding as fully paid and non-assessable. In addition, the Corporation has 434,593 restricted share units and 3,728,870 performance share units outstanding as of March 5, 2026.

The holders of Common Shares are entitled to dividends, if, as and when declared by the Board, to receive notice of and one vote per Common Share at meetings of the Shareholders and, upon liquidation, to share equally in such assets of Headwater as are distributable to the holders of Common Shares.

MARKET FOR SECURITIES

The Common Shares trade on the TSX under the trading symbol "HWX". The following table sets out the high and low trading prices and aggregate volume of trading of the Common Shares on the TSX for the periods indicated:



Price Range and Trading Volume

Period	High (\$)	Low (\$)	Volume
2025			
January	7.650	6.620	14,195,875
February	6.940	6.260	12,989,176
March	6.585	5.700	17,894,144
April	6.510	4.750	18,696,105
May	6.410	5.580	11,292,541
June	7.280	6.290	10,824,624
July	7.425	6.630	11,823,164
August	7.240	6.580	13,614,709
September	7.950	6.590	14,624,150
October	7.930	6.795	12,959,958
November	9.150	7.240	13,688,181
December	9.700	8.640	12,529,269
2026			
January	11.610	8.830	18,135,558
February	12.660	10.750	16,133,307
March (2 – 4)	13.285	12.290	3,263,992

Prior Sales

During the year ended December 31, 2025, Headwater issued a total of 253 thousand restricted share units and 1.4 million performance share units pursuant to the Corporation's performance and restricted award plan. On the payment date of such awards, the Corporation has the sole discretion as to whether the awards shall be paid in cash, Common Shares from treasury or Common Shares purchased on the TSX. See Notes 9 and 10 to our financial statements for the year ended December 31, 2025 for additional information. The Corporation intends to cash settle outstanding restricted share units and performance share units.

During the financial year ended December 31, 2025, the Corporation did not grant any stock options.

RISK FACTORS

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Corporation's other public filings before making an investment decision. The risks set out below are not exhaustive and should not be taken as a complete summary or description of all the risks associated with the Corporation's business and the oil and natural gas business generally. The risks discussed below are based on certain assumptions made by the Corporation which later may prove to be incorrect or incomplete. Investors are encouraged to perform their own investigation with respect to the business, financial condition and prospects of the Corporation.

The Corporation's business could also be affected by additional risks and uncertainties not currently known to the Corporation or that it currently deems to be immaterial. If any of these risks occur, it could materially harm the Corporation's business, financial condition, results of operations and cash flows, or impair the Corporation's ability to implement business plans or complete development activities as scheduled. In that case, the market price of the Common Shares could decline and you could lose all or part of your investment. Before deciding whether to invest in any of the Corporation's securities, investors should carefully consider the risks set out below. If any of the risks described below materialize, the Corporation's business, financial condition or results of operations could be materially and adversely affected. Additional risks and uncertainties not currently known to the Corporation or that it currently views as immaterial could also materially and adversely affect the Corporation's business, financial condition or results of operations. The information set forth below contains "forward-looking statements", which



are qualified by the information contained in the "Forward-Looking Statements" section of this Annual Information Form.

Prices, Markets and Marketing

Various factors may adversely impact the marketability of oil and natural gas, affecting net production revenue, production volumes and development and exploration activities

Numerous factors beyond the Corporation's control do, and will continue to, affect the marketability and price of oil and natural gas acquired, produced, or discovered by the Corporation. The Corporation's ability to market its oil and natural gas may depend upon its ability to acquire capacity in pipelines that deliver oil and natural gas to commercial markets or contract for the delivery of oil by rail. Deliverability uncertainties related to the distance of the Corporation's reserves from pipelines, railway lines, processing and storage facilities; operational problems affecting pipelines, railway lines and processing and storage facilities; and government regulation relating to prices, taxes, tariffs, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business may also affect the Corporation.

Oil and natural gas prices may be volatile for a variety of reasons including market uncertainties over the supply and demand of these commodities due to the current state of the world economies, actions of OPEC+, political uncertainties including the threat of imposed tariffs on oil and natural gas imports into the United States, sanctions imposed on certain oil producing nations by other countries, the Russian-Ukrainian war, conflicts in the Middle East (including the recent attacks by the U.S. and Israel on Iran and Iranian retaliation), geopolitical developments in Venezuela or other adverse economic or political development in the United States, South America, Europe, or Asia. Additionally, the occurrence or threat of terrorist attacks in the United States or other countries could adversely affect the global economy. Prices of oil and natural gas are also subject to the availability of foreign markets and the Corporation's ability to access such markets.

A material decline in prices could result in a reduction of the Corporation's net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes and the value of the Corporation's reserves. The Corporation may also elect not to produce from certain wells at lower prices. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Corporation's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. See "Industry Conditions – Transportation Constraints and Market Access".

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for, and project the return on, acquisitions and development and exploitation projects.

Exploration, Development and Production Risks

The Corporation's future performance may be affected by the financial, operational, environmental and safety risks associated with the exploration, development and production of oil and natural gas

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, the Corporation's existing reserves, and the production from them, will decline over time as the Corporation produces from such reserves. A future increase in the Corporation's reserves will depend on both the ability of the Corporation to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that the Corporation will be able to continue to find



satisfactory properties to acquire or participate in. Moreover, management of the Corporation may determine that current markets, terms of acquisition, or participation or pricing conditions make potential acquisitions or participation uneconomic. There is also no assurance that the Corporation will discover or acquire further commercial quantities of oil or natural gas.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells or from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or geological and mechanical conditions. While diligent well supervision, effective maintenance operations and the development of enhanced oil recovery technologies can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment and cause personal injury or threaten wildlife. Particularly, the Corporation may explore for and produce sour gas in certain areas. An unintentional leak of sour gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Corporation.

Oil and natural gas production operations are also subject to geological and seismic risks, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

As is standard industry practice, the Corporation is not fully insured against all risks, nor are all risks insurable. Although the Corporation maintains liability insurance and business interruption insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event, the Corporation could incur significant costs. See "*Risk Factors – Insurance*".

Trade War

The current United States administration has imposed tariffs on imports from various countries including Canada which could have a significant impact on the Canadian economy and the business of the Corporation

Since the inauguration of Donald Trump as president of the United States, the United States has made a number of announcements relating to imposing tariffs on exports from Canada to the United States. The current U.S.-Canada tariff environment remains highly dynamic and uncertain. Legislative or regulatory changes by the U.S. administration could materially impact the Corporation's operations and financial condition. In March 2025, the United States imposed a series of tariffs on goods imported from Canada and other countries, triggering a de facto global trade war, and prompting Canada and several trading partners to implement retaliatory measures. Since then, tariff policies have continued to evolve, creating ongoing uncertainty regarding U.S. support for existing trade agreements, including the United States-Mexico-Canada Agreement ("**USMCA**").

At present, the United States maintains tariffs on a range of Canadian exports, including steel and aluminum, automobiles and automotive parts, copper, lumber, and certain wooden products. Canada has implemented reciprocal tariffs on these categories. Additionally, U.S. tariffs apply to Canadian potash and energy products that do



not qualify for USMCA exemptions. On February 20, 2025, the U.S. Supreme Court ("**SCOTUS**") issued its decision regarding the authority of the Trump administration to impose U.S. tariffs without congressional approval, ultimately deciding that the President does not have such authority under applicable legislation. In response to the SCOTUS decision, the Trump administration has indicated that it intends to impose alternative tariffs or adopt other trade measures on its trading partners, including Canada. SCOTUS' decision, the Trump's administration's response and the ongoing USMCA review add further uncertainty regarding whether crude oil, natural gas, and NGL exports to the U.S. could ultimately be subject to tariffs or other trade measures. These dynamics influence export costs, market access, and demand for Canadian energy products. The impact of continuing or new tariffs or other trade measures on the Canadian economy and Canadian energy producers is uncertain.

Market Price

The trading price of the Common Shares may be adversely affected by factors related and unrelated to the oil and natural gas industry

The trading price of the securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of issuers. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices and changing perceptions of the oil and natural gas market. In recent years, the volatility of commodities prices has increased due in part to the implementation of computerized trading and the decrease of discretionary commodity trading. In addition, the volatility, trading volume and share price of issuers have been impacted by increasing investment levels in passive funds that track major indices, as such funds that only purchase securities included in such indices. Similarly, the market price of the Common Shares could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. Accordingly, the price at which the Common Shares will trade cannot be accurately predicted.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The anticipated benefits of acquisitions may not be achieved and the Corporation may dispose of non-core assets for less than their carrying value on the financial statements as a result of weak market conditions

The Corporation considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses and assets may require substantial managerial effort, time and resources diverting management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided by third parties and the resources required to provide such services. In this regard, non-core assets may be periodically disposed of so the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Corporation, if disposed of, may realize less on disposition than their assessed carrying value on the financial statements of the Corporation.

Geopolitical Risks

The Corporation's business may be adversely affected by political and social events and decisions made in Canada, the United States, South America, Europe, the Middle East and elsewhere

The Corporation's results may be adversely impacted by political, legal, or regulatory developments in Canada and elsewhere that affect local operations and local and international markets. Changes in government, government policy or regulations, changes in law or interpretation of settled law, third-party opposition to industrial activity generally or projects specifically, and duration of regulatory reviews could impact the Corporation's existing



operations and planned projects. This includes actions by regulators or other political actors to delay or deny necessary licences or permits for the Corporation's activities or restrict the operation of third-party infrastructure on which the Corporation relies. Additionally, changes in environmental regulations, assessment processes or other laws, and increasing and expanding stakeholder consultation (including Indigenous stakeholders), may increase the cost of compliance or reduce or delay available business opportunities and adversely impact the Corporation's results.

In particular, the current U.S.-Canada tariff environment remains highly dynamic and. Changes to existing tariffs or new trade restrictions could have a material adverse impact on the Canadian economy, the Canadian oil and natural gas industry and the Corporation. Refer to "*Risk Factors – Trade War*".

Other government and political factors that could adversely affect the Corporation's financial results include increases in taxes or government royalty rates (including retroactive claims) and changes in trade policies and agreements. Further, the adoption of regulations mandating efficiency standards, and the use of alternative fuels or uncompetitive fuel components could affect the Corporation's operations. Many governments are providing tax advantages and other subsidies to support alternative energy sources or are mandating the use of specific fuels or technologies. Governments and others are also promoting research into new technologies to reduce the cost and increase the scalability of alternative energy sources. The success of these initiatives may decrease demand for the Corporation's products.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the oil and natural gas industry including the balance between economic development and environmental policy. The oil and natural gas industry has become an increasingly politically polarizing topic resulting in a rise in civil disobedience surrounding oil and natural gas development—particularly with respect to infrastructure projects. Protests, blockades and demonstrations have the potential to delay and disrupt the Corporation's activities. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation*" and "*Industry Conditions – Transportation Constraints and Market Access*".

Middle Eastern Conflicts

The Corporation's business may be adversely affected by geopolitical conflicts in the Middle East

The Corporation's business may be adversely affected by geopolitical conflicts abroad. Hostilities that began in October 2023 between Israel and Hamas have evolved into a broader regional conflict. The Syrian Assad regime collapsed in late 2025, and the political climate remains in flux.

In June 2025, U.S. airspace strikes targeted Iranian nuclear facilities at Fordow, Natanz, and Isfahan, prompting Iranian missile attacks on U.S. assets in Qatar. A ceasefire between Hamas and Israel has held since mid-2025, but tensions remain high, with sporadic clashes continuing in Gaza and southern Lebanon.

On February 28, 2026, the U.S. and Israel launched a large scale coordinated missile and airstrike campaign across Iran striking multiple military and governmental sites. Supreme Leader Ayatollah Ali Khamenei and various other senior regime leaders were killed in the campaign. Iran immediately retaliated with missile and drone attacks targeting U.S. and Israeli assets across the region as well as neighbouring Middle East countries. This conflict has resulted and is expected to continue to result in disruptions to global energy supply and transportation routes.

These developments pose continuing risks to regional stability in the Middle East, a critical hub of global oil and gas production. The duration and long-term consequences of the conflict remain uncertain, particularly regarding future Middle Eastern oil and gas output and the movement of those commodities worldwide. Any sustained or intensified conflict could further disrupt supply chains, increase volatility in global energy markets and adversely affect the global economy. It is uncertain how these developments will impact the Canadian oil and gas industry, and the Corporation.



Russian-Ukrainian War

The Corporation's business may be adversely affected by impacts on the supply and demand for oil and gas and the global economy resulting from the Russian-Ukrainian War

The Corporation's business may be adversely affected by geopolitical conflicts abroad. Russia's invasion of Ukraine in February 2022 has developed into a prolonged and intense conflict, with heavy fighting continuing in eastern Ukraine and ongoing missile and drone attacks. The North Atlantic Treaty Organization ("NATO") and allied nations, including Canada, have provided substantial military and financial support to Ukraine, while maintaining strict sanctions against Russia. Although peace negotiations have advanced, no comprehensive settlement has been reached, and territorial and security issues remain unresolved. These developments pose ongoing risks to regional stability, global energy and industrial supply chains, and international markets, which could negatively impact the world economy, the Canadian oil and gas industry, and the Corporation.

U.S.-Venezuela Conflict

The Corporation's business may be adversely affected by impacts on the supply and demand for oil and gas and the global economy resulting from geopolitical developments in Venezuela

The Corporation's business could be adversely impacted by geopolitical developments affecting global oil markets. On January 3, 2026, United States military forces conducted an operation in Caracas, Venezuela, resulting in the capture of President Nicolás Maduro and his spouse, Cilia Flores. Subsequent statements by U.S. leadership indicated an intention to administer Venezuela temporarily and facilitate significant investment by American oil companies in Venezuela's petroleum sector. These actions have drawn widespread international attention, and the extent of resulting political and economic repercussions remains uncertain. Given that the United States is the primary destination for Canadian crude oil exports, increased U.S. access to Venezuela's substantial reserves could reduce U.S. demand for Canadian crude and negatively affect pricing and market competitiveness.

Operational Dependence

The successful operation of a portion of the Corporation's properties is dependent on third parties

On a limited basis, other companies operate some of the assets in which the Corporation has an interest. The Corporation has limited ability to exercise influence over the operation of those assets and their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets operated by others depends upon a number of factors that may be outside of the Corporation's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Abandonment and Reclamation Costs

The Corporation may have to pay certain costs associated with abandonment and reclamation

The Corporation will need to comply with the terms and conditions of environmental and regulatory approvals and all legislation regarding the abandonment of its projects and reclamation of the project lands at the end of their economic life, which may result in substantial abandonment and reclamation costs. Any failure to comply with the terms and conditions of the Corporation's approvals and legislation may result in the imposition of potentially material fines and penalties. Generally, abandonment and reclamation costs are substantial and, while the Corporation accrues a reserve in its financial statements for such costs in accordance with IFRS Accounting Standards, such accruals may be insufficient.

It is not possible at this time to estimate abandonment and reclamation costs reliably since they will, in part, depend on future regulatory requirements. In addition, in the future, the Corporation may determine it prudent or be



required by applicable laws, regulations or regulatory approvals to establish and fund one or more reclamation funds to provide for payment of future abandonment and reclamation costs. If the Corporation establishes a reclamation fund, its liquidity and cash flow may be adversely affected.

Alberta has developed liability management programs designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation and reclamation of wells, facilities and pipelines if a licensee or permit holder is unable to satisfy its regulatory obligations. The implementation of or changes to the requirements of liability management programs may result in significant increases to the security that must be posted by licensees, increased and more frequent financial disclosure obligations or may result in the denial of licence or permit transfers, which could impact the availability of capital to be spent by such licensees which could in turn materially adversely affect the Corporation's business and financial condition. In addition, these liability management programs may prevent or interfere with a licensee's ability to acquire or dispose of assets, as both the vendor and the purchaser of oil and natural gas assets must comply with the liability management programs (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets.

Project Risks

The success of the Corporation's operations may be negatively impacted by factors outside of its control resulting in operational delays and cost overruns

The Corporation manages a variety of small and large projects in the conduct of its business. Project interruptions may delay expected revenues from operations. Significant project cost overruns could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas depends upon numerous factors beyond the Corporation's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling, hydraulic fracturing, and waterfloods or the Corporation's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the effects of inclement and severe weather events, including fire, drought, extreme cold and flooding;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- availability and productivity of skilled labour;
- political uncertainty;
- environmental and Indigenous activism that may result in delays or cancellations of projects; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Corporation may be unable to execute projects on time, on budget, or at all.



Gathering and Processing Facilities, Pipeline Systems, Trucking and Rail

Lack of capacity and/or regulatory constraints on gathering and processing facilities, pipeline systems and railway lines may have a negative impact on the Corporation's ability to produce and sell its oil and natural gas

The Corporation delivers its products through gathering and processing facilities and pipeline systems. The amount of oil and natural gas that the Corporation can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems, trucking routes and railway lines. The lack of firm pipeline capacity, production limits and limits on availability of capacity in gathering and processing facilities, pipeline systems or railway lines continues to affect the oil and natural gas industry and limits the ability to transport produced oil and natural gas to market. In particular, the limited pipeline capacity to tidewater and the lack of liquified natural gas facilities in Canada significantly impacts the ability of Canadian oil and natural gas companies to export their products outside of North America which limits demand for their products and results in lower prices. This limited ability to export oil and natural gas outside of North America puts Canadian oil and natural companies at greater risk with the United States administration recent actions relating to tariffs on Canadian imports into the United States. The inability to export oil and natural gas could result in the Corporation's inability to realize the full economic potential of its production or in a reduction of the price the Corporation receives for its products. Unexpected shutdowns or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Corporation's anticipated production, operations and financial results.

A portion of the Corporation's production may, from time to time, be processed through facilities owned by third parties and over which the Corporation does not have control. From time to time, these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a material adverse effect on the Corporation's ability to process its production and deliver the same to market. Midstream and pipeline companies may take actions to maximize their return on investment, which may in turn adversely affect producers and shippers, especially when combined with a regulatory framework that may not always align with the interests of shippers.

Industry Competition

The Corporation competes with other oil and natural gas companies, some of which have greater financial and operational resources

The petroleum industry is competitive in all of its phases. The Corporation competes with numerous other entities in the exploration for, and the development, production and marketing of, oil and natural gas. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. Some of these companies not only explore for, develop and produce oil and natural gas, but also carry on refining operations and market oil and natural gas on an international basis. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources to draw on than the Corporation. The Corporation's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price, process, methods, and reliability of delivery and storage.

Cost of New Technologies

The Corporation's ability to successfully implement new technologies into its operations in a timely and efficient manner will affect its ability to compete

The petroleum industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other companies may have greater financial, technical and personnel resources that allow them to implement and benefit from technological advantages. There can be no



assurance that the Corporation will be able to respond to such competitive pressures and implement such technologies on a timely basis, or at a reasonable cost. If the Corporation does implement such technologies, there is no assurance that the Corporation will do so successfully. One or more of the technologies currently utilized by the Corporation or potentially implemented in the future may become obsolete. If the Corporation is unable to utilize the most advanced commercially available technology, or is unsuccessful in implementing certain technologies, its business, financial condition and results of operations could also be adversely affected, potentially in a material way.

Alternatives to and Changing Demand for Petroleum Products

Changes to the demand for oil and natural gas products and the rise of petroleum alternatives may negatively affect the Corporation's financial condition, results of operations and cash flows

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation systems could reduce the demand for oil and natural gas. In recent years, certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. Advancements in energy-efficient products have a similar effect on the demand for oil and natural gas products. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flow by decreasing the Corporation's profitability, increasing its costs, limiting its access to capital and decreasing the value of its assets.

Regulatory Landscape

Modification to current, or implementation of additional, regulations may reduce the demand for oil and natural gas, increase the Corporation's costs and delay planned operations

The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for oil and natural gas and increase the Corporation's costs, either of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Further, third-party challenges to regulatory decisions and orders can reduce the efficiency of the regulatory regime, as the implementation of decisions and orders may be delayed resulting in uncertainty and interruption to the business of the oil and natural gas industry.

To conduct oil and natural gas operations, the Corporation requires regulatory permits, licences, registrations, approvals and authorizations from various governmental authorities at the municipal, provincial and federal level. There can be no assurance that the Corporation will be able to obtain all of the permits, licences, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. In addition, certain federal legislation such as the *Competition Act* and the *Investment Canada Act* could negatively affect the Corporation's business, financial condition and the market value of its Common Shares or its assets, particularly when undertaking, or attempting to undertake, acquisition or disposition activity. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation*".

Royalty Regimes

Changes to royalty regimes may negatively impact the Corporation's cash flows

Governments in the jurisdictions in which the Corporation has assets may adopt new royalty regimes, or modify the existing ones, which may affect the economic viability of the Corporation's projects. An increase in royalties will reduce the Corporation's earnings and could make future capital investments, or operations, less economic. See "*Industry Conditions – Royalties and Incentives*".



Waterflood

Regulatory water use restrictions and/or limited access to water or other fluids may impact the Corporation's production volumes from its waterflood

The Corporation undertakes or intends to undertake certain waterflooding programs, which involve the injection of water or other liquids into an oil reservoir to increase production from the reservoir and to decrease production declines. To undertake such waterflooding activities the Corporation needs to have access to sufficient volumes of water, or other liquids, to pump into the reservoir to increase the pressure in the reservoir. There is no certainty that the Corporation will have access to the required volumes of water. In addition, in certain areas there may be restrictions on water use for activities such as waterflooding. If the Corporation is unable to access such water it may not be able to undertake waterflooding activities, which may reduce the amount of oil and natural gas that the Corporation is ultimately able to produce from its reservoirs. In addition, the Corporation may undertake certain waterflood programs that ultimately prove unsuccessful in increasing production from the reservoir and as a result have a negative impact on the Corporation's results of operations.

Availability of Water

Lack of availability of water may affect the Corporation's ability to implement various processes

The Corporation uses water in certain operations, including drilling, completions, and waterflooding, and reduced availability could adversely affect its business. Alberta continues to face drought risks following several warm, dry winters. In April 2024, the province entered voluntary water-sharing agreements with major licensees in southern Alberta river basins to mitigate drought impacts, and in 2025 introduced a Drought Response Plan and changes to water licence transfer rules to improve flexibility. Despite these measures, prolonged drought or stricter water allocation requirements could lead to operational delays, increased costs, or other adverse effects on the Corporation's financial condition.

Environmental Regulation

Compliance with environmental regulations requires the dedication of a portion of the Corporation's financial and operational resources

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, the initiation and approval of new oil and natural gas projects, and restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and natural gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. New environmental legislation at the federal and provincial levels may increase uncertainty among oil and natural gas industry participants as the new laws are implemented, and the effects of the new rules and standards are felt in the oil and natural gas industry. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation*".

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liabilities and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. In November 2024, the federal government published a draft of the proposed *Oil and Gas Sector Greenhouse Gas Emissions Cap Regulations*, which, if enacted as drafted, would cap emissions from a range of industrial activities in the oil and gas sector, establish a cap-and-trade system for emissions allowances, and require facility operators to comply with various reporting and



remittance obligations. Such proposed regulations, which could affect investor confidence, increase decarbonization initiatives and lead to production cuts, are expected to be finalized in and come into force in 2026.

Although the Corporation believes that it is in material compliance with current applicable environmental legislation, no assurance can be given that environmental compliance requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Greenwashing Legislation

Anti-greenwashing rules introduce risk into making certain environmental-related disclosures

Amendments to the *Competition Act* introduced in June 2024 prohibit companies from making false or misleading environmental claims. The new rules are complex and uncertain, and initially led many companies to suspend voluntary sustainability reporting. While private rights of action for greenwashing came into effect in June 2025, *Budget 2025 Implementation Act, No. 1* subsequently removed this access and clarified substantiation requirements to address unintended consequences. Despite these improvements, the regulatory landscape continues to evolve and penalties for non-compliance remain significant, including up to the greater of \$10 million for a first order, \$15 million for subsequent orders, or 3% of global annual revenues. Companies making voluntary environmental disclosures face ongoing risk of liability and reputational harm.

Climate Change

Climate change concerns could result in increased operating costs and reduced demand for the Corporation's products and shares, while the potential physical effects of climate change could disrupt the Corporation's production and cause it to incur significant costs in preparing for or responding to those effects

Global climate issues continue to attract public and scientific attention. Numerous reports, including reports from the United Nations Intergovernmental Panel on Climate Change, have engendered concern about the impacts of human activity, especially fossil fuel combustion, on global climate issues. In turn, increasing public, government, and investor attention is being paid to global climate issues and to GHG emissions, including emissions of carbon dioxide and methane from the production and use of oil and natural gas. The majority of countries, including Canada, have agreed to reduce their carbon emissions in accordance with the Paris Agreement and in November 2025 at COP30 in Brazil, Canada reaffirmed its commitments to transitioning away from fossil fuels in line with the Paris Agreement. As discussed below, the Corporation faces both transition risks and physical risks associated with climate change and climate change policy and regulations. See "*Industry Conditions – Climate Change Regulation*".

Transition risks

Foreign and domestic governments continue to evaluate and implement policy, legislation, and regulations focused on restricting GHG emissions and promoting adaptation to climate change and the transition to a low-carbon economy. It is not possible to predict what measures foreign and domestic governments may implement in this regard, nor is it possible to predict the requirements that such measures may impose or when such measures may be implemented. However, international multilateral agreements, the obligations adopted thereunder and legal challenges concerning the adequacy of climate-related policy brought against foreign and domestic governments may accelerate the implementation of such measures. Given the evolving nature of climate change policy and the control of GHG emissions and resulting requirements, including carbon taxes and carbon pricing schemes implemented by varying levels of government, it is expected that current and future climate change regulations will have the effect of increasing the Corporation's operating expenses, and, in the long-term, potentially reducing the demand for oil and natural gas and related products, resulting in a decrease in the Corporation's profitability and a reduction in the value of its assets.



Claims have been made against certain energy companies alleging that GHG emissions from oil and natural gas operations constitute a public nuisance under certain laws or that such energy companies provided misleading disclosure to the public and investors of current or future risks associated with climate change. Individuals, governmental authorities, or other organizations may make claims against oil and natural gas companies, including the Corporation, for alleged personal injury, property damage, or other potential liabilities. While the Corporation is not currently a party to any such litigation or proceedings, it could be named in actions making similar allegations. An unfavourable ruling in any such case could adversely affect the demand for and price of securities issued by the Corporation, impact its operations and have an adverse impact on its financial condition.

Due to long-term risks from environmental policy changes, regulations, legal challenges, and market shifts related to climate change, recent efforts have targeted the financial sector. Investment advisors, banks, pension funds, universities, and other institutional investors are engaging companies on climate action, using voting rights, and reallocating capital toward low-carbon assets while divesting from high-emission businesses. Stakeholders are also pressuring insurers and banks to stop financing or insuring oil, gas, and related infrastructure. These efforts may negatively impact the Corporation's operations, securities demand and pricing, and its cost and access to capital.

Climate-related regulations and reporting standards continue to evolve. In June 2023, the International Sustainability Standards Board ("ISSB") issued two global disclosure standards, IFRS S1 and S2, to promote consistent, comparable, and reliable environmental reporting. In December 2024, the Canadian Sustainability Standards Board finalized similar Canadian sustainability disclosure standards, CSDS 1 and CSDS 2 (the "**Canadian Standards**"). In December 2025, the ISSB announced targeted amendments to IFRS S2; whether the Canadian Standards will be revised remains uncertain. Meanwhile, in April 2025, due to significant changes in the global economic and geopolitical landscape, the Canadian Securities Administrators paused work on its own climate disclosure initiative. If the Corporation is not able to meet future climate-related reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licences, registrations, approvals, and authorizations from various governmental authorities, and raise capital, may be adversely affected. See "*Industry Conditions – Climate Change Regulation*".

Physical risks

The potential physical risks resulting from climate change are long-term in nature and associated with a high degree of uncertainty regarding timing, scope, and severity of potential impacts. Many experts believe global climate change could increase extreme variability in weather patterns such as increased frequency of severe weather, rising mean temperature and sea levels, and long-term changes in precipitation patterns. Extreme hot and cold weather, heavy snowfall, heavy rainfall, drought, and wildfires may restrict the Corporation's ability to access its properties and cause operational difficulties, including damage to equipment and infrastructure. Extreme weather also increases the risk of personnel injury as a result of dangerous working conditions.

Indigenous Land and Rights Claims

Opposition by Indigenous groups to the conduct of the Corporation's operations, development or exploratory activities may negatively impact the Corporation

Opposition by Indigenous groups to the conduct of the Corporation's operations, development or exploratory activities in any of the jurisdictions in which the Corporation conducts business may negatively impact it in terms of public perception, diversion of management's time and resources, and legal and other advisory expenses, and could adversely impact the Corporation's progress and ability to explore and develop properties.

Indigenous groups across Canada have established and asserted treaty entitlements, title to land and Aboriginal rights. Although there are no treaty, title or rights claims on lands where the Corporation operates, no certainty exists that any lands currently unaffected by such claims brought by Indigenous groups will remain unaffected by future claims. Such claims, if successful, could have a material adverse effect on its operations or pace of growth.



The Canadian federal and provincial governments have a duty to consult with Indigenous peoples when contemplating actions that may adversely affect asserted or proven Indigenous or treaty rights and, in certain circumstances, accommodate them. The scope of the duty to consult by federal and provincial governments varies upon the circumstances and is often the subject of litigation. The fulfillment of the duty to consult Indigenous peoples and any associated accommodations may adversely affect the Corporation's ability to, or increase the timeline to, obtain or renew, permits, leases, licences and other approvals, or to meet the terms and conditions of those approvals. In 2021, the British Columbia Supreme Court determined that the cumulative impacts of government sanctioned industrial development on the traditional territories of a First Nation in northeast British Columbia breached that group's treaty rights. In 2023, the Government of British Columbia and the First Nation came to an agreement relating to further industrial activities in the area. The developments in northeastern British Columbia relating to Indigenous rights may lead to similar claims of cumulative effects across Canada in other areas covered by treaties. The long-term impacts and associated risks of the decision on the Canadian oil and natural gas industry and the Corporation remain uncertain.

The federal government has enacted federal legislation to implement the United Nations Declaration on the Rights of Indigenous Peoples ("**UNDRIP**"), and British Columbia has adopted similar provincial legislation under the *Declaration on the Rights of Indigenous Peoples Act* ("**DRIPA**"). The practical implications of these statutes have remained uncertain; however, recent judicial decisions in 2025 provide important guidance.

In February 2025, the Federal Court in *Kebaowek First Nation v Canadian Nuclear Laboratories* directed a decision-maker to reconsider whether the duty to consult and accommodate had been satisfied in light of UNDRIP principles. In December 2025, the British Columbia Court of Appeal in *Gitxaala v British Columbia (Chief Gold Commissioner)* held that DRIPA imposes immediate, positive statutory obligations on the provincial government, including taking concrete and diligent steps to align provincial laws with UNDRIP. British Columbia Premier, David Eby, has since announced that the government plans to amend DRIPA to remove the courts' ability to scrutinize that alignment process.

Although the scope of UNDRIP implementation continues to evolve, these recent decisions demonstrate a judicial willingness to confer substantive legal effect on UNDRIP both in British Columbia and federally. Additional processes may be created and legislation associated with project development and operations may be amended or introduced, further increasing uncertainty with respect to project regulatory approval timelines and requirements. See "*Industry Conditions – Indigenous Rights*".

Inflation and Interest Rates

The impacts of inflation and interest rates could have an impact on the costs of the Corporation's business and ability to borrow money in the future on acceptable terms

The Corporation's financial performance and cash flows may be adversely affected by inflationary pressures and fluctuations in interest rates. Inflation can lead to increased operating costs through higher prices for labour, equipment, materials, and services, as well as contribute to supply chain disruptions and regulatory changes. If the Corporation is unable to effectively manage these cost increases, project economics and future development decisions may be negatively impacted.

Although interest rates have begun to decline, they remained elevated for an extended period as central banks implemented measures to curb inflation. Higher borrowing costs during these periods may affect the Corporation's financing expenses and reduce returns on capital projects. Sustained periods of elevated interest rates can also slow economic growth, reduce energy demand, depress commodity prices, and limit industry activity. The duration and combined impact of inflationary pressures and interest rate volatility on energy demand, commodity pricing, and the Corporation's operations remain uncertain.



Forest and Wild Fires

The Corporation's oil and natural gas operations could be disrupted and its equipment and other assets could be damaged or destroyed by wild fires

Much of the Corporation's operations occur in heavily forested areas in northern Alberta. Such areas are subject to forest fires in hot and dry summer months. Forest or other wild fires in close proximity to the Corporation's operations may result in a reduction of drilling and exploratory activities and may also result in the shut-in of some of the Corporation's production. In addition, forest or other wild fires may restrict access to properties in which the Corporation has an interest and cause operational difficulties. Forest or other wild fires can also cause damage to equipment and infrastructure, personnel injury and loss of life. As much of the Corporation's operations are concentrated in relatively close proximity in Alberta, a significant forest or wild fire in the area could result in the Corporation being required to shut-in a significant portion of its production and cause damage to a significant portion of its equipment and other assets, which could have a material adverse effect on the Corporation's operational and financial results.

Variations in Foreign Exchange Rates and Interest Rates

Variations in foreign exchange rates and interest rates could adversely affect the Corporation's financial condition

World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar relative to the United States dollar will negatively affect the Corporation's production revenues. Accordingly, exchange rates between Canada and the United States could affect the future value of the Corporation's reserves as determined by independent evaluators. Although a low value of the Canadian dollar relative to the United States dollar may positively affect the price the Corporation receives for its oil and natural gas production, it could also result in an increase in the price for certain goods used in the Corporation's operations, which may have a negative impact on the Corporation's financial results.

To the extent that the Corporation engages in risk management activities related to foreign exchange and interest rates, there is a credit risk associated with counterparties with which the Corporation may contract.

An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, resulting in a reduced amount of funds available to fund its exploration and development activities, and if applicable, the cash available for dividends. Such an increase could also negatively impact the market price of the Common Shares.

Substantial Capital Requirements

The Corporation's access to capital may be limited or restricted as a result of factors related and unrelated to it, impacting its ability to conduct future operations and acquire and develop reserves

The Corporation anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As future capital expenditures will be financed out of cash generated from operations, borrowings, proceeds from asset sales and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors:

- the overall state of the capital markets;
- the Corporation's credit rating (if applicable);
- commodity prices;
- interest rates;



- royalty rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the energy industry and the Corporation's securities.

Further, if the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. The conditions in, or those affecting, the oil and natural gas industry have negatively impacted the ability of oil and natural gas companies, including the Corporation, to access financing and/or the cost thereof. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The Corporation may be required to seek additional equity financing on terms that are highly dilutive to existing Shareholders. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's business financial condition, results of operations and prospects.

Additional Funding Requirements

The Corporation may require additional financing, from time to time, to fund the acquisition, exploration and development of properties and its ability to obtain such financing in a timely fashion and on acceptable terms may be negatively impacted by current economic conditions and global market volatility

The Corporation's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times and, from time to time, the Corporation may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. Failure to obtain financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce its operations.

As a result of global economic and political volatility, the Corporation may, from time to time, have restricted access to capital and increased borrowing costs. Failure to obtain suitable financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of the Corporation's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Alternatively, any available financing may be highly dilutive to existing Shareholders. Failure to obtain any financing necessary for the Corporation's capital expenditure or acquisition plans may result in a delay in development of or production from the Corporation's properties.

Asset Concentration

The Corporation's operations and drilling activities are vulnerable to risks associated with operating in a limited geographic area

The Corporation's producing properties are geographically concentrated in the Provinces of Alberta and New Brunswick. Demand for and costs of personnel, equipment, power, services, and resources in such geographic areas remain high. This high level of demand could result in a delay or inability to secure such personnel, equipment, power, services, and resources. Any delay or inability to secure the personnel, equipment, power, services or resources could result in oil and natural gas production volumes being below the Corporation's forecasts. In addition, any such negative effect on production volumes, or significant increases in costs, could have a material adverse effect on the Corporation's financial conditions, results of operations, cash flow, and profitability.



As a result of this geographical concentration, the Corporation may be disproportionately exposed to the impact of delays or interruptions of operations or production in this area caused by external factors such as governmental regulation, provincial politics, Indigenous rights claims, market limitations, supply shortages, or extreme weather-related conditions.

Credit Facility Arrangements

Default under the Corporation's Credit Facility could result in the Corporation being required to repay all amounts owing thereunder

The Corporation currently has a Credit Facility and the amount authorized thereunder is dependent on the borrowing base determined by its lender. The Corporation is required to comply with covenants under its Credit Facility which may, from time to time, either affect the availability, or price, of additional funding. If the Corporation does not comply with these covenants, the Corporation's access to capital could be restricted or repayment could be required. Events beyond the Corporation's control may contribute to the failure of the Corporation to comply with such covenants. A failure to comply with covenants could result in default under the Credit Facility, which could result in the Corporation being required to repay amounts owing thereunder. The acceleration of the Corporation's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions. The Credit Facility does not include financial ratio tests. In addition, the Credit Facility may impose operating and financial restrictions on the Corporation that could include restrictions on the payment of dividends, repurchase or making of other distributions with respect to the Corporation's securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others.

The Corporation's lenders use the Corporation's reserves, commodity prices, applicable discount rate and other factors to periodically determine the Corporation's borrowing base. Commodity prices remain volatile as a result of various factors including limited egress options for Western Canadian oil and natural gas producers, global geopolitical tensions, actions taken to limit OPEC+ and non-OPEC+ production and increasing production by U.S. shale producers. Depressed commodity prices could reduce the Corporation's borrowing base, reducing the funds available to the Corporation under its Credit Facilities. This could result in the requirement to repay a portion, or all, of the Corporation's indebtedness.

If the Corporation's lenders require repayment of all or a portion of the amounts outstanding under its Credit Facility for any reason, including for a default of a covenant or the reduction of a borrowing base, there is no certainty that the Corporation would be in a position to make such repayment. Even if the Corporation is able to obtain new financing in order to make any required repayment under its Credit Facility, such financing may not be on commercially reasonable terms, or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under its Credit Facility, the lenders under its Credit Facility could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness.

To date, Headwater has not drawn on its Credit Facility.

Issuance of Debt

Increased debt levels may impair the Corporation's ability to borrow additional capital on a timely basis to fund opportunities as they arise

From time to time, the Corporation may enter into transactions to acquire assets or shares of other organizations. These transactions may be financed in whole or in part with debt, which could increase the Corporation's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, the Corporation may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could



impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

Hedging activities expose the Corporation to the risk of financial loss and counter party risk

From time to time, the Corporation may enter into agreements to receive fixed prices or derivative contracts on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that the Corporation engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, the Corporation's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes or prices fall significantly lower than projected;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts oil or natural gas prices.

Similarly, from time to time, the Corporation may enter into agreements to fix the exchange rate of Canadian dollars to United States dollars or other currencies in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to other currencies. However, if the Canadian dollar declines in value compared to such fixed currencies, the Corporation will not benefit from the fluctuating exchange rate.

Diluent Supply

A decrease in, or restriction in access to, diluent supply may increase the Corporation's operating costs

The Corporation's heavy oil production from the Clearwater area must be blended with diluent during the winter months to reduce the viscosity of the heavy oil to meet downstream pipeline specifications. A shortfall in the supply of diluent, or a restriction in access to diluent, may cause its price to increase, increasing the cost to transport heavy oil to market. An increase to the cost of bringing heavy oil to market may increase the Corporation's overall operating cost and result in decreased net revenues, negatively impacting the overall profitability of the Corporation's heavy oil projects.

Title to and Right to Produce from Assets

Defects in the title or rights to produce the Corporation's properties may result in a financial loss

The Corporation's actual title to and interest in its properties, and its right to produce and sell the oil and natural gas therefrom, may vary from the Corporation's records. In addition, there may be valid legal challenges or legislative changes that affect the Corporation's title to and right to produce from its oil and natural gas properties, which could impair the Corporation's activities and result in a reduction of the revenue received by the Corporation.

If a defect exists in the chain of title or in the Corporation's right to produce, or a legal challenge or legislative change arises, it is possible that the Corporation may lose all or a portion of the properties to which the title defect relates and/or its right to produce from such properties. This may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.



Reserves Estimates

The Corporation's estimated reserves are based on numerous factors and assumptions which may prove incorrect and which may affect the Corporation

There are numerous uncertainties inherent in estimating reserves and the future cash flows attributed to such reserves. The reserves and associated cash flow information set forth in this document are estimates only. Generally, estimates of economically recoverable oil and natural gas reserves (including the breakdown of reserves by product type) and the future net cash flows from such estimated reserves are based upon a number of variable factors and assumptions, such as:

- historical production from properties;
- production rates;
- ultimate reserve recovery;
- timing and amount of capital expenditures;
- marketability of oil and natural gas;
- royalty rates; and
- the assumed effects of regulation by governmental agencies and future operating costs (all of which may vary materially from actual results).

For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates and such variations could be material.

The estimation of Proved Reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are often estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in potentially material variations in the estimated reserves.

In accordance with applicable securities laws, the Corporation's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, including actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation and taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Corporation's oil and natural gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom and contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and, except as may be specifically stated, has not been updated and therefore does not reflect changes in the Corporation's reserves since that date.



Insurance

Not all risks of pursuing oil and natural gas opportunities are insurable and the occurrence of an uninsurable event may have a materially adverse effect on the Corporation

The Corporation's involvement in the exploration for and development of oil and natural gas properties may result in the Corporation becoming subject to liability for pollution, blowouts, sour gas leaks, property damage, personal injury or other hazards. Although the Corporation maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, certain risks are not, in all circumstances, insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

The Corporation's insurance policies are generally renewed on an annual basis and, depending on factors such as market conditions, the premiums, policy limits and/or deductibles for certain insurance policies can vary substantially. In some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. Significantly increased premiums could lead the Corporation to decide to reduce or possibly eliminate, coverage. In addition, insurance is purchased from a number of third-party insurers, often in layered insurance arrangements, some of which may discontinue providing insurance coverage for their own policy or strategic reasons. Should any of these insurers refuse to continue to provide insurance coverage, the Corporation's overall risk exposure could increase and the Corporation could incur significant costs.

Reputational Risk Associated with the Corporation's Operations

The Corporation relies on its reputation to continue its operations and to attract and retain investors and employees

The Corporation's business, operations or financial condition may be negatively impacted by any negative public opinion toward the Corporation or as a result of any negative sentiment toward, or in respect of, the Corporation's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which the Corporation operates as well as such groups' opposition to certain oil and natural gas projects. Potential impacts of negative public opinion or reputational issues may include delays or interruptions in operations, legal or regulatory actions or challenges, blockades, increased regulatory oversight, reduced support for, delays in, challenges to, or the revocation of regulatory approvals, permits and/or licences and increased costs and/or cost overruns. The Corporation's reputation and public opinion could also be impacted by the actions and activities of other companies operating in the oil and natural gas industry, particularly other producers, over which the Corporation has no control. Similarly, the Corporation's reputation could be impacted by negative publicity related to loss of life, injury or damage to property and the environment caused by the Corporation's operations. In addition, if the Corporation develops a reputation of having an unsafe work site, this may impact the ability of the Corporation to attract and retain the necessary skilled employees and consultants to operate its business. Opposition from special interest groups opposed to oil and natural gas development and the possibility of climate-related litigation against governments and fossil fuel companies may impact the Corporation's reputation. See "*Risk Factors – Climate Change*".

Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, regulatory and legal risks, among others, must all be managed effectively to safeguard the Corporation's reputation. Damage to the Corporation's reputation could result in negative investor sentiment toward the Corporation, which may result in limiting the Corporation's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Corporation's securities.



Changing Investor Sentiment

Changing investor sentiment toward the oil and natural gas industry may impact the Corporation's access to, and cost of capital

A number of factors, including the concerns of the effects of the use of fossil fuels on climate change, the impact of oil and natural gas operations on the environment, environmental damage resulting from spills of petroleum products during production and transportation, and Indigenous rights have affected certain investors' sentiments toward the oil and natural gas industry. As a result of these concerns, some institutional, retail and public investors have announced that they are no longer willing to fund or invest in oil and natural gas properties or companies or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board, management and employees of the Corporation. Failing to implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in the Corporation, or not investing in the Corporation at all. Any reduction in the investor base willing to invest in the oil and natural gas industry and more specifically, the Corporation, may limit the Corporation's access to capital, thereby increasing the cost of capital, and decreasing the price and liquidity of the Corporation's securities even if the Corporation's operating results, underlying asset values or prospects have not changed.

Dilution

The Corporation may issue additional Common Shares or other dilutive securities, diluting current Shareholders

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation, which may be dilutive to Shareholders. Shareholder dilution may also result from the issuance of Common Shares pursuant to the Corporation's equity incentive plans. As at December 31, 2025, it is the intention of the Corporation to settle both restricted share units and performance share units in cash. For more information regarding Headwater's equity incentive plans, see our most recent Information Circular and Proxy Statement, financial statements and related management's discussion and analysis filed on SEDAR+ at www.sedarplus.ca.

Management of Growth

The Corporation may not be able to effectively manage the growth of its business

The Corporation may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. To continue to manage growth effectively, the Corporation will need to continue to implement and improve its operational and financial systems and to train and manage and potentially expand its employee base. If the Corporation is unable to deal with such growth, it may have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

Expiration of Licences and Leases

The Corporation, or its working interest partners, may fail to meet the requirements of a licence or lease, causing its termination or expiry

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases. If the Corporation, or the holder of a licence or lease, fails to meet a specific requirement of the licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease and the associated abandonment and reclamation obligations may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.



Dividends

The amount of and frequency at which future cash dividends are paid may vary and there is no assurance that the Corporation will pay dividends in the future

The amount of future cash dividends paid by the Corporation, 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, fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements and debt levels, operating costs, royalty burdens, foreign exchange rates, restrictions under contracts on the payment of dividends, 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 Corporation, the dividend policy of the Corporation from time to time and future cash dividends could be reduced or suspended entirely.

The market value of the Common Shares may deteriorate if cash dividends are reduced or suspended. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by the Corporation and potential legislative and regulatory changes. Dividends may be reduced during periods of lower funds from operations, which result from lower commodity prices and any decision by the Corporation to finance capital expenditures using funds from operations.

To the extent that external sources of capital, including capital in exchange for the issuance of additional Common Shares, become limited or unavailable, the ability of the Corporation to make the necessary capital investments to maintain or expand petroleum and natural gas reserves and to invest in assets, as the case may be, will be impaired. To the extent that the Corporation is required to use funds from operations to finance capital expenditures or property acquisitions, the cash available for dividends may be reduced.

Litigation

The Corporation may be involved in litigation in the course of its normal operations and the outcome of any such litigation may adversely affect the Corporation and its reputation

In the normal course of the Corporation's operations, it may become involved in, be named as a party to, or be the subject of, legal proceedings, including regulatory proceedings, tax proceedings or legal actions. Potential litigation may develop in relation to personal injuries, including resulting from exposure to hazardous substances, property damage, property taxes, land and access rights, or environmental issues, including claims relating to contamination or natural resource damages and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted and may be determined adversely to the Corporation and could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from business operations, which could have an adverse effect on the Corporation's financial condition.

Breach of Confidentiality

Breach of confidentiality by a third party could impact the Corporation's competitive advantage or put it at risk of litigation

While discussing potential business relationships or other transactions with third parties, the Corporation may disclose confidential information relating to its business, operations or affairs. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot be predicted but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation would be able to



obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such breach of confidentiality may cause.

Income Taxes

Taxation authorities may reassess the Corporation's tax returns

The Corporation files all required income tax returns and believes that it is in full compliance with the provisions of the *Income Tax Act* and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects the Corporation. Furthermore, tax authorities having jurisdiction over the Corporation may disagree with how the Corporation calculates its income for tax purposes or could change administrative practices to the Corporation's detriment.

Third-Party Credit Risk

The Corporation is exposed to credit risk of its partners and third-party operators of properties in which it has an interest

The Corporation may be exposed to third-party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its oil and natural gas production and other parties. In addition, the Corporation may be exposed to third-party credit risk from operators of properties in which the Corporation has a working or royalty interest. In the event such entities fail to meet their contractual or other obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry, generally, and of the Corporation's joint venture partners may affect a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or a portion of any money owing from such parties. Any of these factors could materially adversely affect the Corporation's financial and operational results.

Conflicts of Interest

Conflicts of interest may arise for the Corporation's directors and officers who are also involved with other industry participants

Certain directors or officers of the Corporation may also be directors or officers of other oil and natural gas companies and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.



Reliance on a Skilled Workforce and Key Personnel

An inability to recruit and retain a skilled workforce and key personnel may negatively impact the Corporation

The operations and management of the Corporation require the recruitment and retention of a skilled workforce, including engineers, technical personnel and other professionals. The loss of key members of such workforce, or a substantial portion of the workforce as a whole, could result in the failure to implement the Corporation's business plans which could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. The Corporation does not have any key personnel insurance in place. Contributions of the existing management team to the immediate and near-term operations of the Corporation are likely to be of central importance. In addition, certain of the Corporation's current employees may have significant institutional knowledge that must be transferred to other employees prior to their departure from the workforce. If the Corporation is unable to retain current employees, successfully complete effective knowledge transfers and/or recruit new employees with the requisite knowledge and experience, the Corporation could be negatively impacted. In addition, the Corporation could experience increased costs to retain and recruit these professionals. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

Information Technology Systems and Cyber-Security

Breaches of the Corporation's cyber-security and loss of, or access to, electronic data may adversely impact the Corporation's operations and financial position

The Corporation has become increasingly dependent upon the availability, capacity, reliability and security of its information technology infrastructure, and its ability to expand and continually update this infrastructure, to conduct daily operations. The Corporation depends on various information technology systems to estimate reserve quantities, process and record financial data, manage the Corporation's land base, manage financial resources, analyze seismic information, administer contracts with operators and lessees and communicate with employees and third-party partners.

Further, the Corporation is subject to a variety of information technology and system risks as a part of its normal course operations including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Corporation's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to business activities or the Corporation's competitive position.

Phishing attacks (i.e., fraudulent attempts to obtain sensitive information such as passwords, financial details, or funds) have become increasingly sophisticated. A successful attack could result in loss of financial resources, theft of critical data, or compromise of the Corporation's technology infrastructure. Employees are frequent targets, often through emails that appear legitimate but direct recipients to fraudulent websites, request confidential information, or install malware such as "Trojan horse" programs.

Increasingly, social media is used as a vehicle to carry out phishing attacks. Information posted on social media sites for business or personal purposes may be used by attackers to gain entry into the Corporation's systems and obtain confidential information. The Corporation restricts the social media access of its employees through social media guidelines within the Corporation's Code of Business Conduct and Ethics. As social media continues to grow in influence and access to social media platforms becomes increasingly prevalent, however, there are significant risks that the Corporation may not be able to properly regulate social media use and preserve adequate records of business activities and client communications conducted through the use of social media platforms.



The Corporation maintains policies and procedures that address and implement employee protocols with respect to electronic communications and electronic devices and conducts annual cyber-security risk assessments. The Corporation also employs encryption protection of its confidential information, and all its computers and other electronic devices. Despite the Corporation's efforts to mitigate such phishing attacks through education and training, phishing activities remain a serious problem that may damage the Corporation's information technology infrastructure. The Corporation applies technical and process controls in line with industry-accepted standards to protect its information, assets and systems, including a written incident response plan for responding to a cyber-security incident. However, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on the Corporation's performance and earnings, as well as on its reputation, and any damages sustained may not be adequately covered by the Corporation's current insurance coverage, or at all. The significance of any such event is difficult to quantify and may in certain circumstances be material and could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation's IT systems may incorporate artificial intelligence ("AI"), and development of these capabilities is ongoing. AI introduces risks and unintended consequences that could affect adoption and business operations. Algorithms and training methods may be flawed, and reliance on AI without adequate safeguards can lead to inaccurate outcomes or operational vulnerabilities.

AI also poses data privacy, cyber-security, and intellectual property risks. Improper use may result in unauthorized disclosure of sensitive information or outputs that infringe copyrights, patents, or privacy rights. As legal and regulatory frameworks for AI remain uncertain, future compliance obligations could impose significant costs or limit the Corporation's ability to integrate AI tools.

Data Protection

The handling of secure information exposes the Corporation to potential data security risks that could result in monetary damages against the Corporation and could otherwise damage its reputation, and adversely affect its business, financial condition and results of operations

The protection of customer, employee, and company data is critical to the Corporation's business. The regulatory environment in Canada surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and evolving requirements. Certain legislation, including the *Personal Information Protection and Electronic Documents Act* in Canada, require documents to be securely destroyed to avoid identity theft and inadvertent disclosure of confidential and sensitive information. A significant breach of customer, employee, or company data could attract a substantial amount of media attention, damage the Corporation's customer relationships and reputation, and result in lost sales, fines, or lawsuits. In addition, an increasing number of countries have introduced and/or increased enforcement of comprehensive privacy laws or are expected to do so. The continued emphasis on information security as well as increasing concerns about government surveillance may lead customers to request the Corporation to take additional measures to enhance security and/or assume higher liability under its contracts. As a result of legislative initiatives and customer demands, the Corporation may have to modify its operations to further improve data security. Any such modifications may result in increased expenses and operational complexity, and adversely affect its reputation, business, financial condition and results of operations.

Expansion into New Activities

Expanding the Corporation's business exposes it to new risks and uncertainties

The operations and expertise of the Corporation's management are currently focused primarily on oil and natural gas production, exploration and development in Canada. In the future, the Corporation may acquire or move into new industry-related activities or new geographical areas and may acquire different energy-related assets. As a result, the Corporation may face unexpected risks or, alternatively, its exposure to one or more existing risk factors



may be significantly increased, which may in turn result in the Corporation's future operational and financial conditions being adversely affected.

Forward-Looking Statements

Forward-looking statements may prove inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. See "*Risk Factors – Reserves Estimates*" of this Annual Information Form.

Forced or Child Labour in Supply Chains

The introduction of new supply chain due diligence and reporting requirements could expose the Corporation to certain risks

In May 2023 the *Fighting Against Forced Labour and Child Labour in Supply Chains Act* was passed and came into force on January 1, 2024. Pursuant to the new legislation, any company that is subject to the reporting requirements, including the Corporation, is required to file an annual report with respect to its supply chains. In late 2024 the federal government signalled its intention to create a new and more onerous supply chain due diligence regime overseen by a new oversight agency, whereby reporting entities would be required to scrutinize their supply chains for human rights risks and take action to resolve any such risks. Although the Corporation is currently unaware of any forced or child labour within its supply chains, heightened scrutiny of Canadian companies could reveal risks or instances of such practices in a supply chain connected to the Corporation, potentially harming its reputation. In addition, complying with any new legislative requirements related to due diligence of its supply chains will increase the Corporation's costs and regulatory burdens.

Natural Disasters, Terrorist Acts, Civil Unrest, Pandemics and Other Disruptions and Dislocations

Natural Disasters, Terrorist Acts, Civil Unrest, Pandemics and Other Disruptions and Dislocations, may adversely affect the Corporation

Events such as natural disasters, war, riots, or civil unrest can severely disrupt recovery efforts in affected regions. This may have a material adverse impact on the Corporation, its customers, and their operations. Other risks include terrorist attacks, public health crises (such as epidemics, pandemics, or new infectious diseases), trade and infrastructure disruptions, civil disobedience, national emergencies, acts of war, and technological attacks. These events can create volatility and disrupt supply chains, operations, workforce mobility, and financial markets. Such disruptions may lead to a significant decline in economic activity in Canada and globally, reduce demand for oil and natural gas, and affect interest rates, credit ratings, inflation, and overall business conditions. These factors could negatively impact the Corporation's reputation, business, financial condition, and operations, and may worsen other risks identified herein.

Hydraulic Fracturing

If the hydraulic fracturing moratorium is not lifted in New Brunswick, the Corporation would not be able to complete any additional development activities with respect to its McCully Field assets

Although hydraulic fracturing is not necessary for drilling and completion operations for Headwater's assets in Alberta, Headwater would require hydraulic fracturing in connection with any future drilling and completion activities it conducts in New Brunswick. There has been public concern over the hydraulic fracturing process. Most



of these concerns have raised questions regarding the drilling fluids used in the fracturing process, their effect on fresh water aquifers, the use of water in connection with completion operations, the ability of such water to be recycled, and induced seismicity associated with fracturing.

The U.S. and Canadian federal governments and certain U.S. state and Canadian provincial governments continue to review and evaluate certain aspects of the scientific, regulatory and policy framework under which hydraulic fracturing operations are conducted.

Environmental and other stakeholder groups continue to advocate for additional federal, provincial, territorial, state and municipal laws and regulations to more closely regulate the hydraulic fracturing process, and have asserted that hydraulic fracturing techniques are harmful to surface water and drinking water sources and may contribute to earthquake activity particularly where in proximity to pre-existing faults.

It is anticipated that federal, provincial and state regulatory frameworks to address concerns related to hydraulic fracturing will continue to evolve. While the Corporation is unable to predict the impact of any potential regulations upon its business, the implementation of new laws, regulations or permitting regulations with respect to water usage or disposal, or hydraulic fracturing generally could increase the Corporation's costs of compliance, operating costs, the risk of litigation and environmental liability, or negatively impact the Corporation's production and prospects, any of which may have a material adverse effect on the Corporation's business, financial condition and results of operations.

New Brunswick

The New Brunswick Government announced on May 27, 2016, that it would indefinitely continue a moratorium on hydraulic fracturing. In November 2018, the Government of New Brunswick expressed its intention to allow natural gas development in the Sussex region, where Headwater's properties are located. On June 5, 2019, the Government of New Brunswick amended the Prohibition Against Hydraulic Fracturing Regulation to allow the Minister of Natural Resources and Energy Development to exempt certain operations in the Sussex region from the moratorium, though regulatory uncertainty remains regarding the availability of such exemptions. As of the date of this AIF, the moratorium remains in effect and the Government of New Brunswick has publicly stated that there is currently no appetite to lift it or revisit the issue.

Headwater believes that all new wells on its properties in New Brunswick require hydraulic fracture stimulation to be commercially productive. As a result of this announcement, Headwater has determined that it will not undertake any drilling activities in New Brunswick until the moratorium is lifted. Should the moratorium not be lifted, Headwater's ability to increase production beyond current levels in the McCully Field will be materially and adversely affected.

See "*Industry Conditions – Regulatory Authorities and Environmental Regulation*".

Co-Existence with Mining Operations

The Corporation's activities may be affected by historical potash mining operations

Nutrien has historically conducted potash mining operations pursuant to a lease granted by the Government of New Brunswick that overlays a substantial portion of the McCully Field. In 2018, Nutrien permanently closed its potash facility after putting the operation on care and maintenance in early 2016. Applicable legislation requires that oil and gas activities not interfere with mining operations and that mining activities not interfere with oil and gas operations. The Corporation has to date succeeded in conducting its business activities in a manner that does not interfere with such mining operations. For example, several of the wells previously drilled by the Corporation have been drilled directionally to access natural gas beneath the potash mine. Notwithstanding the closure of the mining operations by Nutrien, there can be no assurance that the Corporation's future exploration and development



activities will not be adversely affected as a result of the historical potash mining operations, including the possibility that a portion of the McCully Field may not be accessible for natural gas development.

INDUSTRY CONDITIONS

Companies operating in the Canadian oil and gas industry are subject to extensive regulation and control of operations, including matters related to land tenure, exploration, development, production, refining and upgrading, transportation, and marketing. Legislation has been enacted by, and agreements have been entered into between, various levels of government regarding the pricing and taxation of petroleum and natural gas, all of which should be carefully considered by investors in the Corporation. All current legislation is a matter of public record; however, the Corporation is unable to predict what additional legislation or amendments governments may enact in the future.

The Corporation's assets and operations are regulated by administrative agencies that derive their authority from legislation enacted by the applicable level of government. Regulated aspects of the Corporation's upstream oil and natural gas business include all activities associated with the exploration and production of oil and natural gas, including, among other matters: (i) permits for drilling wells and constructing related infrastructure; (ii) technical drilling and well requirements; (iii) permitted locations and access to operation sites; (iv) operating standards regarding conservation of produced substances and avoidance of waste, such as restrictions on flaring and venting; (v) minimizing environmental impacts, including reducing emissions; (vi) storage, injection and disposal of substances associated with production operations; and (vii) abandonment and reclamation of impacted sites. To conduct oil and natural gas operations and remain in good standing with applicable regulatory regimes, producers must comply with applicable legislation, regulations, orders, directives and other directions, all of which are subject to governmental oversight, review and revision, from time to time. Compliance can be costly and breaches may result in fines or other sanctions.

The discussion below outlines some of the principal aspects of legislation, regulations, agreements, orders, directives, and other pertinent conditions that impact the oil and gas industry in Canada, specifically in the provinces of Alberta and New Brunswick, where the Corporation's assets are primarily located. Although the Corporation also has undeveloped land in the province of Saskatchewan, it does not currently have any significant operations in the province. While these matters do not affect the Corporation's operations in any manner that is materially different from the way they affect other similarly-sized industry participants with comparable assets and operations, investors should consider such matters carefully.

Exports of Crude Oil, Natural Gas and NGLs from Canada

Over the past year, U.S. tariffs on certain Canadian products, including energy, along with Canada's reciprocal measures, have added complexity to cross-border energy trade. The U.S.-Canada tariff environment remains volatile, with duties affecting products that do not qualify for USMCA exemptions. On February 20, 2025, SCOTUS issued its decision regarding the authority of the Trump administration to impose U.S. tariffs without congressional approval, ultimately deciding that the President does not have such authority under applicable legislation. In response to the SCOTUS decision, the Trump administration has indicated that it intends to impose alternative tariffs or adopt other trade measures on its trading partners, including Canada. SCOTUS' decision, the Trump's administration's response and the ongoing USMCA review add further uncertainty regarding whether crude oil, natural gas, and NGL exports to the U.S. could ultimately be subject to tariffs or other trade measures. These dynamics influence export costs, market access, and demand for Canadian energy products. The impact of continuing or new tariffs or other trade measures on the Canadian economy and Canadian energy producers is uncertain.

In recent years, Canada has expanded oil and gas exports beyond the U.S. The completion of the Trans Mountain Expansion has enabled crude shipments to Asia and Europe, with China, South Korea, and India emerging as major buyers. Seaborne exports to Europe have also increased. In natural gas, Canada's first large-scale liquefied natural gas ("LNG") terminal began operations in mid-2025, opening access to global markets. These developments mark a strategic shift toward diversified energy export destinations; however, the U.S. remains the largest customer of



Canadian energy products. As a result, actions taken by the U.S. administration or other events impacting U.S. demand for Canadian energy products can result in a significant impact on the pricing the Corporation and other Canadian producers receive for their energy products.

Pricing and Marketing in Canada

The price of crude oil, natural gas, and NGLs is negotiated between buyers and sellers. Various factors may influence prices, including global supply and demand, product quality, distance to market, availability of transportation, value of refined products, prices of competing products, price of competing stock, contract terms, weather conditions, supply/demand balance, and other contractual provisions.

Transportation Constraints and Market Access

Despite having significant capacity to move crude oil, natural gas, and NGLs from Western Canada, much of this transportation infrastructure is oriented toward the United States. As a result, even though Western Canada possesses the ability to transport large volumes, market access remains constrained because limited capacity is available for deliveries to Eastern Canada and overseas markets. This reliance on U.S.-bound infrastructure continues to restrict Canada's ability to diversify export destinations. Many proposed projects that could broaden access, particularly those aimed at enabling greater movement to other international markets, have been cancelled or delayed due to regulatory hurdles, court challenges, and economic or socio-political factors.

Oil Pipelines

In Canada, producers negotiate with pipeline operators to transport their products to market on a firm, spot or interruptible basis depending on the specific pipeline and the specific substance. Transportation availability is highly variable across different jurisdictions and regions. This variability can determine the nature of transportation commitments available, the number of potential customers and the price received.

Under Canadian constitutional law, the development and operation of interprovincial and international pipelines fall within federal jurisdiction and, under the Canadian Energy Regulator Act, new interprovincial and international pipelines require a federal regulatory review and Cabinet approval before they can proceed. In recent years, however, there has been a perceived lack of policy and regulatory certainty in this regard such that, even when projects are approved, they often face delays due to actions taken by provincial and municipal governments and legal opposition related to issues such as Indigenous rights and title, the government's duty to consult and accommodate Indigenous peoples and the sufficiency of relevant environmental review processes. Export pipelines from Canada to the United States face additional unpredictability as such pipelines also require approvals from several levels of government in the United States.

In June 2025, Bill C-5 (the *One Canadian Economy Act*) came into force, granting the federal government authority to expedite approval of "national interest" infrastructure projects, including pipelines. While the legislation aims to reduce regulatory delays, it has drawn mixed reactions: industry stakeholders generally support its streamlining measures, whereas certain rights holders, particularly Indigenous groups, have expressed concerns regarding its implications. The federal government is currently engaged in consultations with provinces, territories, and Indigenous communities regarding implementation.

On November 27, 2025, the governments of Canada and Alberta signed a Memorandum of Understanding ("**MOU**") to collaborate on supporting the development of oil and gas resources, renewable energy, critical minerals, and other resource sectors in Western Canada. The MOU includes a federal government commitment to not implement the Oil and Gas Sector Greenhouse Gas Emissions Cap Regulations ("**Oil and Gas Emissions Cap**") and the commitment of both levels of government to design and commit to sector-specific stringency factors for large Alberta emitters under Alberta's Technology Innovation and Emissions Reduction Regulation ("**TIER**"), and to continue the annual carbon tax rate increase up to \$130 per tonne.



The agreements to be established under the MOU are expected to be finalized in 2026 and 2027.

Natural Gas and LNG

Natural gas prices in Western Canada have been constrained in recent years, reaching record lows in 2025 due to increasing North American supply, limited market access, and restricted storage capacity. Companies that secure firm access to infrastructure for transporting natural gas out of Western Canada may be able to access additional markets and achieve better pricing. Companies without firm access may be forced to accept spot pricing in Western Canada, which is generally lower than prices in other North American regions.

In October 2020, TC Energy Corporation ("TC") received federal approval to expand the Nova Gas Transmission Line system. The NGTL system is currently implementing a \$9.9 billion infrastructure program. In July 2024, TC announced an historic equity interest purchase agreement with an Indigenous-owned investment partnership which will enable up to 72 Indigenous communities to become equity owners of the network of infrastructure assets spanning Western Canada, however as of September 2024, the deal has been delayed.

In 2025, LNG Canada became fully operational as the country's first large-scale LNG export terminal, marking a significant milestone in Canada's emergence as a global LNG supplier. The project exported its first cargo from the Kitimat terminal in July 2025, and by September had already shipped ten cargoes to international markets, with export volumes continuing to rise thereafter. In addition, on August 6, 2025, JGC and Fluor were awarded a contract to update the Front-End Engineering and Design for the proposed Phase 2 expansion, which aims to double the facility's annual LNG production capacity.

A wide range of energy infrastructure projects, including natural gas pipelines, oil pipelines, LNG export facilities, and related transmission upgrades, remain in various stages of development across Canada. These include projects that are under construction, as well as others that are proposed, awaiting regulatory approvals, or still pending final investment decisions. Together, these projects reflect a significant pipeline of potential development subject to evolving market conditions, regulatory processes, and investment decisions.

Land Tenure

Mineral Rights

Except in Manitoba, each provincial government in Western Canada owns most of the mineral rights to oil and natural gas located within its borders. Provincial governments grant rights to explore for and produce oil and natural gas through leases, licences, and permits (collectively referred to as "**leases**") for varying terms and subject to conditions set forth in provincial legislation, including requirements to perform specific work or make payments in lieu thereof. Provincial governments in Western Canada conduct land sales where oil and natural gas companies bid for leases necessary to explore for and produce provincially owned oil and natural gas. These leases generally have fixed terms but may be continued beyond their initial terms if the required conditions are satisfied.

Private ownership of oil and natural gas (i.e., freehold mineral lands) also exists in Western Canada, as well as rights to explore for and produce privately owned oil and natural gas are granted by a lease or other contract on terms and conditions negotiated between the mineral rights holder and companies seeking to explore for and/or develop oil and natural gas reserves.

Where the Corporation operates on, or near, First Nation reserve lands or in areas subject to Indigenous rights or title, its success is closely tied to building and maintaining strong, respectful, and durable relationships with Indigenous peoples. This may take various forms, including the negotiation of Impact Benefit Agreements, participation in equity ownership frameworks, collaboration on environmental stewardship, and engagement protocols that reflect the priorities, governance structures, and decision-making processes of the potentially affected Nations. Many proposed and ongoing energy and infrastructure projects across Canada increasingly require proactive partnership with Indigenous communities, both to secure regulatory approvals and to support long-term



operational certainty. As such, constructive engagement, grounded in transparency, mutual benefit, and recognition of Indigenous rights, is a critical component of the Corporation's ability to advance and sustain its activities in these regions.

Surface Rights

To develop oil and natural gas resources, producers must also secure access rights to the surface lands required to conduct operations. For Crown lands, surface access rights can be obtained directly from the government. For private lands, access rights are typically negotiated with the landowner. Where an agreement cannot be reached, each province has developed its own process that producers can follow to obtain and maintain the surface access necessary to conduct operations.

Royalties and Incentives

Each province has legislation and regulations in place to govern Crown royalties and establish the royalty rates that producers must pay for the production of Crown resources. Provincial royalty regimes operate in conjunction with applicable federal and provincial taxes and are a significant factor in the profitability of oil sands projects and oil, natural gas and NGL production. Royalties payable on production from lands where the Crown does not hold the mineral rights are negotiated between the mineral freehold owner and the lessee, although certain provincial taxes and other charges on production or revenues may still apply. Royalties from production on Crown lands are determined by provincial regulation and are generally calculated as a percentage of the value of production.

Producers and working interest owners of oil and natural gas rights may create additional royalties or royalty-like interests, such as overriding royalties, net profits interests and net carried interests, through private transactions, the terms of which are subject to negotiation.

From time to time, the federal and provincial governments create incentive programs for businesses operating in specific industries, such as oil and gas. These programs are often introduced when commodity prices are low to encourage exploration and development activities. They may provide volume-based incentives, royalty rate reductions, royalty holidays, or royalty tax credits. Governments may also introduce incentive programs to encourage producers to prioritize certain kinds of development or to utilize technologies that enhance recovery of oil, natural gas and NGLs, or improve environmental performance.

New Brunswick

The Crown owns all crude oil and natural gas resources in New Brunswick. Though New Brunswick currently has no commercial crude oil production, the province calculates royalties on oil by assigning a sliding scale percentage to monthly production. The royalty percentage assigned to oil production ranges from 5% at production volumes of 1-49m3, to 12% at volumes equal to or greater than 720 m3.

Natural gas royalties in New Brunswick consist of a basic royalty component and an economic rent royalty component. Unlike other provinces, New Brunswick does not charge royalties on a per well basis, applying the royalty to a producer's aggregate production. The basic royalty is the greater of 4% of the product of the wellhead price of produced natural gas and all units of natural gas produced by the licensee or lessee in the province in that month, and 2% of a licensee's or lessee's monthly gross revenue from natural gas sales at all of its wells. The wellhead price is the selling price of natural gas minus transportation costs and a gas processing allowance. The economic rent royalty is 25% of the cumulative gross revenue from all of a licensee's or lessee's natural gas operations in New Brunswick, minus the sum of all capital expenditures and operating costs associated with those operations. Thus, the economic rent royalty will not come into effect until the licensee or lessee recovers all eligible costs and begins to make a profit.



The royalty on all by-products obtained in the production of oil and natural gas, including sulphur, helium, NGLs and condensates is 10% of the greater of the actual selling price of those by-products, or their fair market value at the time and place of production.

Regulatory Authorities and Environmental Regulation

The Canadian oil and gas industry is subject to environmental regulation under a variety of federal, provincial, territorial, and municipal laws and regulations, all of which are subject to governmental review and revision from time to time. These regulations provide for, among other things, restrictions and prohibitions on the spill, release, or emission of substances produced in association with certain oil and gas operations, such as sulphur dioxide and nitrous oxide. Regulatory regimes also establish requirements for oilfield waste handling and storage, habitat protection, and the proper operation, maintenance, abandonment, and reclamation of well, facility, and pipeline sites.

Compliance with these regulations can require significant expenditures, and breaches may result in suspension or revocation of licences and authorizations, civil liability, and the imposition of material fines and penalties. In addition, future changes to environmental legislation, including legislation related to air pollution and GHG emissions (typically measured in terms of global warming potential and expressed as carbon dioxide equivalent ("CO₂e")), may impose further requirements on operators and other companies in the oil and gas industry. Companies engaged in hydraulic fracturing operations are subject to additional operational, regulatory, and reporting requirements.

New Brunswick

Oil and natural gas exploration in New Brunswick is regulated by the Department of Environment and Local Government, and the Department of Natural Resources and Energy Development. Environmental protection is legislated in the *Clean Air Act*, *Clean Water Act*, *Clean Environment Act*, and the associated regulations.

On February 15, 2013, New Brunswick released the "*Responsible Environmental Management of Oil and Natural Gas Activities in New Brunswick*", a document detailing the province's rules for the oil and gas industry. The document addresses several important areas of industry management including concerns associated with geophysical (seismic) testing, the escape of contaminants from the wellbore and well pad, GHG emissions, public safety and emergency planning, protecting communities and the environment, and reducing financial risk and protecting landowner rights.

In 2015, New Brunswick implemented the *Prohibition Against Hydraulic Fracturing Regulation*, banning all hydraulic fracturing in the province. The New Brunswick Government announced on May 27, 2016 that it would indefinitely continue a moratorium on hydraulic fracturing. In November 2018, the Government of New Brunswick expressed its intention to allow natural gas development in the Sussex region, where Headwater's properties are located. On June 5, 2019, the Government of New Brunswick amended the *Prohibition Against Hydraulic Fracturing Regulation* to allow the Minister of Natural Resources and Energy Development to exempt certain operations in the Sussex region from the moratorium, though regulatory uncertainty remains regarding the availability of such exemptions. As of the date of this AIF, the hydraulic fracturing moratorium remains in effect, and the Government of New Brunswick has publicly stated that there is currently no appetite to lift it or revisit the issue. No exemption has been granted that would permit hydraulic fracturing on the Corporation's lands in the McCully Field in New Brunswick.

See "*Risk Factors – Hydraulic Fracturing*".

Liability Management

The AER administers several liability management programs to manage liability for most conventional upstream oil and natural gas wells, facilities, and pipelines in Alberta. The province continues to transition from a prescriptive framework toward a more holistic approach under its Liability Management Framework.



Alberta maintains an orphan fund to cover the costs of suspending, abandoning, remediating, and reclaiming wells, facilities, or pipelines included in certain AER programs if a licensee or working interest participant becomes insolvent or is otherwise unable to meet its obligations. The orphan fund is financed through levies imposed on industry participants and provincial loans. In March 2025, the Alberta government approved a \$144.45 million levy for the Orphan Well Association's 2025/26 operating budget.

The Supreme Court of Canada's ("SCC") decision in *Orphan Well Association v. Grant Thornton* (often referred to as the "Redwater" decision) continues to shape Alberta's liability management regime. As a result of the Redwater decision, receivers and trustees can no longer avoid the AER's legislated authority to impose abandonment orders or require security deposits before approving licence transfers during insolvency proceedings. Insolvent estates can no longer disclaim assets that have reached the end of their productive lives to prioritize valuable assets without first satisfying abandonment and reclamation obligations. The burden of a defunct licensee's obligations first falls on its working interest partners; thereafter, the AER may direct the orphan fund to assume care and custody and accelerate clean-up of wells or sites which do not have a responsible owner.

To address abandonment and reclamation liabilities, the AER periodically implements programs to encourage the decommissioning, remediation, and reclamation of inactive or marginal oil and natural gas infrastructure. In late 2025, the AER introduced mandatory annual closure spending requirements effective in 2026, reinforcing proactive liability reduction measures.

Similar to Alberta, British Columbia's regulator has moved away from formulaic liability management toward a holistic assessment of a permit holder's ability to meet abandonment and reclamation obligations. B.C. also maintains an orphan site program. The British Columbia Dormancy and Shutdown Regulation, amended effective April 1, 2025, establishes legally binding timelines for restoring oil and natural gas wells, aiming for 100% reclamation of currently dormant sites by 2036, with additional timelines for sites that became dormant between 2019 and 2023 and those becoming dormant after 2024.

Saskatchewan administers liability management through its Licensee Liability Rating program and the Inactive Liability Reduction Program, which mandates annual decommissioning expenditures. Saskatchewan's orphan fund, funded entirely by industry, continues to reclaim orphaned wells and facilities, with over 1,000 inactive sites restored as of early 2025.

Manitoba has not implemented a formal liability management rating program like those in other Western Canadian provinces. However, the province has processes in place to sell or abandon wells or facilities when a licensee or permittee fails to comply with a shutdown order, including rehabilitating abandoned sites and addressing any adverse property impacts.

Climate Change Regulation

Climate change regulation is a significant aspect of the operating environment for Canada's oil and gas industry. International agreements, federal initiatives, and provincial programs continue to shape emissions reduction targets, carbon pricing mechanisms, and reporting requirements. Current frameworks include measures such as carbon taxes, emissions caps, and incentives for low-carbon technologies, with ongoing reviews aimed at tightening standards to meet Canada's climate commitments.

Federal

Canada is a signatory to the United Nations Framework Convention on Climate Change and ratified the Paris Agreement, committing to reduce GHG emissions by 30% below 2005 levels by 2030. In 2021, Canada strengthened this target to a 40-45% reduction by 2030 and net-zero emissions by 2050. Canada has also pledged to reduce methane emissions from the oil and gas sector by 75% from 2012 levels by 2030; cap emissions from the oil and gas sector and phase out thermal coal exports by 2030. At the 2023 United Nations Climate Change Conference, Canada reaffirmed its commitment to transition away from fossil fuels and accelerate GHG reductions.



The Government of Canada launched the Pan-Canadian Framework on Clean Growth and Climate Change in 2016 and, in 2018, enacted the *Greenhouse Gas Pollution Pricing Act*. This legislation established a federal carbon pricing system composed of two key elements: a fuel charge applied to fossil fuels, and an Output-Based Pricing System ("OBPS") for large industrial emitters. The federal regime applied nationwide unless a province or territory implemented a system that met or exceeded federal benchmarks. However, effective April 1, 2025, the federal government introduced regulations that eliminated the federal fuel charge and removed the requirement for provinces and territories to maintain a consumer-facing carbon price.

Canada also regulates methane emissions under the Federal Methane Regulations, which came into force in 2020 and initially targeted a 40–45% reduction below 2012 levels by 2025. In December 2023, the federal government proposed amendments to achieve a 75% reduction by 2030, introducing stricter limits, new prohibitions, and continuous monitoring requirements. These amendments are expected to take effect in 2027.

Additional federal measures include the Multi-Sector Air Pollutants Regulation, which limits emissions of nitrogen oxides and sulphur dioxide from industrial equipment, and commitments to cap oil and gas sector emissions and phase out thermal coal exports.

The *Canadian Net-Zero Emissions Accountability Act* ("CNEAA"), in force since 2021, commits Canada to achieving net-zero emissions by 2050. It establishes rolling five-year emissions reduction targets, requires detailed plans to meet each target, and mandates annual progress reporting.

Under the CNEAA, Canada released its 2030 Emissions Reduction Plan in March 2022, outlining measures to cut emissions 40-45% below 2005 levels by 2030. The plan includes incentives for electric vehicles ("EV"), renewable electricity, and an emissions cap for the oil and gas sector.

The federal government continues to implement and revise measures aimed at reducing GHG emissions, creating ongoing regulatory uncertainty for industry. The Clean Fuel Regulations, effective July 2023, impose increasingly stringent carbon-intensity reduction requirements and operate through a compliance credit market, which may affect fuel supply costs and credit availability. The federal Greenhouse Gas Offset Credit System, launched in 2022, allows eligible projects to generate offset credits for use under the federal OBPS, but future protocol development, credit supply, and pricing remain uncertain.

In November 2024, the federal government released proposed Oil and Gas Emissions Cap Regulations, which would establish a sector-wide cap-and-trade system for upstream oil and gas emissions. Although originally expected to take effect in 2026, the November 2025 federal budget introduced significant changes to Canada's climate-policy framework, creating uncertainty about whether the emissions cap will be implemented as proposed, revised, or withdrawn. Changes to federal carbon-pricing requirements, compliance mechanisms and potential new reporting obligations may increase compliance costs and affect the Corporation's operations, investment decisions, and long-term planning.

Canada's Carbon Management Strategy aims to deploy technologies such as carbon capture to help achieve climate targets. As part of this strategy, the federal government has committed \$319 million over seven years to research and development. In June 2024, the government enacted the Carbon Capture, Utilization, and Storage Investment Tax Credit, a refundable credit available for eligible projects from January 1, 2022, until December 31, 2040, with a 50% reduction in credit value beginning in 2031.

As discussed under "*Oil Pipelines*", in November 2025, the governments of Canada and Alberta signed an MOU pursuant to which the federal government committed to not implement the Oil and Gas Emissions Cap and committed both levels of government to design and commit to sector-specific stringency factors for large Alberta emitters under Alberta's TIER, and to continue the annual carbon tax rate increase up to \$130 per tonne.

In February 2026, the federal government introduced an updated national automotive strategy that includes more than \$3 billion in planned financial commitments to support industry expansion, modernization, and diversification



into additional export markets. As part of this initiative, the federal government will implement a new program to lower the cost of EVs for Canadians, introduce new EV purchase and lease incentives for individuals and businesses, expand charging infrastructure, and advance a broader trade framework intended to enhance the competitiveness of the automotive sector. It also replaces the Electric Vehicle Availability Standard (which required automakers to sell an increasing percentage of zero emission light-duty vehicles, reaching 100% by 2035) with updated GHG emissions standards and new targets of achieving 75% EV sales by 2035 and 90% by 2040. The Corporation is unable to predict how this new automotive strategy will impact the demand for fossil fuels and Canadian energy products.

Provincial

In December 2016, the *Oil Sands Emissions Limit Act* (Alberta) came into force, establishing an annual 100 megatonne limit for GHG emissions from all oil sands sites, but the regulations necessary to enforce the limit have not yet been developed. The delay in drafting these regulations has been inconsequential thus far, as Alberta's oil sands emitted roughly 85 megatonnes of GHG in 2024, well below the 100 megatonne limit.

On January 1, 2020, Alberta's TIER came into effect for large emitters. It meets the federal benchmark's stringency requirements, allowing relevant facilities to remain under TIER rather than the federal OBPS. Since its introduction, TIER has undergone various amendments and program updates intended to refine compliance mechanisms and maintain alignment with federal benchmark stringency requirements.

In contrast, Saskatchewan and Manitoba do not have provincial equivalents, so the federal OBPS applies in full to their large industrial emitters. British Columbia, having implemented its own provincial OBPS on April 1, 2024, is exempt from the federal system as its program meets federal equivalency standards.

Alberta committed to reducing methane emissions by 45% from 2014 levels by 2025 and achieved this goal three years early. The province enacted the Methane Emission Reduction Regulation on January 1, 2020. Later that year, Alberta and Canada signed a five-year equivalency agreement exempting Alberta from the Federal Methane Regulations. In October 2025, the parties renewed the agreement, with some modifications, extending the exemption through 2030.

New Brunswick

In December 2016, New Brunswick released a climate change action plan, "Transitioning to a Low-carbon Economy" (the "**Transition Plan**"). Pursuant to this plan, the province announced that it intended to procure electricity from cleaner generation sources, including renewable sources and the use of renewable technologies, regulate GHG emissions from large industrial facilities, and reduce overall emissions in a manner that reflects the realities of the New Brunswick economy. Other initiatives under the plan include the phasing out of coal as a source of electricity, investing in new pollution-reduction technology, and increasing progress reporting and oversight by government committees.

The *Electricity Act* requires that 40% of in-province electricity sales in New Brunswick is electricity from renewable sales.

In March, 2018, New Brunswick enacted the *Climate Change Act*, which became effective on January 1, 2016. Under the *Climate Change Act*, New Brunswick committed to lowering its GHG emissions to 14.8 megatonnes by 2020, 10.7 megatonnes by 2030, and 5 megatonnes by 2050, targets that were originally established in the Transition Plan. New Brunswick has already met its 2020 emissions reduction goal. The *Climate Change Act* also established a Climate Change Fund. The legislation did not immediately introduce a carbon pricing system or fuel charge levy. As a result, the output-based emissions trading program for large emitters and federal fuel charge levy applied in the province as of January 1, 2019 and April 1, 2019, respectively. However, the legislation did allow the New Brunswick Minister of Environment and Local Government to enter into agreements with the federal government regarding carbon pricing and funds generated from it.



In December, 2019, the federal government announced that it had accepted New Brunswick's proposed fuel charge program. On March 13, 2020, New Brunswick passed two Acts amending the *Gasoline and Motive Fuel Tax Act* (the "GMTA") to reflect the terms proposed to the federal government. These amendments received royal assent on March 17, 2020, and the New Brunswick fuel charge took effect on April 1, 2020. Under the GMTA, a charge equivalent to the federal fuel charge applies to the consumption of "carbon emitting products" in the province; however, the provincial government has lowered its excise tax on gasoline such that the net effect of the charge is a \$0.02 per litre increase. All revenues from this charge will be invested in climate change initiatives. In addition, the provincial government rebates the fuel charge collected on natural gas to Liberty Utilities, the provincial distributor of natural gas for utilities purposes, which amount is then credited to customers.

On the same day that the amendments to the GMTA received royal assent, an *Act to Amend the Climate Change Act* also received royal assent. These amendments establish the framework for a provincially administered output-based pricing mechanism for industrial emitters. Under this program—deemed to have come into force on January 1, 2019—industrial facilities that emit more than 50,000 tonnes of CO₂e per year will be subject to a mandatory emissions reduction requirements and charges for non-compliance. Facilities that emit more than 10,000 tonnes of CO₂e but less than 50,000 CO₂e may opt-in to the program. Facilities that fail to meet their targets may purchase credits to offset their surplus emissions and facilities that exceed their reductions targets can earn performance credits that they can then sell to other facilities. In September 2020, the Government of Canada notified the Government of New Brunswick that its OBPS for industrial emitters satisfied federal standards. No changes to the provincial OBPS have been announced.

Indigenous Rights

Constitutionally mandated government-led consultation with, and if applicable, accommodation of the rights of, Indigenous groups impacted by regulated industrial activity, as well as proponent-led consultation and accommodation or benefit sharing initiatives, play an increasingly important role in the Western Canadian oil and gas industry. In addition, Canada is a signatory to the UNDRIP and the principles set forth therein may continue to influence the role of Indigenous engagement in the development of the oil and gas industry in Western Canada. For example, in November 2019, the DRIPA became law in British Columbia. The DRIPA aims to align British Columbia's laws with UNDRIP. In June 2021, the *United Nations Declaration on the Rights of Indigenous Peoples Act* ("**UNDRIP Act**") came into force federally in Canada. Similar to British Columbia's DRIPA, the UNDRIP Act requires the Government of Canada to take all measures necessary to ensure the laws of Canada are consistent with the principles of UNDRIP and to implement an action plan to address UNDRIP's objectives.

As of June 2022, the federal government has sought to implement the UNDRIP Act by, among other things, creating a Secretariat within the Department of Justice to support Indigenous participation in the implementation of UNDRIP (the "**Implementation Secretariat**"), consulting with Indigenous peoples to identify their priorities, drafting an action plan to align federal laws with UNDRIP's, and implementing efforts to educate federal departments on UNDRIP principles. On June 21, 2023, the Implementation Secretariat released Canada's UNDRIP Action Plan (the "**Action Plan**") with respect to aligning federal laws with UNDRIP, which has a 2023-2028 implementation timeframe. In August 2025, the federal government tabled its Fourth Annual Progress Report on the implementation of the UNDRIP Act, which provides various progress updates, including on the implementation of the Action Plan.

The federal government is in the process of developing various regulatory regimes that could create new requirements when doing business with Indigenous groups and on or near First Nation lands, for example, the *National Strategy Respecting Environmental Racism and Environmental Justice Act* which received royal assent in June 2024 and the new Indigenous co-administration agreement provisions of the *Impact Assessment Act* for which regulations, policy, guidance and procedures are forthcoming.

On June 29, 2021, the B.C. Supreme Court's *Yahey v. British Columbia* held that cumulative impacts of industrial development on the traditional territory of Blueberry River First Nation ("**BRFN**") breached BRFN's Treaty 8 rights. On January 18, 2023, B.C. and BRFN signed the Blueberry River First Nations Implementation Agreement ("**BRFN Agreement**"), introducing key measures such as a \$200 million restoration fund, ecosystem-based land-use planning,



limits on new oil and gas development, and revenue-sharing provisions. Under the agreement, BRFN will receive \$87.5 million over three years, with potential for additional benefits. In July 2024, BRFN filed a civil claim challenging the first implementation plan, highlighting concerns about execution.

The BRFN Agreement has served as a template for other Treaty 8 arrangements. Later in January 2023, B.C. and four First Nations (Fort Nelson, Saulteau, Halfway River, and Doig River) reached consensus on a collaborative approach to land and resource planning, adopting similar principles to implement cumulative effects management, new land-use plans, and revenue-sharing. However, two of these Nations later sued the B.C. government, alleging deception, misrepresentation, and withholding of information during negotiations. These disputes underscore the implementation challenges of such agreements.

Similar claims have been brought by First Nations in Alberta, including Beaver Lake Cree Nation's ("**BLCN**") claim against the Government of Alberta in 2008 and Duncan's First Nation's lawsuit against the Government of Alberta in 2022. After years of litigation, the BLCN case led to an SCC decision which established a new legal test for advance costs in public interest litigation. This ruling clarified that First Nations should not have to exhaust community resources or impoverish themselves to pursue constitutional claims, setting an important precedent for access to justice in treaty rights cases. The long-term impacts of these lawsuits on the Canadian oil and gas industry remain uncertain.

Recent British Columbia court decisions have the potential to influence the interpretation of Aboriginal title and the duty to consult framework in the province. In *Cowichan Tribes v Canada (Attorney General)*, the Supreme Court of British Columbia declared portions of the City of Richmond to be subject to Aboriginal title, a finding that raises unresolved questions regarding the interaction between Aboriginal title and existing fee simple ownership. In *Gitxaala v British Columbia (Chief Gold Commissioner)*, the British Columbia Court of Appeal held that British Columbia's DRIPA incorporates UNDRIP into domestic law and creates legally enforceable obligations on the Province, including positive duties to ensure that provincial laws are consistent with UNDRIP. Premier David Eby has since announced plans to amend DRIPA to limit judicial involvement in that process.

While these developments may have limited direct application in Alberta given Alberta's treaty landscape and the absence of province-level UNDRIP implementation legislation, they underscore the rapidly evolving nature of Indigenous rights jurisprudence. Indigenous rights claims may still arise in Alberta on different factual or legal grounds, and these decisions nonetheless highlight the increasing importance of early, proactive, and sustained engagement with Indigenous Nations in regulatory, land-use, and project-development contexts.

LEGAL PROCEEDINGS

Headwater is not a party to any legal proceeding nor was it a party to any legal proceeding during the 2025 financial year, nor is Headwater aware of any contemplated legal proceeding involving Headwater, its subsidiaries or any of its property which involves a claim for damages, exclusive of interest and costs, that may exceed 10% of the current assets of Headwater.

During the year ended December 31, 2025 and as at the date hereof, as applicable, there were and are: (i) no penalties or sanctions imposed against Headwater or by a court relating to securities legislation or by a securities regulatory authority; (ii) no other penalties or sanctions imposed by a court or regulatory body against Headwater that would likely be considered important to a reasonable investor in making an investment decision; and (iii) no settlement agreements entered into with Headwater before a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of management of the Corporation, there were no material interests, direct or indirect, of directors or executive officers of the Corporation, of any shareholder who beneficially owns, directly or indirectly,



or exercises control or direction over more than ten percent (10%) of the outstanding voting securities of the Corporation, or any other Informed Person (as defined in NI 51-102) or any known associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or would materially affect the Corporation or any of its subsidiaries.

AUDIT COMMITTEE INFORMATION

National Instrument 52-110 – *Audit Committees ("NI 52-110")* requires the Corporation, as a non-venture issuer, to disclose annually in its Annual Information Form certain information concerning the constitution of its audit committee and its relationship with its independent auditor in accordance with Form 52-110F1.

Audit Committee Mandate and Terms of Reference

The Mandate and Terms of Reference of the Audit Committee of the Board is attached hereto as Schedule "C".

Composition of the Audit Committee

The members of the Audit Committee are Chandra Henry (Chair), Kam Sandhar and Cheree Stephenson and each are considered independent in accordance with NI 52-110. All of the members of the Audit Committee are considered financially literate. Each of the members of the Audit Committee has identified themselves as financial experts due to their relevant education and experience. The following is a description of the education and experience of each member of the Audit Committee.

<u>Name and Place of Residence</u>	<u>Independent</u>	<u>Financially Literate</u>	<u>Relevant Education and Experience</u>
Chandra Henry Alberta, Canada	Yes	Yes	Ms. Henry is currently Chief Financial Officer and Chief Compliance Officer of Longbow Capital Inc. Ms. Henry was formerly a director of Whitecap Resources Inc., Bonavista Energy Corporation and Pengrowth Energy Corporation. Prior to her role with Longbow, Ms. Henry was the Chief Financial Officer of FirstEnergy Capital Corp. Ms. Henry has a Bachelor of Commerce degree from the University of Calgary and has earned the Chartered Professional Accountant (CPA, CA), Chartered Financial Analyst (CFA) and Institute of Corporate Directors (ICD.D) designations. In addition, Ms. Henry is a Fundamentals of Sustainability Accounting (FSA) Credential Holder.



Name and Place of Residence	Independent	Financially Literate	Relevant Education and Experience
Kam Sandhar Alberta, Canada	Yes	Yes	Mr. Sandhar is currently the Executive Vice President and Chief Financial Officer of Cenovus. Mr. Sandhar has nearly 20 years of experience in the oil and gas industry and has extensive expertise in strategy, business development, finance and investor relations. Prior to his current role at Cenovus, Mr. Sandhar held a variety of other positions including Executive Vice President, Strategy and Corporate Development and Senior Vice President, Conventional. Prior to joining Cenovus in 2013, Mr. Sandhar spent nine years at Peters & Co. Limited where he served as a Principal and Oil and Gas Analyst, covering a wide array of Canadian, U.S. and international oil and gas companies. Mr. Sandhar started his career at Deloitte LLP where he focused on oil and gas audit and taxation. Mr. Sandhar is a Chartered Professional Accountant and a member of the Chartered Professional Accountants of Alberta. He holds a Bachelor of Commerce degree from the University of Calgary.
Cheree Stephenson Alberta, Canada	Yes	Yes	Ms. Stephenson has 25 years of experience in the oil and gas industry including 15 years of executive level experience focused on corporate finance and development, financial reporting, stakeholder engagement and communication, risk management and corporate governance. Since 2020, Ms. Stephenson has served as the Vice-President, Finance and Chief Financial Officer of Topaz Energy Corp., a TSX listed royalty and energy infrastructure company. Ms. Stephenson's previous experience includes serving as Vice-President, Finance and Chief Financial Officer of Petrus Resources Ltd. and Controller of Peyto Exploration & Development Corp. after commencing her career at Ernst & Young LLP. Ms. Stephenson is a Chartered Professional Accountant (CPA, CA) and holds a Bachelor's of Commerce degree from the Haskayne School of Business at the University of Calgary.

Audit Committee Oversight

Since the commencement of the most recently completed financial year, the Board has not failed to adopt a recommendation of the Audit Committee to nominate or compensate an external auditor.

Pre-Approval of Policies and Procedures

The Audit Committee has adopted a policy to review and pre-approve any non-audit services to be provided to the Corporation by external auditors and consider the impact on the independence of such auditors. The Audit Committee may delegate to one or more independent members the authority to pre-approve non-audit services, provided that such member(s) report to the Audit Committee at the next scheduled meeting such pre-approval and the member(s) comply with such other procedures as may be established by the Audit Committee from time to time.



External Auditor Service Fees

The Audit Committee has reviewed the nature and amount of non-audit services provided by KPMG LLP, Chartered Professional Accountants to the Corporation to ensure auditor independence. Fees paid to KPMG LLP for audit and non-audit services in the last two fiscal years are outlined in the following table:

Nature of Services	Fees Paid for Period Ended December 31, 2025	Fees Paid for Period Ended December 31, 2024
Audit Fees ⁽¹⁾	\$315,315	\$346,038
Audit-Related Fees ⁽²⁾	\$nil	\$nil
Tax Fees ⁽³⁾	\$5,449	\$13,482
All Other Fees ⁽⁴⁾	\$22,470	\$22,470
Total	\$343,234	\$381,990

Notes:

- (1) "Audit Fees" include fees necessary to perform the annual audit and quarterly reviews of the Corporation's financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.
- (2) "Audit-Related Fees" include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.
- (3) "Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance (\$5,449 2025/\$13,482 2024), tax planning (\$nil 2025/\$nil 2024) and tax advice (\$nil 2025 /\$nil 2024). Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.
- (4) "All Other Fees" include all other non-audit services.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Odyssey Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the Corporation has not entered into any material contracts during the last financial year, or before the last financial year which are still in effect.

INTEREST OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made by Headwater under NI 51-102 during, or related to, Headwater's most recently completed financial year other than McDaniel, the independent engineering evaluator for Headwater, and KPMG LLP, the auditors for Headwater.

None of the principals of McDaniel had any registered or beneficial interests, direct or indirect, in any of Headwater's securities or other property of Headwater or of Headwater's associates or affiliates either at the time they prepared the statement, report or valuation prepared by them, at any time thereafter or to be received by them. KPMG LLP has confirmed with respect to the Corporation, that it is independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.



In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of Headwater, or of any of our associates or affiliates.

ADDITIONAL INFORMATION

Additional information relating to the Corporation can be found on SEDAR+ at www.sedarplus.ca. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans will be contained in the Corporation's management information circular for the Corporation's next annual meeting of securityholders that involves the election of directors. Additional financial information is contained in the Corporation's financial statements and the related management's discussion and analysis for the Corporation's most recently completed financial year.



SCHEDULE "A"

FORM 51-101F3

REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

Management of Headwater Exploration Inc. (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data.

An independent qualified reserves evaluator has evaluated the Company's reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Committee of the board of directors of the Company has:

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of the Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

DATED as of this 5th day of March, 2026.

(signed) "Jason Jaskela"
Jason Jaskela
President and Chief Executive Officer

(signed) "Brad Christman"
Brad Christman
Chief Operating Officer

(signed) "Kevin Olson"
Kevin Olson
Director

(signed) "David Pearce"
David Pearce
Director



SCHEDULE "B"

FORM 51-101F2

REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR

To the board of directors of Headwater Exploration Inc. (the "**Company**"):

1. We have evaluated the Company's reserves data as at December 31, 2025. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2025, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook, as amended from time to time (the "**COGE Handbook**") maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
5. The following table shows the net present value of future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated for the year ended December 31, 2025, and identifies the respective portions thereof that we have evaluated and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Effective Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue (before income tax, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
			M\$	M\$	M\$	M\$
McDaniel & Associates Ltd.	December 31, 2025	Canada	nil	2,134,296	nil	2,134,296

6. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our report referred to in paragraph 5 for events and circumstances occurring after the effective date of our report.
8. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

EXECUTED as to our report referred to above:

McDaniel & Associates Ltd., Calgary, Alberta, dated January 15, 2026.

Per: (signed) "Michael Verney"
 Michael Verney, P.Eng.
 Executive Vice President



SCHEDULE "C"

HEADWATER EXPLORATION INC. AUDIT COMMITTEE MANDATE

1. **Establishment of Audit Committee:** The Board of Directors (the "**Board**") of Headwater Exploration Inc. (the "**Corporation**") hereby establishes a committee to be called the Audit Committee (the "**Committee**").
2. **Membership:** The Committee shall be comprised of at least three (3) directors or such greater number as the Board may determine from time to time and all members of the Committee shall be "independent" (as such term is used in National Instrument 52-110 – *Audit Committees* ("**NI 52-110**")) unless the Board determines that the exemption contained in NI 52-110 is available and determines to rely thereon. All of the members of the Committee must be "financially literate" unless the Board determines that an exemption under NI 52-110 from such requirement in respect of any particular member is available and determines to rely thereon in accordance with the provisions of NI 52-110. For the purposes of this Mandate, "financially literate" has the meaning ascribed thereto in NI 52-110 and means that the member has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

The Board may from time to time designate one of the members of the Committee to be the Chair of the Committee.

3. **Role and Objective:** The Committee shall, in addition to any other duties and responsibilities specifically delegated to it by the Board, generally assume responsibility for oversight of the following:
 - (a) nature and scope of the annual audit;
 - (b) the oversight of management's reporting on internal accounting standards and practices;
 - (c) the review of financial information, accounting systems and procedures;
 - (d) financial reporting and financial statements,

and the Board has charged the Committee with the responsibility of recommending, for approval of the Board, the audited financial statements, interim financial statements and other mandatory disclosure releases containing financial information.

The primary objectives of the Committee are as follows:

- (a) to assist the Board in meeting its responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of the Corporation and related matters;
- (b) to provide better communication between directors and external auditors;
- (c) to ensure the external auditor's independence;
- (d) to increase the credibility and objectivity of financial reports; and
- (e) to strengthen the role of the independent directors of the Corporation by facilitating in-depth discussions between directors of the Committee, management of the Corporation and external auditors.



4. **Mandate and Responsibilities of Committee:** The Committee will have the authority and responsibility to:
- (a) oversee the work of the external auditors, including the resolution of any disagreements between management and the external auditors regarding financial reporting;
 - (b) satisfy itself on behalf of the Board with respect to the Corporation's internal control systems identifying, monitoring and mitigating business risks including risks relating to cyber-security attacks and cyber-fraud events; and ensuring compliance with legal, ethical and regulatory requirements;
 - (c) review the annual and interim financial statements of the Corporation and related management's discussion and analysis ("**MD&A**") prior to their submission to the Board for approval; the process may include but not be limited to:
 - (i) reviewing changes in accounting principles and policies, or in their application, which may have a material impact on the current or future years' financial statements;
 - (ii) reviewing significant accruals, reserves, estimates (such as the ceiling test calculation) and judgments made by management in preparation of financial statements and the appropriateness of such accruals, reserves, estimates and judgments;
 - (iii) reviewing accounting treatment of unusual or non-recurring transactions;
 - (iv) ascertaining compliance with covenants under loan agreements;
 - (v) reviewing disclosure requirements for commitments and contingencies;
 - (vi) reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
 - (vii) reviewing unresolved differences between management and the external auditors; and
 - (viii) obtain explanations of significant variances with comparative reporting periods.
 - (d) review the financial statements, MD&A and all public disclosure containing audited or unaudited financial information (including, without limitation, annual and interim press releases and any other press releases disclosing earnings or financial results) before release and prior to Board approval; the Committee must be satisfied that adequate procedures are in place for the review of the Corporation's disclosure of other financial information and must periodically assess the adequacy of those procedures;
 - (e) with respect to the appointment of external auditors by the Board:
 - (i) recommend to the Board the external auditors to be nominated;
 - (ii) recommend to the Board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors will report directly to the Committee;
 - (iii) on an annual basis, review and discuss with the external auditors all significant relationships such auditors have with the Corporation to determine the auditors' independence;

- (iv) when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change;
- (v) review and pre-approve any non-audit services to be provided to the Corporation or its subsidiaries by the external auditors and consider the impact on the independence of such auditors. The Committee may delegate to one or more independent members the authority to pre-approve non-audit services, provided that the member(s) report to the Committee at the next scheduled meeting such pre-approval and the member(s) comply with such other procedures as may be established by the Committee from time to time; and
- (vi) review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of the Corporation and its subsidiaries;
- (vii) review with management all related party transactions and the development of policies and procedures related to those transactions;
- (f) review with external auditors (and internal auditor if one is appointed by the Corporation) their assessment of the internal controls of the Corporation, their written reports containing recommendations for improvement, and management's response and follow-up to any identified weaknesses;
- (g) review risk management policies and procedures of the Corporation (i.e., hedging, litigation and insurance);
- (h) to review and satisfy itself on behalf of the Board that management has adequate procedures in place for reporting and certification under the *Extractive Sector Transparency Measures Act* (Canada) ("**ESTMA**") when the Corporation is required to comply with ESTMA;
- (i) establish a procedure for:
 - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
 - (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters; and
- (j) review and approve the Corporation's hiring policies regarding partners and employees and former partners and employees of the present and former external auditors of the Corporation.

5. **Meeting Administrative Matters:** The following general provisions shall have application to the Committee:

- (a) At all meetings of the Committee every resolution shall be decided by a majority of the votes cast. In case of an equality of votes, the Chairman of the meeting shall not be entitled to a second or casting vote.
- (b) The Chair will preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee that are present will designate from among such members the Chair for purposes of the meeting.



- (c) A quorum for meetings of the Committee will be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee will be the same as those governing the Board unless otherwise determined by the Committee or the Board.
- (d) Meetings of the Committee should be scheduled to take place at least four times per year. Minutes of all meetings of the Committee will be taken. The Chief Financial Officer of the Corporation will attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chairman.
- (e) The Committee will meet with the external auditor in camera at least once per quarter (in connection with the preparation of the annual and interim financial statements) and at such other times as the external auditor and the Committee consider appropriate.
- (f) Agendas will be circulated to Committee members along with background information on a timely basis prior to the Committee meetings.
- (g) The Committee may invite such officers, directors and employees of the Corporation and its subsidiaries as it sees fit from time to time to attend at meetings of the Committee and assist in the discussion and consideration of the matters being considered by the Committee.
- (h) Minutes of the Committee will be recorded and maintained and circulated to directors who are not members of the Committee as requested.
- (i) The Committee has authority to communicate directly with the internal auditors (if any) and the external auditors of the Corporation. The Committee will also have the authority to investigate any financial activity of the Corporation. All employees of the Corporation are to cooperate as requested by the Committee.
- (j) The Committee may also retain persons having special expertise and/or obtain independent professional advice to assist in filling their responsibilities at such compensation as established by the Committee and at the expense of the Corporation without any further approval of the Board.
- (k) Any members of the Committee may be removed or replaced at any time by the Board and will cease to be a member of the Committee as soon as such member ceases to be a director. The Board may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, following appointment as a member of the Committee each member will hold such office until the Committee is reconstituted.
- (l) Any issues arising from these meetings that bear on the relationship between the Board and management should be communicated to the Executive Chair of the Board or the Lead Independent Director by the Committee Chair.

Nothing contained in this mandate is intended to expand applicable standards of liability under statutory, regulatory, common law or any other legal requirements for the Board or members of the Committee. The Committee may adopt additional policies and procedures as it deems necessary from time to time to fulfill its responsibilities.

Approved by the Board on the 21st day of March, 2024

