

Q1 2026 Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") as provided by the management of Headwater Exploration Inc. ("Headwater" or the "Company") is dated April 30, 2026 and should be read in conjunction with the unaudited interim condensed financial statements ("interim financial statements") as at and for the three months ended March 31, 2026, and the MD&A and the audited financial statements and the notes thereto for the year ended December 31, 2025, copies of which are available through SEDAR+ at www.sedarplus.ca. The unaudited interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). All dollar amounts are referenced in Canadian dollars unless otherwise stated.

Description of the Company

Headwater is a Canadian resource company engaged in the exploration for and development and production of petroleum and natural gas in Canada. The majority of Headwater's heavy oil production and reserves are primarily located in the Clearwater, Grand Rapids and Wabiskaw formations in the greater Marten Hills area of Alberta, while the Company also has natural gas production and reserves in the McCully field near Sussex, New Brunswick.

Unless otherwise indicated herein, all production information presented herein has been presented on a gross basis, which is the Company's working interest prior to the deduction of royalties and without including any royalty interests.

HIGHLIGHTS FOR THREE MONTHS ENDED MARCH 31, 2026

- Achieved production of 24,154 boe/d representing an increase of 9% from the first quarter of 2025.
- Realized record adjusted funds flow from operations ⁽¹⁾ of \$97.4 million (\$0.41 per share basic ⁽²⁾).
- Achieved an operating netback inclusive of financial derivatives ⁽²⁾ of \$49.90/boe and an adjusted funds flow netback ⁽²⁾ of \$45.20/boe.
- Achieved net income of \$35.6 million (\$0.15 per share basic) equating to \$16.51/boe.
- Executed a \$66.7 million capital expenditure ⁽³⁾ program inclusive of development, exploration and secondary recovery implementation.
- Declared a cash dividend of \$26.2 million, or \$0.11 per common share. To date, Headwater has paid out cumulative dividends of \$343.7 million to shareholders (\$1.45 per common share).
- As at March 31, 2026, Headwater had adjusted working capital ⁽¹⁾ of \$2.4 million and no outstanding bank debt.

(1) Capital management measure that does not have any standardized meaning under IFRS and therefore may not be comparable with the calculation of similar measures of other entities. Refer to "Management of capital" in note 12 of the interim financial statements and to "Non-GAAP and Other Financial Measures" within this MD&A.

(2) Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable with the calculation of similar measures of other entities. Refer to "Non-GAAP and Other Financial Measures" within this MD&A.

(3) Non-GAAP financial measure that does not have any standardized meaning under IFRS and therefore may not be comparable with the calculation of similar measures of other entities. Refer to "Non-GAAP and Other Financial Measures" within this MD&A.

Results of Operations

Production and Pricing

| | Three months ended March 31, | | Percent Change |
|--|---------------------------------|---------|-------------------|
| | 2026 | 2025 | |
| Average daily production | | | |
| Heavy oil (bbls/d) | 21,857 | 19,511 | 12 |
| Natural gas (mmcf/d) | 13.0 | 14.5 | (10) |
| Natural gas liquids (bbls/d) | 135 | 142 | (5) |
| Barrels of oil equivalent (boe/d) | 24,154 | 22,066 | 9 |
| Average daily sales ⁽¹⁾ | | | |
| Heavy oil (bbls/d) | 21,633 | 19,464 | 11 |
| Natural gas (mmcf/d) | 13.0 | 14.5 | (10) |
| Natural gas liquids (bbls/d) | 135 | 142 | (5) |
| Barrels of oil equivalent (boe/d) | 23,930 | 22,019 | 9 |
| Headwater average sales price ⁽²⁾ | | | |
| Heavy oil (\$/bbl) ⁽³⁾ | 78.64 | 83.76 | (6) |
| Natural gas (\$/mcf) | 13.10 | 11.22 | 17 |
| Natural gas liquids (\$/bbl) | 73.83 | 80.82 | (9) |
| Barrels of oil equivalent (\$/boe) | 78.61 | 81.94 | (4) |
| Average Benchmark Price | | | |
| WTI (US\$/bbl) ⁽⁴⁾ | 71.93 | 71.42 | 1 |
| WCS differential to WTI (US\$/bbl) | (14.16) | (12.67) | 12 |
| WCS (Cdn\$/bbl) ⁽⁵⁾ | 79.23 | 84.30 | (6) |
| Condensate at Edmonton (Cdn\$/bbl) | 97.70 | 99.64 | (2) |
| AGT (US\$/mmbtu) ⁽⁶⁾ | 14.08 | 11.83 | 19 |
| AECO 5A (Cdn\$/GJ) | 1.90 | 2.05 | (7) |
| NYMEX Henry Hub (US\$/mmbtu) | 5.04 | 3.65 | 38 |
| Exchange rate (Cdn\$ to US\$) | 0.73 | 0.70 | 4 |

(1) Includes sales of heavy crude oil excluding the impact of purchased condensate and butane. The Company's heavy oil sales volumes and production volumes differ due to changes in inventory.

(2) Average sales prices are calculated using average sales volumes.

(3) Realized heavy oil prices are based on sales, net of blending expense.

(4) WTI = West Texas Intermediate.

(5) WCS = Western Canadian Select.

(6) AGT = Algonquin city-gates daily. The AGT price is the average for the winter producing months in the McCully field which include January – April and December.

Sales

| | Three months ended March 31, | | Percent Change |
|---|---------------------------------|---------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Heavy oil sales | 159,923 | 153,684 | 4 |
| Blending expense | (6,816) | (6,967) | (2) |
| Heavy oil, net of blending expense ⁽¹⁾ | 153,107 | 146,717 | 4 |
| Natural gas | 15,291 | 14,623 | 5 |
| Natural gas liquids | 900 | 1,032 | (13) |
| Gathering, processing and transportation | 607 | 816 | (26) |
| Total sales, net of blending expense ⁽¹⁾ | 169,905 | 163,188 | 4 |

(1) Non-GAAP financial measure. Refer to "Non-GAAP and Other Financial Measures" within this MD&A.

Heavy Oil – Alberta

The Company's realized price received for its heavy crude oil is determined by the quality of crude compared to the benchmark price of WCS. Headwater's heavy crude oil production (average 18 – 22° API) is blended with diluent in order to meet pipeline transportation specifications.

WTI pricing is consistent year over year, settling at US\$71.93/bbl in the first quarter of 2026 versus US\$71.42/bbl in the first quarter of 2025, as lower WTI pricing in January through February of 2026, was offset by a significant increase in WTI pricing in March of 2026, following the start of the U.S. – Israel – Iran war and subsequent closure of the Strait of Hormuz. Offsetting the impact of consistent WTI pricing was the widening of the WCS differential to WTI, due to changing heavy crude oil supply-demand fundamentals and a stronger Canadian dollar. Headwater's discount to WCS remained consistent during the three months ended March 31, 2026, compared to the corresponding period of the prior year.

During the three months ended March 31, 2026, Headwater's heavy oil sales, net of blending expense, increased to \$153.1 million from \$146.7 million in the corresponding period of the prior year. This increase was attributable to an 11% increase in heavy oil sales volumes, partially offset by a 6% decrease in realized heavy oil commodity pricing, consistent with the decrease in benchmark WCS pricing.

During the three months ended March 31, 2026, Headwater's heavy oil sales volumes averaged 21,633 bbls/d compared to 19,464 bbls/d in the corresponding period of 2025. The Company's heavy oil sales volumes have increased as a result of Headwater's growth-oriented drilling programs, along with successful secondary recovery efforts reducing corporate oil production declines. Headwater drilled 11.0 total net crude oil wells during the three months ended March 31, 2026, and drilled 61.0 total net crude oil wells during the year ended December 31, 2025, increasing the Company's heavy oil production.

Natural Gas – New Brunswick and Alberta

The Company produces natural gas out of the McCully field in New Brunswick. The transaction price is based on the AGT daily benchmark price adjusted for a premium contract adder. Consistent with prior years, the Company shut-in McCully natural gas production for the upcoming summer season effective April 30, 2026. Headwater also produces natural gas in Alberta. In December 2024, a third-party gathering system in Marten Hills West was commissioned, increasing the Company's sales volumes out of the Marten Hills area. The natural gas sales transaction price is based on the AECO 5A daily benchmark price adjusted for delivery location and heat content.

For the three months ended March 31, 2026, natural gas sales increased to \$15.3 million from \$14.6 million, in the corresponding period of the prior year, driven by an increase in McCully natural gas sales, partially offset by lower Alberta natural gas sales. AGT benchmark pricing increased significantly, driven by cooler U.S. winter temperatures and declining natural gas storage levels in the northeastern U.S., while AECO prices continue to be depressed as a result of sustained high natural gas storage levels in Western Canada.

During the three months ended March 31, 2026, Headwater's natural gas sales volumes decreased to 13.0 mmcf/d from 14.5 mmcf/d in the corresponding period of the prior year, primarily as a result of lower natural gas sales volumes from Alberta, driven by reduced gas-oil-ratios as a result of secondary recovery implementation in Marten Hills West.

Financial Derivative Losses

| | Three months ended March 31, | | Percent Change |
|-----------------------------|---------------------------------|----------------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Realized losses | (5,466) | (3,166) | 73 |
| Unrealized losses | (11,970) | (2,486) | 381 |
| Financial derivative losses | <u>(17,436)</u> | <u>(5,652)</u> | 208 |
| Per boe (\$) | (8.10) | (2.85) | 184 |

Natural gas and crude oil commodity contracts

Headwater enters into financial derivative commodity contracts to manage the risks associated with fluctuations in commodity prices.

The realized financial derivative losses of \$5.5 million recognized during the three months ended March 31, 2026, primarily represent Headwater's McCully natural gas contracts referenced to AGT and the Company's crude oil contract referenced to WTI. Headwater recognized \$3.4 million of losses on its AGT contracts as the commodity contracts to fix the AGT price averaged Cdn\$14.81/mmbtu, compared to the average settlement price of Cdn\$19.27/mmbtu. The AGT settlement price was higher than expected due to cooler U.S. winter temperatures and declining natural gas storage levels in the northeastern U.S. The Company recognized \$2.3 million of losses on its WTI contract during March of 2026, as the commodity contract to fix the WTI price averaged Cdn\$95.03/bbl, compared to the average settlement price of Cdn\$124.91/bbl. WTI pricing remains significantly elevated underpinned by substantial global supply disruptions following the start of the U.S. – Israel – Iran war. These realized losses were partially offset by realized gains of \$276 thousand on the Company's WCS to WTI differential contracts.

The unrealized financial derivative losses recorded are a result of the change in fair value of the Company's outstanding financial derivative contracts over the periods. As at March 31, 2026, the fair value of Headwater's outstanding financial derivative commodity contracts was a net unrealized liability of \$12.8 million as reflected in the interim financial statements. The fair value or mark to market value of these contracts is based upon the estimated amount that would have been payable as at March 31, 2026, had the contracts been monetized or terminated. Subsequent changes in the fair value of the contracts are recognized in each reporting period and could be materially different than what is recorded as at March 31, 2026. For the three months ended March 31, 2026, Headwater recognized unrealized losses of \$12.0 million compared to unrealized losses of \$2.5 million in the corresponding period of 2025.

As at March 31, 2026, Headwater had the following financial derivative commodity contracts outstanding:

| Commodity | Index | Type | Term | Daily Volume | Contract Price |
|-------------|-----------|--------------|---------------------|--------------|------------------|
| Natural Gas | AGT | Fixed | Apr 2026 | 5,000 mmbtu | Cdn\$5.31/mmbtu |
| Natural Gas | AGT | Fixed | Dec 2026 - Mar 2027 | 5,000 mmbtu | Cdn\$17.88/mmbtu |
| Natural Gas | AECO 5A | Fixed | Apr 2026 - Oct 2026 | 4,000 GJ | Cdn\$2.49/GJ |
| Crude Oil | WCS Basis | Differential | Apr 2026 – Dec 2026 | 2,000 bbl | US\$13.00/bbl |
| Crude Oil | WTI | Fixed | Apr 2026 – Dec 2026 | 2,500 bbl | Cdn\$95.03/bbl |

Foreign exchange contracts

The Company is exposed to fluctuations in the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing and from exposure to its U.S. dollar denominated WCS commodity contracts. Headwater may decide to mitigate a portion of this risk by

periodically entering into foreign exchange contracts. As at March 31, 2026, Headwater did not have any foreign exchange contracts outstanding.

Royalty Expense

| | Three months ended March 31, | | Percent Change |
|-------------------------------------|---------------------------------|--------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Royalty expense | 26,841 | 28,665 | (6) |
| Average royalty rate ⁽¹⁾ | 15.8% | 17.6% | (10) |
| Per boe (\$) | 12.46 | 14.47 | (14) |

(1) Non-GAAP ratio. Refer to the advisory “Non-GAAP and Other Financial Measures”.

Royalty expense primarily consists of crown royalties payable to the Alberta and New Brunswick provincial governments and the gross overriding royalty (“GORR”) payable to Topaz Energy Corp. The GORR is associated with production out of the Company’s Marten Hills assets.

Under the Alberta Modernized Royalty Framework, the Company pays a flat royalty of 5% on a well’s production until the well’s total revenue exceeds the drilling and completion cost allowance, then royalty rates increase on a sliding scale up to 40% depending on reference commodity pricing.

For the three months ended March 31, 2026, royalty expense decreased to \$26.8 million from \$28.7 million in the corresponding period of 2025, primarily due to a decrease in the average royalty rate to 15.8% from 17.6%, attributable to a drop in the Government of Alberta’s published heavy oil par price over the period. While current benchmark heavy oil pricing has significantly increased, published par pricing lags the rapidly changing commodity price environment.

Transportation Expense

| | Three months ended March 31, | | Percent Change |
|------------------------|---------------------------------|--------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Transportation expense | 12,467 | 10,727 | 16 |
| Per boe (\$) | 5.79 | 5.41 | 7 |

Transportation expense includes clean oil trucking, terminal fees and pipeline tariffs incurred to move production to the sales point.

For the three months ended March 31, 2026, transportation expense increased to \$12.5 million from \$10.7 million in the corresponding period of the prior year, primarily due to an 11% increase in heavy oil sales volumes.

For the three months ended March 31, 2026, transportation expense per boe increased to \$5.79 from \$5.41 in the corresponding period of the prior year, due to higher trucking costs.

In the third quarter of 2026, Headwater is expected to start construction on an oil transportation pipeline connecting 17,000 bbls/d of heavy oil from the Marten Hills West operating area into the Company’s sales connected 08-34-074-25W4 oil processing facility in the core area of Marten Hills. Once commissioned, which is expected to occur in the first half of 2027, more than 90% of Headwater’s heavy oil production

volumes will be pipeline connected. This project is anticipated to generate more than \$20 million per year in operating/transportation cost savings.

Headwater has firm transportation service commitments in place to secure pipeline capacity to the point of sale. Refer to “Contractual Obligations and Commitments” for more information.

Production Expense

| | Three months ended March 31, | | Percent Change |
|--------------------|---------------------------------|--------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Production expense | 17,650 | 15,706 | 12 |
| Per boe (\$) | 8.20 | 7.93 | 3 |

For the three months ended March 31, 2026, production expense increased to \$17.7 million from \$15.7 million in the corresponding period of the prior year, primarily due to a 12% increase in heavy oil production volumes.

Production expense per boe remained consistent over the periods.

Netbacks

Operating netback reflects the Company’s margin on a per-barrel of oil equivalent basis. The following table provides a reconciliation of Headwater’s operating netback and operating netback, including financial derivatives. Refer to the heading “Non-GAAP and Other Financial Measures” for more information.

| | Three months ended March 31, | | Percent Change |
|---|---------------------------------|---------|-------------------|
| | 2026 | 2025 | |
| | <i>(\$/boe)</i> | | |
| Sales | 82.05 | 85.87 | (4) |
| Royalties | (12.46) | (14.47) | (14) |
| Transportation and blending | (8.95) | (8.93) | - |
| Production expense | (8.20) | (7.93) | 3 |
| Operating netback ⁽¹⁾ | 52.44 | 54.54 | (4) |
| Realized losses on financial derivatives | (2.54) | (1.60) | 59 |
| Operating netback, including financial derivatives ⁽¹⁾ | 49.90 | 52.94 | (6) |

(1) Non-GAAP ratio. Refer to the advisory “Non-GAAP and Other Financial Measures”.

For the three months ended March 31, 2026, the Company recorded an operating netback, including financial derivatives of \$49.90 per boe compared to \$52.94 per boe in the corresponding period of the prior year. Lower operating netback, including financial derivatives is due to lower realized heavy oil pricing, consistent with decreased benchmark WCS pricing, and higher realized financial derivative losses, primarily due to losses on both the Company’s AGT and WTI fixed price contracts, partially offset by lower royalties driven by lower Alberta heavy oil par pricing.

General and Administrative (“G&A”) Expenses

| | Three months ended March 31, | | Percent Change |
|------------------|---------------------------------|--------------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| G&A expenses | 4,514 | 3,864 | 17 |
| Capitalized G&A | (1,341) | (1,015) | 32 |
| Net G&A expenses | <u>3,173</u> | <u>2,849</u> | 11 |
| Per boe (\$) | 1.47 | 1.44 | 2 |

For the three months ended March 31, 2026, net G&A expenses increased to \$3.2 million from \$2.8 million in the corresponding period of 2025. Increased net G&A expenses on an absolute basis were mainly a result of higher employee related costs due to the growth experienced by the Company over the period. G&A expenses per boe were consistent over the periods.

Interest Income and Other Expense

| | Three months ended March 31, | | Percent Change |
|---|---------------------------------|------------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Interest income | 590 | 1,155 | (49) |
| Foreign exchange losses | - | (1) | (100) |
| Accretion on decommissioning liability | (338) | (404) | (16) |
| Interest on repayable contribution | (218) | (228) | (4) |
| Interest on lease liability | (42) | (50) | (16) |
| Total interest income and other expense | <u>(8)</u> | <u>472</u> | (102) |
| Per boe (\$) | - | 0.24 | (100) |

For the three months ended March 31, 2026, interest income and other expense decreased from \$472 thousand to a net expense of \$8 thousand, primarily due to lower interest income. The decrease in interest income for the three months ended March 31, 2026, is a result of carrying a lower average cash balance, when compared to the same period in 2025, coupled with a decrease in the average interest rate earned over the period, driven by a lower prime rate in the first quarter of 2026 compared to the corresponding period of 2025.

The Company manages fluctuations in foreign exchange gains and losses by entering into foreign exchange contracts to fix the foreign exchange rate. Refer to “Financial Derivatives Losses” for more information.

Stock-Based Compensation

| | Three months ended March 31, | | Percent Change |
|--------------------------------------|---------------------------------|--------------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Deferred share units ("DSUs") | 2,539 | 790 | 221 |
| Share awards | 19,262 | 2,054 | 838 |
| Capitalized stock-based compensation | (4,777) | (480) | 895 |
| Stock-based compensation | <u>17,024</u> | <u>2,364</u> | 620 |
| Per boe (\$) | 7.90 | 1.19 | 564 |

During the three months ended March 31, 2026, stock-based compensation expense increased to \$17.0 million from \$2.4 million in the corresponding period of the prior year, primarily driven by higher expense for share awards, due to an increase in Headwater's share price from \$9.37 at December 31, 2025 to \$12.85 at March 31, 2026, in addition to amortization of existing awards and new awards granted during the period. In contrast, Headwater's share price was \$6.61 and \$6.45, respectively, for the periods ended December 31, 2024 and March 31, 2025.

Share Awards (Cash-Settled)

The Company has an incentive awards plan (the "Award Plan") that provides for the grant of restricted share units ("RSUs") and performance share units ("PSUs") to officers, employees and consultants of the Company. Under the Award Plan, the aggregate number of common shares reserved for issuance may not exceed 4.5% of the aggregate number of issued and outstanding common shares. Generally, one third of the RSUs will vest on each of the first, second and third anniversaries of the date of grant and all PSUs will vest on the third anniversary of the date of grant, unless otherwise determined by the Board of Directors of the Company (the "Board"). For PSUs, the amount of stock-based compensation payable and related expense is adjusted based on a performance multiplier ranging from 0 to 2 times, which is based on certain corporate performance measures, as determined by the Board. RSUs and PSUs are measured at fair value using the Company's closing share price on March 31, 2026.

As at March 31, 2026, there were 377 thousand RSUs outstanding and 3,445 thousand PSUs outstanding.

Deferred Share Units (Cash-Settled)

The Company also has a DSU plan (the "DSU Plan") that provides for grants of DSUs to non-management directors. Each DSU vests on the date of grant; however, settlement of the DSU occurs when the individual ceases to be a director of the Company. DSUs are to be settled in cash or by payment in common shares acquired through the facilities of the TSX. It is the intention of the Company to settle the DSUs in cash. The directors may also elect to receive all of their annual cash compensation in the form of DSUs provided that such election must be made on or before December 1st of the preceding calendar year (or within a certain prescribed time frame if an individual becomes a director after the commencement of a calendar year or after the initial adoption of the DSU Plan) and after such date the election will be irrevocable for such year. DSUs are measured at fair value using the Company's closing share price on March 31, 2026.

As at March 31, 2026, there were 439 thousand DSUs outstanding.

Depletion & Depreciation

| | Three months ended March 31, | | Percent Change |
|---------------------------------------|---------------------------------|--------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Depletion & depreciation | 28,945 | 32,515 | (11) |
| Depletion & depreciation per boe (\$) | 13.44 | 16.41 | (18) |

Depletion expense is calculated using the unit-of-production method which is based on production volumes in relation to the proved plus probable reserves base.

For the three months ended March 31, 2026, depletion and depreciation expense decreased to \$28.9 million from \$32.5 million in the corresponding period of the prior year, as a result of a decrease in the depletion and depreciation rate, which more than offset the increase in production volumes over the period.

For the three months ended March 31, 2026, Headwater's depletion and depreciation rate decreased to \$13.44 per boe from \$16.41 per boe in the corresponding period of the prior year, due to significant reserve additions recorded in the 2025 year-end reserves report, resulting from successful drilling and waterflood results.

Impairment Assessment

As at March 31, 2026, there were no indicators of impairment identified for the Company's E&E (as defined herein) or property, plant and equipment ("PP&E") assets. As such, an impairment test was not performed.

Current and Deferred Income Taxes

| | Three months ended March 31, | | Percent Change |
|--|---------------------------------|---------------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Current income tax expense | 7,539 | 10,770 | (30) |
| Deferred income tax expense | 3,255 | 4,408 | (26) |
| Total income tax expense | <u>10,794</u> | <u>15,178</u> | (29) |
| Current income tax expense – Per boe (\$) | 3.50 | 5.43 | (36) |
| Deferred income tax expense – Per boe (\$) | 1.51 | 2.22 | (32) |
| Total income tax expense – Per boe (\$) | 5.01 | 7.65 | (35) |

For the three months ended March 31, 2026, current income tax expense decreased to \$7.5 million from \$10.8 million in the corresponding period of the prior year, due to the recognition of accelerated claims for both resource pools and undepreciated capital cost, effective for the period beginning on January 1, 2025, pursuant to Bill C-15, the *Budget Implementation Act, 2025, No. 1*, becoming substantively enacted and receiving royal assent in the first quarter of 2026.

Cash Flows Provided by Operating Activities and Adjusted Funds Flow from Operations

Refer to the heading “Non-GAAP and Other Financial Measures” for more information.

| | Three months ended March 31, | | Percent Change |
|--|---------------------------------|----------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Cash flows provided by operating activities | 40,069 | 69,935 | (43) |
| Changes in non-cash working capital | 53,684 | 6,888 | 679 |
| Current income taxes | (7,539) | (10,770) | (30) |
| Income taxes paid | 11,145 | 26,306 | (58) |
| Adjusted funds flow from operations ⁽¹⁾ | 97,359 | 92,359 | 5 |

For the three months ended March 31, 2026, cash flows provided by operating activities decreased to \$40.1 million from \$69.9 million in the corresponding period of the prior year, primarily due to an increase to changes in non-cash working capital, partially offset by lower income taxes paid. Changes in non-cash working capital increased significantly in the first quarter of 2026, primarily driven by an increase in accounts receivable due to higher realized heavy oil pricing in March 2026, compared to December 2025, and a \$33.7 million payout of stock-based compensation. For the three months ended March 31, 2026, adjusted funds flow from operations increased to \$97.4 million from \$92.4 million in the corresponding period of the prior year, due to a 9% increase in sales volumes partially offset by a lower adjusted funds flow netback.

| | Three months ended March 31, | | Percent Change |
|---|---------------------------------|--------|-------------------|
| | 2026 | 2025 | |
| | <i>(\$/boe)</i> | | |
| Cash flows provided by operating activities | 18.60 | 35.29 | (47) |
| Changes in non-cash working capital | 24.93 | 3.48 | 616 |
| Current income taxes | (3.50) | (5.43) | (36) |
| Income taxes paid | 5.17 | 13.27 | (61) |
| Adjusted funds flow netback ⁽²⁾ | 45.20 | 46.61 | (3) |

- (1) Capital management measure. Refer to “Management of capital” in note 12 of the interim financial statements and to “Non-GAAP and Other Financial Measures” within this MD&A.
- (2) Non-GAAP ratio. Refer to the advisory “Non-GAAP and Other Financial Measures”.

For the three months ended March 31, 2026, the Company recorded an adjusted funds flow netback of \$45.20 per boe compared to \$46.61 per boe in the corresponding period of the prior year. Lower adjusted funds flow netback is a result of a lower operating netback, including financial derivatives primarily due to a decline in realized heavy oil pricing and an increase in realized losses on financial derivatives, partially offset by lower current income taxes.

Capital Expenditures

| | Three months ended March 31, | | Percent Change |
|--|---------------------------------|--------|-------------------|
| | 2026 | 2025 | |
| | <i>(thousands of dollars)</i> | | |
| Land acquisition, retention and geological & geophysical | 5,617 | 9,047 | (38) |
| Site preparation | 5,222 | 7,181 | (27) |
| Drilling and completions | 44,655 | 34,529 | 29 |
| Equipping and facilities | 11,246 | 12,090 | (7) |
| Capital expenditures ⁽¹⁾ | 66,740 | 62,847 | 6 |

(1) Non-GAAP financial measure. Refer to “Non-GAAP and Other Financial Measures” within this MD&A.

During the three months ended March 31, 2026, the Company invested a total of \$66.7 million on capital expenditures including \$44.7 million on drilling and completions, \$11.2 million on equipping and facilities, \$5.6 million on land acquisition and geological & geophysical costs and \$5.2 million on site preparation including road construction.

Drilling Activity

The following table summarizes the Company’s drilling results:

| | Three months ended March 31, | | | |
|---------------------------|------------------------------|-------------|-----------|-------------|
| | 2026 | | 2025 | |
| | Gross | Net | Gross | Net |
| Heavy crude oil | 11 | 11.0 | 12 | 11.0 |
| Natural gas | - | - | - | - |
| Injection | 10 | 10.0 | 4 | 4.0 |
| Source/stratigraphic test | 13 | 13.0 | 4 | 4.0 |
| Total | 34 | 34.0 | 20 | 19.0 |

(1) Wells included in the above table were rig released during the quarters.

Decommissioning Liabilities

As at March 31, 2026, the decommissioning liability of the Company was \$36.7 million. The Company recorded an increase of \$1.5 million in the obligation from the decommissioning liability of \$35.2 million as at December 31, 2025. This increase of \$1.5 million is due to additions of \$1.1 million, an upward change in estimate of \$0.1 million and accretion expense of \$0.3 million. The change in estimate is a result of an increase to the inflation rate from 2.0% at December 31, 2025 to 2.1% at March 31, 2026; the risk-free rate remained flat at 3.9% for the respective periods. The total undiscounted uninflated amount of estimated cash flows required to settle these obligations is \$71.2 million (December 31, 2025 - \$69.9 million).

2026 Guidance

The following presents Headwater’s current guidance as at April 30, 2026, compared to its original guidance released on December 3, 2025. Given results to date, coupled with the recent surge in commodity pricing, Headwater has increased its annual average production guidance from 24,500 boe/d to 25,000 boe/d and estimated adjusted funds flow from operations from \$300 million to \$385 million. Estimated capital expenditures have also increased from \$185 million to \$250 million, with \$15 million to be allocated to secondary recovery, \$25 million to infrastructure projects and \$25 million to land expenditures.

| | 2026 Guidance December 3, 2025 | 2026 Guidance April 30, 2026 |
|--|-----------------------------------|---------------------------------|
| Average Daily Production | | |
| Annual (boe/d) | 24,500 | 25,000 |
| Pricing | | |
| Crude oil - WTI (US\$/bbl) | 60.00 | 75.85 |
| Crude oil - WCS (Cdn\$/bbl) | 67.00 | 83.75 |
| Exchange rate (Cdn\$ to US\$) | 0.72 | 0.73 |
| Natural gas - AGT (US\$/mmbtu) | 10.60 | 10.90 |
| Financial Summary (\$millions) | | |
| Estimated capital expenditures ⁽¹⁾ | 185 | 250 |
| Estimated adjusted funds flow from operations ⁽²⁾ | 300 | 385 |
| Annual dividend ⁽³⁾ | \$0.44/common share | \$0.47/common share |

- (1) Non-GAAP financial measure. Refer to "Non-GAAP and Other Financial Measures" within this MD&A.
- (2) Capital management measure. Refer to "Management of capital" in note 12 of the interim financial statements and to "Non-GAAP and Other Financial Measures" within this MD&A.
- (3) Refer to "Dividend Policy" within this MD&A.
- (4) For assumptions utilized in respect of the above guidance, see "Forward Looking Information" within this MD&A.

Liquidity and Capital Resources

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

During the three months ended March 31, 2026, the Company declared \$26.2 million related to its quarterly cash dividend (year ended December 31, 2025 – \$104.7 million). The Company increased its quarterly cash dividend to \$0.11 per common share, from \$0.10 per common share, effective for the dividend paid on April 15, 2025 to shareholders of record at the close of business on March 31, 2025. Included in current liabilities is \$26.2 million for the dividend declared on March 5, 2026, and paid out on April 15, 2026.

On May 1, 2025, Headwater announced TSX approval of Headwater's NCIB to purchase for cancellation up to 19,020,755 common shares during the period commencing on May 6, 2025. The NCIB expires on May 5, 2026 and the Company intends to apply to the TSX to renew the NCIB. 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. The Company did not utilize its NCIB during the three months ended March 31, 2026.

As at March 31, 2026, the Company had cash of \$63.1 million, adjusted working capital of \$2.4 million and no outstanding bank debt. The Company expects to have adequate liquidity to fund its 2026 capital expenditure budget of \$250 million, quarterly cash dividends and contractual obligations in the near term through existing working capital and forecasted adjusted funds flow from operations. Headwater anticipates that it will make use of debt or equity financing for any substantial expansion of its capital program or to finance any significant acquisitions.

To the extent that the Company's existing working capital is not sufficient to pay the cash portion of the purchase price for any future acquisition, Headwater anticipates that it will make use of additional equity or debt financings as available. Alternatively, the Company may issue equity as consideration to complete any future acquisition.

Credit Facilities

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

As at March 31, 2026, Headwater had not drawn on the credit facility.

The credit facilities have a revolving period of 364 days, extendible annually at the request of the Company, subject to approval of the Lenders. If not extended, the credit facilities will automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period. The

borrowing base is subject to semi-annual redeterminations occurring by May 31st and by November 30th of each year. The credit facilities are secured by a demand debenture in the amount of \$500 million. Repayments of principal are not required until the maturity date, provided that the borrowings do not exceed the authorized borrowing base and the Company is in compliance with all covenants, representations and warranties.

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

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

Contractual Obligations and Commitments

As at March 31, 2026, the Company is committed to future payments under the following agreements:

| <i>(thousands)</i> | Total | 2026 | 2027 | 2028 | 2029 | 2030 | Thereafter |
|---|---------|--------|--------|--------|--------|--------|------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Transportation and operating Lease ⁽¹⁾ | 225,271 | 22,205 | 32,389 | 32,748 | 31,598 | 23,673 | 82,658 |
| Government grant ⁽²⁾ | 1,529 | 336 | 455 | 463 | 275 | - | - |
| | 12,751 | 4,675 | 8,076 | - | - | - | - |

(1) Relates to variable operating costs, which are a non-lease component of the Company's head office lease.

(2) Relates to scheduled undiscounted re-payments of federal government funding under the terms of the repayable contribution agreement with Natural Resources Canada.

(3) Excludes leases accounted for under IFRS 16.

Common Share Information

Share Capital

| <i>(thousands)</i> | Three months ended March 31, | |
|---|---------------------------------|---------|
| | 2026 | 2025 |
| Weighted average outstanding common shares ⁽¹⁾ | | |
| -Basic | 237,763 | 237,772 |
| -Diluted | 239,366 | 237,813 |
| Outstanding securities at March 31, 2026 | | |
| -Common shares | | 237,763 |
| -Restricted share units | | 377 |
| -Performance share units | | 3,445 |
| -Deferred share units | | 439 |

(1) The Company uses the treasury stock method to determine the dilutive effect of stock options, RSUs and PSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted income per common share. This method also assumes that the proceeds received from the exercise of all "in-the-money" dilutive instruments are used to repurchase shares at the average market price.

Total Market Capitalization

The Company's market capitalization at March 31, 2026 was approximately \$3.1 billion.

| <i>(thousands)</i> | March 31, 2026 |
|------------------------------------|--------------------|
| Common shares outstanding | 237,763 |
| Share price ⁽¹⁾ | \$ 12.85 |
| Total market capitalization | \$3,055,255 |

(1) Represents the closing price on the TSX on March 31, 2026.

As at April 30, 2026 the Company had 237,762,877 common shares outstanding.

| <i>(thousands)</i> | April 30, 2026 |
|--|----------------|
| Outstanding securities at April 30, 2026 | |
| -Common shares | 237,763 |
| -Restricted share units | 377 |
| -Performance share units | 3,445 |
| -Deferred share units | 439 |

Environmental, Social and Governance (“ESG”) Update

The following is an update on environmental, social and governance matters:

- On May 8, 2025, at the Company's annual meeting of shareholders, Cheree Stephenson was elected as a member of the Board and on July 23, 2025, Karen Nielsen was appointed as a new member of the Board. With the addition of Ms. Stephenson and Ms. Nielsen, Headwater has achieved its Board diversification commitment to increase women representation on the Board to 30%. Currently, 33% of the directors are women. At the Company's upcoming annual meeting of shareholders to be held on May 20, 2026, 33% of the proposed nominees for election as directors of the Company are women.
- 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, while also significantly reducing Headwater's carbon tax obligations in the area.
- On March 21, 2024, the Board approved a new Human Rights Policy. All Headwater employees have been provided with the policy and are required to sign off on it and abide by its principles.
- Headwater has received total funding of \$17.7 million from Natural Resources Canada (“NRCan”) in connection with four claim submissions to the Emissions Reduction Fund program. NRCan has provided financial assistance by way of a partially repayable interest-free loan to the Company for its working interest in the joint Marten Hills natural gas processing plant and gathering system, as well as for gas conservation equipment associated with the Company's wholly owned oil processing facility in Marten Hills (the “Project”). Headwater will repay 80% of the financial assistance pursuant to the terms and conditions of the agreement, with the remaining 20% being non-repayable. The Project is intended to partially eliminate venting and flaring of methane rich natural gas from existing and future oil wells in the Company's core area of Marten Hills. Headwater repaid 10% of the balance of \$1.4 million on June 30, 2025. The remaining repayable portion of the funds received are to be repaid as follows: 33% on June 30, 2026; and 57% on June 30, 2027.

The Board has established four committees comprised of independent members of the Board, which include the Audit Committee, Reserves Committee, Corporate Governance and Compensation Committee and Environment, Safety and Sustainability Committee. The Audit Committee and the Reserves Committee ensure the integrity of the financial and reserves reporting of the Company; the Corporate Governance and Compensation Committee is charged with independent oversight of the director nomination process, executive compensation decisions and other corporate governance matters; and the Environment, Safety and Sustainability Committee is responsible for oversight of environmental, safety and sustainability matters. For additional information relating to the governance policies and structure of the Company see the Company's management information circular dated April 2, 2026, for the annual meeting of the shareholders to be held on May 20, 2026, which is available on SEDAR+ at www.sedarplus.ca and the information under the heading "Corporate Responsibility" on the Company's website at www.headwaterexp.com.

Summary of Quarterly Information

| | Q1/26 | Q4/25 | Q3/25 | Q2/25 | Q1/25 | Q4/24 | Q3/24 | Q2/24 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Financial (thousands of dollars except share data) | | | | | | | | |
| Total sales | 176,721 | 151,080 | 152,101 | 144,944 | 170,155 | 163,107 | 158,382 | 164,281 |
| Total sales, net of blending expense ⁽¹⁾⁽²⁾ | 169,905 | 145,308 | 146,511 | 138,808 | 163,188 | 156,475 | 151,740 | 157,057 |
| Adjusted funds flow from operations ⁽³⁾ | 97,359 | 79,254 | 80,394 | 74,218 | 92,359 | 87,903 | 84,185 | 88,023 |
| Per share - basic ⁽⁴⁾ | 0.41 | 0.33 | 0.34 | 0.31 | 0.39 | 0.37 | 0.35 | 0.37 |
| - diluted ⁽⁴⁾ | 0.41 | 0.33 | 0.33 | 0.31 | 0.39 | 0.37 | 0.35 | 0.37 |
| Cash flows provided by operating activities | 40,069 | 72,668 | 85,861 | 68,673 | 69,935 | 76,016 | 95,272 | 90,402 |
| Net income | 35,567 | 29,311 | 35,869 | 38,023 | 50,004 | 48,907 | 47,634 | 53,868 |
| Per share - basic | 0.15 | 0.12 | 0.15 | 0.16 | 0.21 | 0.21 | 0.20 | 0.23 |
| - diluted | 0.15 | 0.12 | 0.15 | 0.16 | 0.21 | 0.21 | 0.20 | 0.22 |
| Capital expenditures ⁽²⁾ | 66,740 | 46,066 | 68,671 | 50,704 | 62,847 | 48,686 | 58,196 | 50,717 |
| Depletion and depreciation | 28,945 | 29,438 | 32,448 | 32,636 | 32,515 | 31,382 | 32,015 | 30,958 |
| Adjusted working capital ⁽³⁾ | 2,439 | 23,581 | 36,444 | 58,472 | 63,616 | 67,578 | 64,411 | 62,381 |
| Working capital (deficit) | (3,028) | 29,951 | 41,767 | 64,836 | 72,107 | 78,735 | 74,925 | 72,404 |
| Shareholders' equity | 757,568 | 748,155 | 752,377 | 735,055 | 723,431 | 699,459 | 684,486 | 658,448 |
| Dividends declared | 26,154 | 26,154 | 26,264 | 26,155 | 26,155 | 23,776 | 23,767 | 23,765 |
| Per share | 0.11 | 0.11 | 0.11 | 0.11 | 0.11 | 0.10 | 0.10 | 0.10 |
| Weighted average shares (thousands) | | | | | | | | |
| Basic | 237,763 | 238,142 | 237,828 | 237,763 | 237,772 | 237,512 | 237,484 | 237,275 |
| Diluted ⁽⁵⁾ | 239,366 | 240,647 | 240,026 | 239,471 | 237,813 | 237,569 | 239,735 | 239,452 |
| Shares outstanding, end of period (thousands) | | | | | | | | |
| Basic | 237,763 | 237,763 | 238,763 | 237,763 | 237,774 | 237,757 | 237,665 | 237,654 |
| Diluted ⁽⁶⁾ | 237,763 | 237,763 | 238,763 | 237,763 | 237,904 | 237,934 | 241,115 | 241,075 |
| Operating (6:1 boe conversion) | | | | | | | | |
| Average daily production | | | | | | | | |
| Heavy oil (bbls/d) | 21,857 | 22,091 | 20,948 | 20,249 | 19,511 | 20,304 | 19,718 | 18,825 |
| Natural gas (mmcf/d) | 13.0 | 12.1 | 8.4 | 10.8 | 14.5 | 7.2 | 3.4 | 5.5 |
| Natural gas liquids (bbls/d) | 135 | 143 | 169 | 185 | 142 | 51 | 64 | 67 |
| Barrels of oil equivalent (boe/d) ⁽⁷⁾ | 24,154 | 24,259 | 22,523 | 22,235 | 22,066 | 21,559 | 20,342 | 19,805 |
| Average daily sales ⁽⁸⁾ | 23,930 | 24,166 | 22,699 | 22,123 | 22,019 | 21,543 | 20,329 | 19,754 |
| Average selling prices | | | | | | | | |
| Heavy oil (\$/bbl) | 78.64 | 66.34 | 74.66 | 73.75 | 83.76 | 80.26 | 83.35 | 90.89 |
| Natural gas (\$/mcf) | 13.10 | 8.82 | 0.28 | 2.22 | 11.22 | 8.91 | 0.25 | 2.04 |
| Natural gas liquids (\$/bbl) | 73.83 | 64.29 | 71.28 | 70.38 | 80.82 | 77.84 | 79.95 | 93.25 |
| Barrels of oil equivalent (\$/boe) | 78.61 | 65.20 | 70.12 | 68.80 | 81.94 | 78.76 | 81.09 | 87.26 |
| Netbacks (\$/boe) ⁽⁹⁾ | | | | | | | | |
| Operating | | | | | | | | |
| Sales, net of blending expense ⁽¹⁾⁽²⁾ | 78.89 | 65.35 | 70.16 | 68.95 | 82.35 | 78.95 | 81.13 | 87.37 |
| Realized gain (loss) on financial derivatives | (2.54) | (1.12) | (0.06) | (0.36) | (1.60) | (0.35) | 0.18 | (0.44) |
| Royalties | (12.46) | (10.29) | (12.74) | (12.84) | (14.47) | (13.81) | (15.74) | (16.49) |
| Transportation | (5.79) | (5.59) | (5.68) | (5.65) | (5.41) | (5.26) | (5.90) | (5.54) |
| Production | (8.20) | (7.21) | (7.01) | (7.44) | (7.93) | (7.64) | (7.46) | (7.24) |
| Operating netback, including financial derivatives (\$/boe) ⁽⁴⁾ | 49.90 | 41.14 | 44.67 | 42.66 | 52.94 | 51.89 | 52.21 | 57.66 |
| General and administrative | (1.47) | (1.57) | (1.51) | (1.44) | (1.44) | (1.53) | (1.42) | (1.50) |
| Interest income and other expense ⁽¹⁰⁾ | 0.27 | 0.31 | 0.40 | 0.45 | 0.59 | 0.60 | 0.76 | 0.81 |
| Current income taxes | (3.50) | (4.13) | (5.07) | (4.81) | (5.43) | (6.62) | (6.54) | (8.01) |
| Settlement of decommissioning liability | - | (0.10) | - | - | (0.05) | - | - | - |
| Adjusted funds flow netback (\$/boe) ⁽⁴⁾ | 45.20 | 35.65 | 38.49 | 36.86 | 46.61 | 44.34 | 45.01 | 48.96 |

- (1) Heavy oil sales are netted with blending expense to compare the realized price to benchmark. In the interim financial statements, blending is recorded in blending and transportation expense.
- (2) Non-GAAP financial measure. Refer to “Non-GAAP and Other Financial Measures” within this MD&A.
- (3) Capital management measure. Refer to “Management of capital” in note 12 of the interim financial statements and to “Non-GAAP and Other Financial Measures” within this MD&A.
- (4) Non-GAAP ratio. Refer to the advisory “Non-GAAP and Other Financial Measures”.
- (5) Diluted weighted average shares outstanding includes the impact of any stock options, RSUs and PSUs that would be outstanding as dilutive instruments using the treasury stock method. The number of outstanding RSUs and PSUs have been adjusted for dividends.
- (6) RSUs and PSUs have been excluded as the Company intends to cash settle these awards.
- (7) See barrels of oil equivalent under “Oil and Gas Measures”.
- (8) Includes sales of unblended heavy crude oil. The Company’s heavy oil sales volumes and production volumes differ due to changes in inventory.
- (9) Netbacks are calculated using average sales volumes.
- (10) Excludes unrealized foreign exchange gains/losses, accretion on decommissioning liabilities, interest on repayable contribution and interest on the lease liability.

Headwater has experienced significant quarterly growth over the past two years as a result of its significant capital expenditure programs. The Company has grown production from 19,805 boe/d in the second quarter of 2024 to 24,154 boe/d in the first quarter of 2026, representing a 22% increase. This production growth is attributed to successful drilling and secondary recovery results in the Company’s Marten Hills core and west areas, as well as discoveries in newer areas including Greater Pelican. During the three months ended March 31, 2026, the Company achieved record adjusted funds flow from operations of \$97.4 million, funding capital expenditures of \$66.7 million and Headwater’s quarterly dividend of \$0.11 per common share.

Off-Balance Sheet Arrangements

All off-balance sheet arrangements are in the normal course of business. Refer to the commitments under the heading “Contractual Obligations and Commitments”.

Subsequent Event

Dividend

Subsequent to March 31, 2026, the Board approved an increase to the Company’s quarterly dividend to \$0.12 per common share from \$0.11 per common share.

For the second quarter of 2026, the Company declared a cash dividend of \$0.12 per common share. The dividend will be paid on July 15, 2026, to shareholders of record at the close of business on June 30, 2026. This dividend is an eligible dividend for the purposes of the *Income Tax Act* (Canada).

Non-GAAP and Other Financial Measures

Throughout this MD&A, the Company uses various non-GAAP and other financial measures to analyze operating performance and financial position. These non-GAAP and other financial measures do not have standardized meanings prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities.

Non-GAAP Financial Measures

Heavy oil sales, net of blending expense

Management utilizes heavy oil sales, net of blending expense to compare realized pricing to WCS benchmark pricing. It is calculated by deducting the Company’s blending expense from heavy oil sales. In the interim financial statements blending expense is recorded within blending and transportation expense.

| | Three months ended March 31, | |
|--|-------------------------------|---------|
| | 2026 | 2025 |
| | <i>(thousands of dollars)</i> | |
| Heavy oil sales | 159,923 | 153,684 |
| Blending expense | (6,816) | (6,967) |
| Heavy oil sales, net of blending expense | 153,107 | 146,717 |

Total sales, net of blending expense

Management utilizes total sales, net of blending expense to compare realized pricing to benchmark pricing. It is calculated by deducting the Company's blending expense from total sales. In the interim financial statements blending expense is recorded within blending and transportation expense.

| | Three months ended March 31, | |
|--------------------------------------|-------------------------------|---------|
| | 2026 | 2025 |
| | <i>(thousands of dollars)</i> | |
| Total sales | 176,721 | 170,155 |
| Blending expense | (6,816) | (6,967) |
| Total sales, net of blending expense | 169,905 | 163,188 |

Capital expenditures

Management utilizes capital expenditures to measure total cash capital expenditures incurred in the period. Capital expenditures represents capital expenditures – E&E and capital expenditures – PP&E in the statement of cash flows in the Company's interim financial statements.

| | Three months ended March 31, | |
|---|-------------------------------|--------|
| | 2026 | 2025 |
| | <i>(thousands of dollars)</i> | |
| Cash flows used in investing activities | 50,232 | 63,103 |
| Change in non-cash working capital | 16,508 | (256) |
| Capital expenditures | 66,740 | 62,847 |

Capital Management Measures

Adjusted funds flow from operations

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

| | Three months ended March 31, | |
|---|-------------------------------|---------------|
| | 2026 | 2025 |
| | <i>(thousands of dollars)</i> | |
| Cash flows provided by operating activities | 40,069 | 69,935 |
| Changes in non-cash working capital | 53,684 | 6,888 |
| Current income taxes | (7,539) | (10,770) |
| Current income taxes paid | 11,145 | 26,306 |
| Adjusted funds flow from operations | <u>97,359</u> | <u>92,359</u> |

Adjusted working capital

Adjusted working capital is a capital management measure which management uses to assess the Company's liquidity. Financial derivative receivable/liability have been excluded as these contracts are subject to a high degree of volatility prior to settlement and relate to future production periods. Financial derivative receivable/liability are included in adjusted funds flow from operations when the contracts are ultimately realized. Management has included the effects of the repayable contribution to provide a better indication of Headwater's net financing obligations.

| | March 31, 2026 | December 31, 2025 |
|---------------------------------|-------------------------------|----------------------|
| | <i>(thousands of dollars)</i> | |
| Working capital (deficit) | (3,028) | 29,951 |
| Repayable contribution | (7,335) | (7,202) |
| Financial derivative receivable | (1,135) | (393) |
| Financial derivative liability | 13,937 | 1,225 |
| Adjusted working capital | <u>2,439</u> | <u>23,581</u> |

Non-GAAP Ratios

Adjusted funds flow netback, operating netback and operating netback, including financial derivatives

Adjusted funds flow netback, operating netback and operating netback, including financial derivatives are non-GAAP ratios and are used by management to better analyze the Company's performance against prior periods on a more comparable basis.

Adjusted funds flow netback is defined as adjusted funds flow from operations divided by sales volumes in the period.

Operating netback is defined as sales less royalties, transportation and blending costs and production expense divided by sales volumes in the period. Sales volumes exclude the impact of purchased condensate and butane. Operating netback, including financial derivatives is defined as operating netback plus realized gains (losses) on financial derivatives.

Adjusted funds flow per share

Adjusted funds flow per share is a non-GAAP ratio used by management to better analyze the Company's performance against prior periods on a more comparable basis. Adjusted funds flow per share is calculated as adjusted funds flow from operations divided by weighted average shares outstanding during the applicable period on a basic or diluted basis.

Average royalty rate

The corporate average royalty rate is a non-GAAP ratio used by management to better analyze the Company's performance against prior periods on a more comparable basis and are calculated as total royalties divided by total sales, net of blending expense, expressed as a percentage.

Supplementary Financial Measures

Per boe numbers

This MD&A represents various results on a per boe basis including financial derivatives gains (losses) per boe, royalty expense per boe, transportation expense per boe, transportation and blending expense per boe, production expense per boe, sales per boe, realized gain (loss) on financial derivatives per boe, general and administrative expenses per boe, interest income and other expense per boe, stock-based compensation expense per boe, depletion and depreciation expense per boe, current income tax expense per boe, deferred income tax expense per boe, total income tax expense per boe, cash flows provided by operating activities per boe, changes in non-cash working capital per boe and settlement of decommissioning liabilities per boe. These figures are calculated using sales volumes.

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures as defined in National Instrument 52-109 – *Certification of Disclosures in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators, to provide reasonable assurance that (i) material information relating to the Company is made known to the Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting as defined in National Instrument 52-109 of the Canadian Securities Administrators, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company confirms that there were no changes to Headwater's internal controls over financial reporting during the interim period from January 1, 2026 to March 31, 2026 that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

It should be noted that while Headwater's Chief Executive Officer and Chief Financial Officer believe that the Company's internal controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that these controls will prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Critical Accounting Estimates

Use of estimates and judgments

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions are evaluated at each reporting date and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates are more difficult to determine, and the range of potential outcomes can be wider, in periods of higher volatility and uncertainty. The impacts of various events such as the Russian invasion of Ukraine, United States – Israel – Iran war (and other Middle Eastern conflicts) and the United States interventions in Venezuela, along with the imposition of United States tariffs on Canadian imported goods and their impact on energy markets and general market conditions, increased interest and inflation rates and supply chain uncertainties have created a higher level of volatility and uncertainty. Management has, to the extent reasonable, incorporated known facts and circumstances into the estimates made however, actual results could differ from those estimates and those differences could be material. The Company has also identified the below as an area requiring significant judgments, assumptions or estimates:

Tariffs

Since the inauguration of Donald Trump as President of the United States, 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 tariffs and duties affecting products that do not qualify for United States-Mexico-Canada Agreement ("USMCA") exemptions. On February 20, 2026 the Supreme Court of the United States released its ruling that the President did not have the authority under the International Emergency Economic Powers Act to impose tariffs. Following the ruling of the Supreme Court, the Trump administration immediately announced that it would use other legislation to impose tariffs.

At the present time, there are no tariffs on Canadian energy products that are exported into the United States provided that such products qualify under USMCA (all of the Company's energy products currently qualify under the USMCA). However, the upcoming 2026 USMCA review adds further uncertainty for Canadian exports (including energy products) to the United States. These dynamics influence export costs, market access, and demand for Canadian energy products. If there are significant changes to USMCA or USMCA is not renewed it could have a material adverse effect on the Canadian economy including the oil and gas industry and the Company. In addition, any tariffs imposed on Canadian energy exports into the United States could have a material adverse effect on the Canadian oil and gas industry and the Company's business. The Company will continue to monitor the impact of this evolving situation.

Climate change and alternative energy sources

The following provides certain disclosures as to the impact of climate change on the amounts recorded in the interim financial statements as at and for the three months ended March 31, 2026. The below is not a comprehensive list or analysis of all climate change impacts and risks.

Emissions, carbon and other regulations impacting climate and climate related matters are constantly evolving. In recent years, the Canadian Sustainability Standards Board ("CSSB") worked to advance and adopt Canadian climate-related reporting standards based on international climate-related reporting standards. In addition, the Canadian Securities Administrators ("CSA") had begun their own consultation process to determine how CSSB's reporting standards would be translated into reporting requirements for reporting issuers and the timing for the implementation of such mandatory reporting requirements; however, on April 23, 2025, the CSA announced that it would be pausing work on the development of new climate related reporting requirements due to current global economic and geopolitical uncertainty and rising competitive concerns for Canadian issuers. The CSA has noted that it expects to revisit the adoption of

climate related disclosures in the future. To the extent that any new climate or sustainability related standards are adopted in the future, the Company would likely incur additional costs to comply with such standards.

The Company has considered the impact of the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels in its assessment as a possible indication of impairment of its oil and gas properties. The Company completed the analysis of triggers for impairment as at March 31, 2026, and climate risk/climate change, in of itself, did not result in the Company completing an impairment test. The Company has considered the impact of the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels in its assessment of depletion on its oil and gas properties. Depletion of the Company's oil and gas properties was based on proved and probable reserves, the life of which is generally less than 40 years. The ultimate period in which global energy markets can transition from carbon-based sources to alternative energy is highly uncertain, however, the majority of the Company's proved and probable reserves per the 2025 reserve report should be realized prior to the elimination of carbon-based energy. At this time, the Company has not capped its reserve life for purposes of calculating depletion expense, however, this estimate will be monitored as the energy evolution continues.

The Company engages a third-party external reserve engineer to prepare the reserve report. The reserve report includes anticipated impacts from emissions related taxes, most notably the reserve report includes estimated carbon tax related to the Company's operations consistent with the Emissions Management and Climate Resilience Act (Alberta).

The evolving energy transition and general public sentiment to the oil and gas industry may result in reduced access to capital markets. Management will continue to adjust the capital structure as necessary in response to changing industry conditions.

The Company maintains insurance coverage that provides a level of insurance for certain events that may arise due to climate change factors; however, the Company's insurance program is subject to limits and various restrictions. No claims were made under the Company's insurance policies in 2026 with respect to climate related matters.

Critical Judgments in Applying Accounting Policies

Determination of cash-generating units ("CGU") and impairment

The determination of what constitutes a CGU used to test the recoverability of the carrying values of the Company's oil and gas properties is subject to management's judgment. Judgments are made in regard to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risks and materiality. The asset composition of a CGU can directly impact the recoverability of the assets included therein.

Judgments are required to assess when impairment or impairment reversal indicators exist, and when impairment testing is required.

E&E assets

The application of the Company's accounting policy for E&E assets requires management to make certain judgments as to whether economic quantities of reserves have been found. Judgment is also required to determine the level at which E&E is assessed for impairment; for Headwater, the recoverable amount of E&E assets is assessed at a CGU level.

Key Sources of Estimation Uncertainty

Recoverability of asset carrying value and the impact of reserves on depletion and the evaluation of the recoverable amount of a CGU

At each reporting date, the Company assesses its property, plant and equipment and E&E assets to determine if there is any indication that the carrying amount of the assets may not be recoverable. An assessment is also made at each reporting date to determine whether there is any indication that previously recognized impairment losses no longer exist or have decreased. Determination as to whether and how much an asset is impaired, or no longer impaired, involves management's estimates on highly uncertain matters. The key estimates used in the determination of cash flows from crude oil and natural gas reserves and the volume of proved and probable crude oil and natural gas reserves include the following:

- Reserves and forecasted production – assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in future price estimates, production levels or results of future drilling may change the economic status of reserves and may ultimately result in reserve revisions.
- Forecasted crude oil and natural gas prices – commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.
- Discount rate – the discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.
- Forecasted operating and royalty costs and future development costs – estimates concerning future drilling and infrastructure costs and production costs required to operate the assets are used in the cash flow model.

Changes in circumstances may impact these estimates which could have a material financial impact in future periods.

Reserves estimates also have a material financial impact on depletion expense and decommissioning liabilities, all of which could have a material impact on financial results. These reserve estimates are evaluated by third-party reserve evaluators at least annually, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Changes in circumstances may impact these estimates which could have a material financial impact in future periods.

Decommissioning liabilities

The decommissioning costs which will ultimately be incurred by the Company are uncertain and estimates can vary in response to many factors including changes to regulatory requirements, changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing can also change in response to changes in reserves or changes in laws and regulations. As a result, there could be significant adjustments to the provisions established which could materially affect future financial results. Judgments include the most appropriate discount rate to use, which management has determined to be a risk-free rate, as well as the underlying cost estimates as they are derived from a combination of published industry benchmarks as well as site specific information.

Valuation of financial instruments

The estimated fair values of the Company's financial derivative commodity contracts are subject to measurement uncertainty due to the estimation of future crude oil and natural gas commodity prices and volatility.

Valuation of performance share units ("PSUs")

The estimate of stock-based compensation in respect of the Company's PSUs is dependent on the performance multiplier estimated by management.

New accounting policies

During the three months ended March 31, 2026, the Company adopted amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures”. These amendments clarify the date of recognition and derecognition of some financial assets and liabilities. These amendments did not have a material impact on the Company’s financial statements.

Recently announced accounting pronouncements

IFRS 18 “Presentation and disclosure in financial statements” has been issued which will replace IAS 1 “Presentation of financial statements”. The new standard will introduce new totals, subtotals, and categories for income and expenses in the statements of income and comprehensive income, as well as requiring disclosure about management-defined performance measures and additional requirements regarding the aggregation and disaggregation of certain information. IFRS 18 is effective for annual periods beginning on or after January 1, 2027 and will be applied retroactively. The Company is currently evaluating the impact of adopting IFRS 18 on the financial statements.

Business Conditions and Risks

There are numerous factors both known and unknown, that could cause actual results or events to differ materially from forecast results. The following is a summary of such risk factors, which should not be construed as exhaustive:

- Volatility in the market conditions for the oil and natural gas industry may affect the value of the Company's reserves and restrict its cash flow and ability to access capital to fund the development of its properties;
- The risk that (i) the United States, Canadian or other foreign governments implement, maintain or increase the rate or scope of new tariffs or impose other restrictive measures on imports and exports of products, and (ii) the review of USMCA results in renegotiation of the terms or withdrawal by one of the countries that is party thereto, which could have a material adverse effect on the Canadian, U.S. and global economies, and by extension the Canadian oil and natural gas industry and the Company;
- Various factors may adversely impact the marketability of oil and natural gas, affecting net production revenue, production volumes and development and exploration activities;
- The anticipated benefits of acquisitions may not be achieved and the Company may dispose of non-core assets for less than their carrying value on the financial statements as a result of weak market conditions;
- The impacts of the Russian-Ukrainian conflict, the U.S. – Israel – Iran war (and other Middle East conflicts) and the United States intervention in Venezuela on commodity prices, supply and demand factors for energy products and the world economy could affect the Company's results, business, financial conditions or liquidity;
- Natural disasters, terrorist acts, civil unrest, war, pandemics and other disruptions and dislocations may affect the Company's results, business, financial conditions or liquidity;
- The Company's business may be adversely affected by political and social events and decisions made in Canada, the United States, Europe and elsewhere;
- Lack of capacity and/or regulatory constraints on gathering and processing facilities and pipeline systems may have a negative impact on the Company's ability to produce and sell its oil and natural gas;
- The Company competes with other oil and natural gas companies, some of which have greater financial and operational resources;

- The Company's ability to successfully implement new technologies into its operations in a timely and efficient manner will affect its ability to compete;
- Changes to the demand for oil and natural gas products and the rise of petroleum alternatives may negatively affect the Company's financial condition, results of operations and cash flow;
- Modification to current, or implementation of additional, regulations (including environmental regimes) or royalty regimes may reduce the demand for oil and natural gas, impact the Company's cash flows and/or increase the Company's costs and/or delay planned operations;
- Taxes on carbon emissions may affect the demand for oil and natural gas, the Company's operating expenses and may impair the Company's ability to compete;
- Liability management programs enacted by regulators in the western provinces may prevent or interfere with the Company's ability to acquire properties or require a substantial cash deposit with the regulator;
- The Company 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 the current economic and global market volatility;
- Changing investor sentiment towards the oil and natural gas industry may impact the Company's access to, and cost of, capital;
- Oil and natural gas operations are subject to seasonal weather conditions and, if applicable to the Company's operations in the future, the Company may experience significant operational delays as a result;
- Regulatory water use restrictions and/or limited access to water or other fluids may impact the Company's future production volumes from any future waterflood of the Company;
- Credit risk related to non-payment for sales contracts or other counterparties;
- Foreign exchange risk as commodity sales are based on U.S. dollar denominated benchmarks; and
- The risk of significant interruption or failure of the Company's information technology systems and related data and control systems or a significant breach that could adversely affect the Company's operations.

Additional risks and information on risk factors are included in the Annual Informational Form for the year ended December 31, 2025, dated March 5, 2026, which is available on the Company's website at www.headwaterexp.com and under the Company's profile on SEDAR+ at www.sedarplus.ca.

The Company uses a variety of means to help mitigate or minimize these risks including the following:

- Attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Company;
- Employing risk management instruments to minimize exposure to volatility of commodity prices;
- Maintaining a strong financial position;
- Maintaining strict environmental, safety and health practices;
- Maintaining a comprehensive insurance program;
- Managing credit risk by entering into agreements with counterparties that are highly credit worthy or investment grade; and
- Implementation of cyber security protocols and procedures to reduce to risk of failure of breach of data.

Oil and Gas Metrics

The term barrels of oil equivalent (“boe”) may be misleading, particularly if used in isolation. Per boe amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil. This equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

References to heavy oil, natural gas, and natural gas liquids in the MD&A refer to heavy crude oil, conventional natural gas and natural gas liquids, respectively, product types as defined in NI 51-101.

Dividend Policy

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

Forward Looking Information

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as “forward-looking statements”) within the meaning of Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “plan”, “continuous”, “estimate”, “expect”, “may”, “will”, “project”, “should” or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements pertaining to the following:

- business plans and strategies;
- the estimated value of the Company's derivative contracts;
- the possibility that the Company may mitigate a portion of its risk by entering into foreign exchange contracts;
- expectations with respect to the construction of the oil transportation pipeline in Marten Hills, the expected timing of commissioning and the anticipated benefits and results therefrom, including that Headwater will realize more than \$20 million per year in transportation/operating cost savings;
- the percentage of royalty rate payable by Headwater under the Alberta Modernized Royalty Framework;
- the anticipated vesting dates of PSUs and RSUs;
- the Company’s intent to settle PSUs, RSUs and DSUs in cash;
- the estimated undiscounted uninflated amount of cash flows required to settle the Company’s decommissioning liabilities;
- 2026 crude oil and natural gas pricing assumptions;
- 2026 Canadian – U.S. dollar exchange rates;
- 2026 guidance related to annual production, capital expenditures, dividends and adjusted funds flow from operations;

- the Company's objectives for managing its capital, the anticipated benefits to be derived therefrom and the anticipated means of achieving such objectives;
- the expectation that the Company has adequate liquidity to fund its 2026 capital expenditure budget and future dividend payments through existing working capital and forecasted adjusted funds flow from operations;
- the expectation that Headwater could make use of additional equity or debt financings to fund any substantial expansion of its capital program or finance any significant acquisitions;
- the possibility that Headwater may issue equity as consideration to complete any future acquisitions;
- the Company's intent to apply to the Toronto Stock Exchange to renew its NCIB;
- that if Headwater's credit facilities are not extended, the credit facilities will automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period;
- the Company's future contractual obligations and commitments;
- expectations regarding the repayment of NRCan in connection with the Project and the timing thereof;
- the intended results of the Project;
- the anticipated terms of the Company's quarterly dividend, including its expectation that it will be designated as an "eligible dividend";
- the expectation that the majority of the Company's proved and probable reserves per the 2025 reserve report should be realized prior to the elimination of carbon-based energy;
- the expectation that the energy transition and general public sentiment to oil and gas may reduce access to capital markets and the expectation that the Company will adjust its capital structure as necessary in response to changing industry conditions;
- the Company's intent to evaluate the potential effects of the new sustainability standards and any steps taken by the CSA to adopt the new standards as reporting requirements for reporting issuers and the expectation that the Company would incur additional costs to comply with any such standards; and
- the Company's dividend policy.

Statements relating to "reserves" are forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described, as applicable, exist in the quantities predicted or estimated and can profitably be produced in the future. Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based, will in fact be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders.

The forward-looking statements contained herein are based on certain key expectations and assumptions made by the Company, including but not limited to: the potential impact of tariffs that may be implemented by the U.S. and Canadian governments, and that neither the U.S. nor Canada (i) increases the rate or scope of such tariffs, or imposes new tariffs, on the import of goods from one country to the other, including on oil and natural gas, and/or (ii) imposes any other form of tax, restriction or prohibition on the import or export of products from one country to the other, including on oil and natural gas; that the upcoming 2026 USMCA review does not significantly impact the ability or costs of Canadian oil and gas companies to export their products into the United States or have other negative to the Canadian economy and/or the Company's business; expectations and assumptions concerning the success of optimization and efficiency improvement projects, the availability of capital, current legislation, receipt of required regulatory approval, the success of future drilling, development and waterflooding activities, the performance of existing wells, the performance of new wells, Headwater's growth strategy, general economic conditions including inflationary pressures, availability of required equipment and services, prevailing equipment and services costs and prevailing commodity prices. Although the Company believes that the expectations and

assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because the Company can give no assurance that they will prove to be correct.

This MD&A contains information that may be considered a financial outlook or future-oriented financial information under applicable securities laws about the Company's potential financial position, including but not limited to: the Company's 2026 budget and guidance related to capital expenditures, dividends and adjusted funds flow from operations; the Company's future contractual obligations and commitments; and the estimated undiscounted uninflated amount of cash flows required to settle the Company's decommissioning liabilities. Any financial outlook or future-oriented financial information in this MD&A, as defined by applicable securities legislation, has been approved by management of the Company as of the date hereof. Readers are cautioned that any such future-oriented financial information contained herein should not be used for purposes other than those for which it is disclosed herein. The Company and its management believe that the prospective financial information as to the anticipated results of its proposed business activities for the periods specified herein has been prepared on a reasonable basis, reflecting management's best estimates and judgments, and represent, to the best of management's knowledge and opinion, the Company's expected course of action. However, because this information is highly subjective, it should not be relied on as necessarily indicative of future results. The assumptions used in the 2026 guidance include: annual average production of 25,000 boe/d, WTI of US\$75.85/bbl, WCS of Cdn\$83.75/bbl, AGT US\$10.90/mmbtu, AECO of \$1.65 CAD/GJ, foreign exchange rate of US\$/Cdn\$ of 0.73, blending expense of WCS less \$1.10, royalty rate of 20.2%, operating and transportation costs of \$14.15/boe, G&A and interest expense of \$1.60/boe and cash taxes of \$4.50/boe. The AGT price is the average price for the winter producing months in the McCully field which include January to April and December. 2026 annual production guidance is expected to be comprised of: 23,180 bbls/d of heavy oil, 120 bbls/d of natural gas liquids and 10.2 mmcf/d of natural gas.

Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks identified under the heading "*Business Conditions and Risks*". Further information regarding these factors and additional factors may be found under the heading "Risk Factors" in the Annual Informational Form for the year ended December 31, 2025, dated March 5, 2026, which is available on the Company's website at www.headwaterexp.com and under the Company's profile on SEDAR+ at www.sedarplus.com. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive.

The forward-looking statements contained in this MD&A are made as of the date hereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, except as required by applicable law. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

Corporate Information

Board of Directors

NEIL ROSZELL
Executive Chairman, Headwater Exploration Inc.
Calgary, Alberta

JASON JASKELA
President and CEO, Headwater Exploration Inc.
Calgary, Alberta

CHANDRA HENRY ⁽¹⁾ ⁽²⁾
CFO and Chief Compliance Officer, Longbow Capital Inc.
Calgary, Alberta

STEPHEN LARKE ⁽²⁾ ⁽⁴⁾
Director, Vermillion Energy Inc. and Topaz Energy Corp.
Calgary, Alberta

KEVIN OLSON ⁽³⁾ ⁽⁴⁾
Independent Businessman
Calgary, Alberta

DAVE PEARCE ⁽²⁾ ⁽³⁾
Deputy Chairman, Azimuth Capital Management
Calgary, Alberta

KAM SANDHAR ⁽¹⁾ ⁽³⁾
Executive Vice President and CFO, Cenovus Energy Inc.
Calgary, Alberta

CHEREE STEPHENSON ⁽¹⁾ ⁽⁴⁾
Vice President Finance and CFO, Topaz Energy Corp.
Calgary, Alberta

KAREN NIELSEN ⁽³⁾ ⁽⁴⁾
Independent Businesswoman
Calgary, Alberta

TED BROWN (Corporate Secretary)
Burnet, Duckworth & Palmer LLP
Calgary, Alberta

- (1) Audit Committee
- (2) Corporate Governance and Compensation Committee
- (3) Reserves Committee
- (4) Environment, Safety and Sustainability Committee

Website: www.headwaterexp.com

Officers

NEIL ROSZELL, P. Eng.
Executive Chairman

JASON JASKELA, P. Eng.
President and CEO

ALI HORVATH, CPA, CA
Chief Financial Officer

TERRY DANKU, P. Eng.
Executive Vice President

BRAD CHRISTMAN
Chief Operating Officer

DIETER DEINES
Vice President Exploration

SCOTT RIDEOUT
Vice President Land

GEORGIA LITTLE, CPA, CA
Vice President Finance

WADE HEIN
Vice President Operations

JEFF MAGEE
Vice President Engineering

Head Office

Suite 1400, 215 – 9th Avenue SW
Calgary, Alberta T2P 1K3
Tel: (587) 391-3680

Auditors

KPMG LLP
Calgary, AB

Independent Reservoir Consultants

McDaniel & Associates Consultants Ltd.
Calgary, AB