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

(Cdn$ thousands)	September 30, 2026 $	December 31, 2025 $
ASSETS		
Current assets		
Cash and cash equivalents	120,829	99,655
Restricted cash (note 12)	2,350	2,350
Accounts receivable (note 12)	88,476	53,003
Financial derivative receivable (note 12)	2,052	393
Inventories	1,730	1,078
Prepaids and deposits	2,003	1,562
Total current assets	217,440	158,041
Exploration and evaluation assets (note 3)	55,816	44,113
Property, plant and equipment (note 4)	908,226	790,753
Other assets	1,570	2,260
Total assets	1,183,052	995,167
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	108,392	65,695
Stock-based compensation payable (note 8)	32,700	28,711
Financial derivative liability (note 12)	589	1,225
Current portion of lease liability	1,022	959
Current income tax liability	18,206	790
Dividend payable (note 7)	28,532	26,154
Repayable contribution (note 6)	7,614	4,556
Total current liabilities	197,055	128,090
Lease liability	500	1,325
Financial derivative liability (note 12)	2	-
Stock-based compensation payable (note 8)	15,147	11,266
Decommissioning liability (note 5)	38,161	35,177
Repayable contribution (note 6)	-	7,202
Deferred income tax liability	79,572	63,952
Total liabilities	330,437	247,012
Shareholders' equity		
Capital stock (note 7)	487,378	487,378
Contributed surplus	10,792	10,792
Retained earnings	354,445	249,985
Total shareholders' equity	852,615	748,155
Total liabilities and shareholders' equity	1,183,052	995,167

Arrangement agreement (note 13)

See accompanying notes to the interim condensed financial statements

Approved on behalf of the Board of Directors:

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2026	2025	2026	2025
(Cdn$ thousands, except per share data)	$	$	$	$
REVENUE				
Sales (note 9)	239,880	152,101	654,529	467,200
Royalties	(55,898)	(26,599)	(132,248)	(81,111)
Revenue, net of royalties	183,982	125,502	522,281	386,089
Gains (losses) on financial derivatives (note 12)	514	(1,315)	(14,802)	(5,607)
	184,496	124,187	507,479	380,482
EXPENSES				
Blending and transportation	27,239	17,446	70,358	52,647
Production	16,342	14,638	52,519	45,330
General and administrative	3,497	3,146	10,056	8,899
Transaction costs (note 13)	3,593	-	3,593	-
Stock-based compensation (note 8)	15,788	7,540	34,738	12,993
Depletion and depreciation	31,136	32,448	89,801	97,599
Exploration and evaluation expense (note 3)	-	-	1,814	-
	97,595	75,218	262,879	217,468
Interest income and other expense (note 10)	(64)	108	(177)	806
Income before income taxes	86,837	49,077	244,423	163,820
Income taxes				
Current income tax expense	20,045	10,591	41,125	31,044
Deferred income tax expense	97	2,617	15,620	8,880
	20,142	13,208	56,745	39,924
Net income and comprehensive income	**66,695**	**35,869**	**187,678**	**123,896**
Net income per share (note 7)				
Basic	0.28	0.15	0.79	0.52
Diluted	0.28	0.15	0.78	0.52

See accompanying notes to the interim condensed financial statements

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

Cash flow related to the following activities:	Three months ended September 30, 2026	2025	Nine months ended September 30, 2026	2025
(Cdn$ thousands)	$	$	$	$
OPERATING				
Net income	66,695	35,869	187,678	123,896
Items not involving cash:				
Unrealized (gains) losses on financial derivatives (note 12)	75	1,181	(1,940)	1,585
Stock-based compensation	15,788	7,540	34,738	12,993
Depletion and depreciation	31,136	32,448	89,801	97,599
Exploration and evaluation expense	-	-	1,814	-
Income tax expense	20,142	13,208	56,745	39,924
Non-cash finance charges	560	739	1,748	2,119
Restricted cash	-	-	-	(2,000)
Settlement of decommissioning liability (note 5)	-	-	-	(101)
Income taxes paid, net (note 11)	(2,509)	(10,305)	(23,709)	(45,717)
Change in non-cash operating working capital (note 11)	(8,465)	5,181	(48,818)	(5,829)
Cash flows provided by operating activities	123,422	85,861	298,057	224,469
FINANCING				
Payment of lease liability	(292)	(232)	(882)	(629)
Dividends paid (note 7)	(28,532)	(26,155)	(80,840)	(76,086)
Purchase of common shares for cancellation (note 7)	-	-	-	(270)
Share issue costs (note 7)	-	(30)	-	(30)
Repayment of repayable contribution (note 6)	-	-	(4,718)	(1,417)
Change in non-cash financing working capital (note 11)	-	30	-	30
Cash flows used in financing activities	(28,824)	(26,387)	(86,440)	(78,402)
INVESTING				
Capital expenditures – exploration and evaluation (note 3)	(1,710)	(15,975)	(15,553)	(27,038)
Proceeds from disposition – exploration and evaluation (note 3)	2,036	-	2,036	-
Capital expenditures – property, plant and equipment (note 4)	(60,257)	(52,696)	(194,706)	(155,184)
Change in non-cash investing working capital (note 11)	(1,496)	5,790	17,780	15,457
Cash flows used in investing activities	(61,427)	(62,881)	(190,443)	(166,765)
Change in cash and cash equivalents	33,171	(3,407)	21,174	(20,698)
Cash and cash equivalents, beginning of period	87,658	125,403	99,655	142,694
Cash and cash equivalents, end of period	120,829	121,996	120,829	121,996

See accompanying notes to the interim condensed financial statements

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

	Notes	Capital stock	Contributed surplus	Retained earnings	Total shareholders' equity
(Cdn$ thousands)		$	$	$	$
Balance at January 1, 2025		**486,984**	**10,969**	**201,506**	**699,459**
Exercise of stock options	7	331	(331)	-	-
Stock-based compensation	8	-	154	-	154
Net income		-	-	123,896	123,896
Dividends declared	7	-	-	(78,574)	(78,574)
Purchase of common shares for cancellation	7	(275)	-	-	(275)
Issued on land acquisition	7	7,740	-	-	7,740
Issue costs, net of deferred tax	7	(23)	-	-	(23)
Balance at September 30, 2025		**494,757**	**10,792**	**246,828**	**752,377**
Balance at January 1, 2026		**487,378**	**10,792**	**249,985**	**748,155**
Net income		-	-	187,678	187,678
Dividends declared	7	-	-	(83,218)	(83,218)
Balance at September 30, 2026		**487,378**	**10,792**	**354,445**	**852,615**

See accompanying notes to the interim condensed financial statements

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

As at and for the three and nine months ended September 30, 2026 and 2025

(All tabular amounts in thousands, unless otherwise stated)

1. NATURE OF OPERATIONS

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

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

On September 7, 2026, Headwater and Tamarack Valley Energy Ltd. ("Tamarack") entered into a definitive arrangement agreement pursuant to which the companies will combine in an all-stock transaction which is expected to close on November 19, 2026. See note 13 for more details.

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The unaudited interim condensed financial statements do not include all information required for annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2025. These unaudited interim condensed financial statements have been prepared following the same accounting policies as the Company's audited financial statements for the year ended December 31, 2025, except for the below.

During the nine months ended September 30, 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. The timely preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in the audited financial statements for the year ended December 31, 2025.

These unaudited interim condensed financial statements were approved and authorized for issue by the Board of Directors on November 12, 2026.

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

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

	September 30, 2026	December 31, 2025
	$	$
Balance, beginning of period	44,113	30,089
Additions	15,553	48,908
E&E expense [(1)]	(1,814)	(8,256)
E&E disposition [(1)]	(2,036)	-
Transfers to PP&E (note 4)	-	(26,628)
Balance, end of period	55,816	44,113

(1) During the nine months ended September 30, 2026, the Company recognized $1.8 million of E&E expense in connection with the disposition of certain non-core Alberta assets, for which the Company received cash proceeds of $2.0 million. During the year ended December 31, 2025, the Company recognized $8.3 million of E&E expense related to its Saskatchewan assets.

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

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

	Oil and gas properties	Corporate	Total
Cost	$	$	$
Balance at December 31, 2024	1,323,296	2,907	1,326,203
Additions	193,058	36	193,094
Transfers from E&E (note 3)	26,628	-	26,628
Changes in decommissioning liability	(14,781)	-	(14,781)
Balance at December 31, 2025	1,528,201	2,943	1,531,144
Additions [(1)]	204,663	16	204,679
Changes in decommissioning liability (note 5)	1,905	-	1,905
Balance at September 30, 2026	1,734,769	2,959	1,737,728
Accumulated depletion, depreciation and impairment			
Balance at December 31, 2024	611,746	2,437	614,183
Depletion or depreciation expense	126,147	61	126,208
Balance at December 31, 2025	737,893	2,498	740,391
Depletion or depreciation expense	89,067	44	89,111
Balance at September 30, 2026	826,960	2,542	829,502
Net book value at December 31, 2025	790,308	445	790,753
Net book value at September 30, 2026	907,809	417	908,226

(1) Includes capitalized general and administrative expenses of $4.1 million and capitalized stock-based compensation of $10.0 million.

The Company concluded there are no indicators of impairment for its PP&E assets as at September 30, 2026 and December 31, 2025.

5. DECOMMISSIONING LIABILITY

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

	September 30, 2026	December 31, 2025
	$	$
Balance, beginning of period	35,177	48,603
Additions	3,697	8,773
Settlements	-	(332)
Change in estimate [(1)]	(1,792)	(23,554)
Accretion (note 10)	1,079	1,687
Balance, end of period	38,161	35,177
Key assumptions		
Risk free rate	4.3%	3.9%
Inflation rate	2.3%	2.0%

(1) Relates to changes in the risk-free rate, inflation rate and cost estimates for the period ended September 30, 2026. For the year ended December 31, 2025, relates to changes in the risk-free rate, inflation rate, time to abandonment and cost estimates. Of this amount, a $12.9 million downward revision is the result of a change in cost estimates underpinned by a decrease to the industry's abandonment cost benchmarks, a $6.2 million downward revision relates to changes in time to abandonment, a $6.5 million downward revision is a result of an increase in risk-free rate over the year from 3.3% at December 31, 2024 to 3.9% at December 31, 2025 and a $2.0 million upward revision is a result of an increase in the inflation rate over the year from 1.8% at December 31, 2024 to 2.0% at December 31, 2025.

The Company has estimated the net present value of its total decommissioning liabilities to be $38.2 million as at September 30, 2026 (December 31, 2025 - $35.2 million). The total future inflated and undiscounted amount of estimated cash flows required to settle these obligations is $183.5 million (December 31, 2025 - $147.1 million). Management estimates the settlement of these obligations will occur over the next 30 to 40 years.

6. REPAYABLE CONTRIBUTION (NRCan ERF)

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

The Company has recognized a repayable contribution of $8.0 million, undiscounted, and $7.6 million, discounted, as at September 30, 2026 (December 31, 2025 – $12.8 million and $11.8 million respectively), with respect to claims submitted to the ERF and confirmed by NRCan. The Company discounts the repayable contribution at a weighted average interest rate of 7.7%. The repayable portion of the funds received are to be repaid as follows: 10% was repaid on June 30, 2025, 33% was repaid on June 30, 2026, and 57% to be repaid on June 30, 2027.

	September 30, 2026	December 31, 2025
	$	$
Balance, beginning of period	11,758	12,289
Repayment	(4,718)	(1,417)
Interest (note 10)	574	886
Balance, end of period	7,614	11,758
Current portion of repayable contribution	7,614	4,556
Long-term portion of repayable contribution	-	7,202

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

7. CAPITAL STOCK

a) Issued, authorized and outstanding

	September 30, 2026		December 31, 2025	
	Number of shares	Amount	Number of shares	Amount
		$		$
Balance, beginning of period	237,763	487,378	237,757	486,984
Exercise of stock options	-	-	53	331
Purchase of common shares for cancellation	-	-	(1,047)	(7,654)
Issued on land acquisition	-	-	1,000	7,740
Issue costs, net of deferred tax	-	-	-	(23)
Balance, end of period	237,763	487,378	237,763	487,378

During the year ended December 31, 2025, 177 thousand stock options were exercised for 53 thousand common shares on a cashless basis. Contributed surplus related to the options exercised of $331 thousand was transferred to capital stock.

During the year ended December 31, 2025, Headwater issued 1.0 million common shares as consideration for certain E&E assets.

b) Normal Course Issuer Bid (“NCIB”)

On May 11, 2026, Headwater announced TSX approval of its NCIB renewal to purchase for cancellation up to 22,287,602 common shares during the period commencing on May 13, 2026, and terminating on the earlier of: (i) the date on which the Company has acquired all common shares sought pursuant to the NCIB; or (ii) to May 12, 2027, unless earlier terminated at the option of the Company, 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. Total consideration includes commissions and a 2% federal tax accrued on the purchase, which is charged against capital stock.

The Company did not utilize its NCIB during the nine months ended September 30, 2026.

c) Dividends

During the nine months ended September 30, 2026, the Company declared $83.2 million (year ended December 31, 2025 – $104.7 million) related to its quarterly cash dividend. Included in current liabilities is the dividend payable of $28.5 million for the dividend declared on July 23, 2026, and paid on October 15, 2026.

The Company increased its quarterly cash dividend to $0.12 per common share, from $0.11 per common share, effective for the dividend paid on July 15, 2026, to shareholders of record at the close of business on June 30, 2026.

d) Per share amounts

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

	Three months ended September 30,		Nine months ended September 30,	
	2026	2025	2026	2025
Weighted average shares outstanding				
Basic	237,763	237,828	237,763	237,788
Diluted	240,038	240,026	239,832	239,700

8. STOCK-BASED COMPENSATION

a) Stock-based compensation expense

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

	Three months ended September 30,		Nine months ended September 30,	
	2026	2025	2026	2025
	$	$	$	$
Deferred share units	836	484	3,007	1,610
Share awards	19,507	8,656	41,704	14,063
Capitalized stock-based compensation	(4,555)	(1,600)	(9,973)	(2,680)
Total stock-based compensation expense	15,788	7,540	34,738	12,993

b) Share awards

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

PSUs (Cash-Settled)

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

	September 30, 2026	December 31, 2025
	$	$
Balance, beginning of period	32,886	16,952
Increase in liability/fair value adjustment [(1)]	38,619	26,916
Payout [(2)]	(33,125)	(10,982)
Balance, end of period	38,380	32,886
Current portion of stock-based compensation payable	24,017	22,445
Long-term portion of stock-based compensation payable	14,363	10,441

(1) Includes dividend and estimated performance multiplier adjustments.

(2) Includes an incremental 1.3 million units cash settled pursuant to a performance multiplier adjustment for the nine months ended September 30, 2026.

The PSU liability as at September 30, 2026 of $38.4 million is based on a fair value of $13.38 per PSU, which is the Company's closing share price on September 30, 2026.

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

	September 30, 2026	December 31, 2025
Outstanding, beginning of period	3,729	3,116
Granted	747	1,441
Forfeited	-	(7)
Released upon vesting	(1,094)	(821)
Outstanding, end of period	3,382	3,729

RSUs (Cash-Settled)

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

	September 30, 2026	December 31, 2025
	$	$
Balance, beginning of period	2,743	1,850
Increase in liability/fair value adjustment (1)	3,085	2,352
Payout (1)	(3,143)	(1,459)
Balance, end of period	2,685	2,743
Current portion of stock-based compensation payable	1,901	1,918
Long-term portion of stock-based compensation payable	784	825

(1) Includes dividend adjustment.

The RSU liability as at September 30, 2026 of $2.7 million is based on a fair value of $13.38 per RSU, which is the Company's closing share price on September 30, 2026.

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

	September 30, 2026	December 31, 2025
Outstanding, beginning of period	443	432
Granted	133	253
Forfeited	(8)	(37)
Released upon vesting	(218)	(205)
Outstanding, end of period	350	443

c) Deferred share units ("DSUs")

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

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

	September 30, 2026	December 31, 2025
	$	$
Balance, beginning of period	4,348	2,879
Increase in liability/fair value adjustment [(1)]	3,007	2,563
Payout [(1)]	(573)	(1,094)
Balance, end of period	6,782	4,348
Current portion of stock-based compensation payable	6,782	4,348

(1) Includes dividend adjustment.

The DSU liability as at September 30, 2026 of $6.8 million is based on a fair value of $13.38 per DSU, which is the Company's closing share price on September 30, 2026.

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

	September 30, 2026	December 31, 2025
Outstanding, beginning of period	409	400
Granted	82	161
Released	(46)	(152)
Outstanding, end of period	445	409

9. SALES

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

	Three months ended September 30,		Nine months ended September 30,	
	2026	2025	2026	2025
	$	$	$	$
Heavy oil	237,859	150,696	632,411	445,662
Natural gas	658	219	17,548	17,025
Natural gas liquids	1,207	1,107	3,510	3,326
Gathering, processing and transportation	156	79	1,060	1,187
	239,880	152,101	654,529	467,200

Included in accounts receivable as at September 30, 2026 is $88.0 million (December 31, 2025 - $52.2 million) of accrued sales related to September 2026 production.

10. INTEREST INCOME AND OTHER EXPENSE

Interest income and other expense consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2026	2025	2026	2025
	$	$	$	$
Interest income	496	848	1,571	2,927
Realized and unrealized foreign exchange gains (losses)	2	(8)	20	(3)
Accretion on decommissioning liability (note 5)	(385)	(467)	(1,079)	(1,299)
Interest on repayable contribution (note 6)	(142)	(214)	(574)	(668)
Interest on lease liability	(35)	(51)	(115)	(151)
	(64)	108	(177)	806

(1) Included within non-cash finance charges in the statement of cash flows is unrealized foreign exchange gains (losses), accretion on decommissioning liability, interest on repayable contribution and interest on lease liability.

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2026	2025	2026	2025
	$	$	$	$
Change in non-cash operating working capital:				
Accounts receivable	(21,964)	5,238	(35,451)	11,172
Inventories	(1,003)	40	(1,005)	98
Prepaids and deposits	1,665	1,581	(441)	76
Accounts payable and accrued liabilities	15,207	(1,509)	24,920	(3,779)
Payout of stock-based compensation	(2,370)	(169)	(36,841)	(13,396)
	(8,465)	5,181	(48,818)	(5,829)
Change in non-cash financing working capital:				
Accounts payable and accrued liabilities	-	30	-	30
	-	30	-	30
Change in non-cash investing working capital:				
Accounts receivable	21	589	3	1,160
Accounts payable and accrued liabilities	(1,517)	5,201	17,777	14,297
	(1,496)	5,790	17,780	15,457
Cash income taxes paid	6,703	10,305	27,903	45,717
Cash income taxes refunded	4,194	-	4,194	-
Cash income taxes paid, net	2,509	10,305	23,709	45,717
Cash interest received	572	923	1,796	3,344

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) The Company is exposed to the following risks:

i) Commodity price risk

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

The Company had the following outstanding financial derivative commodity contracts as at September 30, 2026:

Commodity	Index	Type	Term	Daily Volume	Contract Price
Natural Gas	AGT (1)	Fixed	Dec 2026 – Mar 2027	5,000 mmbtu	Cdn$17.88/mmbtu
Natural Gas	AGT	Fixed	Dec 2026 – Jan 2027	1,000 mmbtu	Cdn$25.00/mmbtu
Natural Gas	AGT	Fixed	Jan 2027	1,000 mmbtu	Cdn$29.00/mmbtu
Natural Gas	AECO 5A	Fixed	Oct 2026	4,000 GJ	Cdn$2.49/GJ
Natural Gas	AECO 5A	Fixed	Apr 2027 – Oct 2027	1,000 GJ	Cdn$2.00/GJ
Crude Oil	WCS Basis (2)	Differential	Oct 2026 – Dec 2026	2,000 bbl	US$13.00/bbl

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

The Company has recorded $2.0 million (December 31, 2025 - $2.0 million) within restricted cash in the Statement of Financial Position as collateral for certain financial derivatives with a counterparty.

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

	Three months ended September 30,		Nine months ended September 30,	
	2026	2025	2026	2025
	$	$	$	$
Gains (losses) on financial derivatives:				
- realized gains (losses)	589	(134)	(16,742)	(4,022)
- unrealized gains (losses) (1)	(75)	(1,181)	1,940	(1,585)
Gains (losses) on financial derivatives	514	(1,315)	(14,802)	(5,607)

(1) Included in the three and nine months ended September 30, 2026, is a $353 thousand unrealized loss for certain inventory recorded at fair value.

The following table summarizes the fair value as at September 30, 2026 and the change in fair value for the nine months ended September 30, 2026:

	Commodity contracts
	$
Net financial derivative liability, beginning of period	(832)
Unrealized change in fair value	2,293
Net financial derivative receivable, end of period	1,461

The fair value of the net financial derivative receivable related to the Company's commodity contracts of $1.5 million as at September 30, 2026 is based on estimated future natural gas and oil prices as of that date. The fair values of these financial derivative commodity contracts are sensitive to changes in the natural gas and oil reference prices. Holding other assumptions constant, if the AECO 5A and AGT price increased by 10% and

the WCS differential to WTI decreased by 10%, the fair value of the net financial derivative receivable would decrease by $2.0 million.

ii) Foreign currency risk

The Company is exposed to fluctuations in the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing and from exposure to its U.S. dollar denominated WCS commodity contracts. Headwater may decide to mitigate a portion of this risk by periodically entering into foreign exchange contracts. As at September 30, 2026, Headwater did not have any foreign exchange contracts outstanding.

Fair Value Measurement

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

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

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

iii) Credit risk

At September 30, 2026, the expected credit loss on the Company's accounts receivable was $nil. The Company's receivables of $88.5 million consisted of $88.0 million (December 31, 2025 - $52.2 million) from crude oil and natural gas marketers, $0.3 million from commodity contract counterparties (December 31, 2025 - $nil) and $0.2 million (December 31, 2025 - $0.8 million) from joint venture partners. With the exception of amounts outstanding from the Company's joint venture partners, trade receivables generally have a 30-day term. The majority of receivables have been collected subsequent to September 30, 2026.

iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through its working capital and an actively managed operating and capital expenditure budgeting process. As at September 30, 2026, the Company was holding cash of $120.8 million.

Credit Facilities

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

As at September 30, 2026, Headwater had not drawn on the credit facility.

The credit facilities have a revolving period of two years, extendible annually at the request of the Company, subject to approval of the Lenders. The next scheduled borrowing base redetermination is to occur by May 31, 2027. The credit facilities are secured by a demand debenture in the amount of $500 million. Principal repayments are not required until the maturity date, provided that the borrowings under the credit facilities 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 of Directors approved distributions policy.

b) Management of capital

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

During the nine months ended September 30, 2026, the Company declared $83.2 million related to its quarterly cash dividend (year ended December 31, 2025 – $104.7 million). The Company increased its quarterly cash dividend to $0.12 per common share, from $0.11 per common share, effective for the dividend paid on July 15, 2026 to shareholders of record at the close of business on June 30, 2026.

On May 11, 2026, Headwater announced that it received TSX approval for the renewal of its normal course issuer bid ("NCIB"). The renewed NCIB allows Headwater to purchase for cancellation up to 22,287,602 common shares during the one-year period commencing on May 13, 2026. During the three and nine months ended September 30, 2026, Headwater did not purchase any common shares under its NCIB.

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

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

i) Adjusted working capital

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

	As at September 30, 2026	As at December 31, 2025
	$	$
Working capital	20,385	29,951
Repayable contribution	-	(7,202)
Financial derivative receivable	(2,052)	(393)
Financial derivative liability	589	1,225
Adjusted working capital	18,922	23,581

ii) Adjusted funds flow from operations

Management considers adjusted funds flow from operations to be a key measure to assess the Company's management of capital. Adjusted funds flow from operations is an indicator as to whether adjustments are necessary to the level of capital expenditures. For example, in periods where adjusted funds flow from operations is negatively impacted by reduced commodity pricing, capital expenditures may need to be reduced or curtailed to preserve the Company's capital structure and return of capital policy. Management believes that by excluding the impact of changes in non-cash working capital, transaction costs and restricted cash 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 September 30,		Nine months ended September 30,	
	2026	2025	2026	2025
	$	$	$	$
Cash flows provided by operating activities	123,422	85,861	298,057	224,469
Changes in non-cash working capital	8,465	(5,181)	48,818	5,829
Current income taxes	(20,045)	(10,591)	(41,125)	(31,044)
Income taxes paid, net	2,509	10,305	23,709	45,717
Transaction costs	3,593	-	3,593	-
Restricted cash	-	-	-	2,000
Adjusted funds flow from operations	117,944	80,394	333,052	246,971

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

13. ARRANGEMENT AGREEMENT

On September 7, 2026, Headwater and Tamarack entered into an arrangement agreement (the "Arrangement Agreement") pursuant to which the companies will complete an all-stock business combination (the "Transaction"). In connection with the Transaction, certain assets of Headwater and Tamarack, including Headwater's Mannville exploration assets in Alberta, thermal heavy oil opportunities in Saskatchewan and natural gas assets in New Brunswick, will be transferred to Tributary Exploration Inc. ("Tributary"), a newly formed exploration and development company that is expected to be publicly listed.

Pursuant to the Transaction, Tamarack will acquire all of the issued and outstanding common shares of Headwater. Headwater shareholders (other than dissenting shareholders) will receive, for each Headwater common share held, one common share of Tamarack, approximately 0.33 of a common share of Tributary (each whole share, a "Tributary Share") and approximately 0.20 of a Tributary Share purchase warrant (each, a "Tributary Arrangement Warrant"), in each case before giving effect to the five-to-one consolidation (the "Consolidation") of the Tributary Shares to be completed under the Transaction. On a post-Consolidation basis, each Tributary Arrangement Warrant will be exercisable for one Tributary Share at a price of $2.10 (equivalent to $0.42 a Tributary Share on pre-Consolidation basis) for a period of 60 days following the effective date of the Transaction. Tamarack shareholders will also receive Tributary Shares under the Transaction. Concurrently with the Transaction, Tributary intends to complete a non-brokered private placement of units of Tributary for gross proceeds of up to $30 million.

Following completion of the Transaction, the current management team of Headwater will become the management team of Tributary and the board of directors of Tributary will consist of current members of the Board of Directors of the Company (the "Board"). Tamarack will continue to be managed by the existing management team of Tamarack with two existing members of the Board becoming members of the board of directors of Tamarack.

The Transaction will be completed by way of a plan of arrangement under the Business Corporations Act (Alberta) and remains subject to shareholder and court approvals, as well as other customary closing conditions. The special meetings of Headwater and Tamarack shareholders to consider the Transaction are scheduled for November 18, 2026, and closing of the Transaction is expected to occur on November 19, 2026, subject to satisfaction or waiver of the applicable closing conditions.