

# **Headwater Exploration Inc. Announces Third Quarter Operating And Financial Results, Declaration Of Quarterly Dividend And Update To 2024 Guidance**

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CALGARY, Nov. 7, 2024 - [Headwater Exploration Inc.](#) (the "Company" or "Headwater") (TSX: HWX) is pleased to announce operating and financial results for the three and nine months ended September 30, 2024, declaration of quarterly dividend update to 2024 guidance. Selected financial and operational information is outlined below and should be read in conjunction with the unaudited condensed interim financial statements and the related management's discussion and analysis ("MD&A") filings will be available at [www.sedarplus.ca](http://www.sedarplus.ca) and the Company's website at [www.headwaterexp.com](http://www.headwaterexp.com).

### Financial and Operating Highlights

	Three months ended		Percent Change	Nine months ended		Percent Change
	September 30,			September 30,		
	2024	2023		2024	2023	
Financial (thousands of dollars except share data)						
Sales, net of blending <sup>(1)</sup> <sup>(4)</sup>	151,740	144,003	5	436,163	351,133	24
Adjusted funds flow from operations <sup>(2)</sup>	84,185	80,887	4	248,654	206,279	21
Per share - basic <sup>(3)</sup>	0.35	0.34	3	1.05	0.88	19
- diluted <sup>(3)</sup>	0.35	0.34	3	1.04	0.87	20
Cash flows provided by operating activities	95,272	85,568	11	240,721	212,626	13
Per share - basic	0.40	0.36	11	1.02	0.90	13
- diluted	0.40	0.36	11	1.01	0.90	12
Net income	47,634	49,677	(4)	139,121	110,603	26
Per share - basic	0.20	0.21	(5)	0.59	0.47	26
- diluted	0.20	0.21	(5)	0.58	0.47	23
Capital expenditures <sup>(1)</sup>	58,196	70,208	(17)	174,180	203,796	(15)
Adjusted working capital <sup>(2)</sup>				64,411	35,921	79
Shareholders' equity				684,486	587,380	17
Dividends declared	23,767	23,638	1	71,261	70,763	1
Per share	0.10	0.10	-	0.30	0.30	-
Weighted average shares (thousands)						
Basic	237,484	236,191	1	236,285	235,305	-
Diluted	239,735	239,167	-	238,427	237,683	-
Shares outstanding, end of period (thousands)						
Basic				237,665	236,384	1
Diluted <sup>(5)</sup>				241,115	241,175	-
Operating (6:1 boe conversion)						

## Average daily production

Heavy crude oil (bbls/d)	19,718	16,902	17	18,689	15,775	18
Natural gas (mmcf/d)	3.4	6.1	(44)	6.8	9.1	(25)
Natural gas liquids (bbl/d)	64	103	(38)	72	100	(28)
Barrels of oil equivalent <sup>(9)</sup> (boe/d)	20,342	18,027	13	19,890	17,398	14
Average daily sales <sup>(6)</sup> (boe/d)	20,329	17,862	14	19,850	17,331	15

Netbacks (\$/boe) <sup>(3)</sup> <sup>(7)</sup>

## Operating

Sales, net of blending <sup>(4)</sup>	81.13	87.63	(7)	80.19	74.22	8
Royalties	(15.74)	(16.26)	(3)	(14.88)	(13.06)	14
Transportation	(5.90)	(5.32)	11	(5.60)	(5.43)	3
Production expenses	(7.46)	(7.43)	-	(7.25)	(7.11)	2
Operating netback <sup>(3)</sup>	52.03	58.62	(11)	52.46	48.62	8
Realized gains on financial derivatives	0.18	0.18	-	1.04	1.66	(37)
Operating netback, including financial derivatives <sup>(3)</sup>	52.21	58.80	(11)	53.50	50.28	6
General and administrative expense	(1.42)	(1.52)	(7)	(1.46)	(1.46)	-
(1) Non-GAAP financial measure. Refer to "Non-GAAP and Other Financial Measures" within this press release. Interest income and other <sup>(8)</sup>	0.76	0.85	(11)	0.84	0.98	(14)
(2) Capital management measure. Refer to "Non-GAAP and Other Financial Measures" within this press release. Current tax expense	(6.54)	(8.91)	(27)	(7.14)	(6.20)	15
Settlement of decommissioning liability				(0.02)		100
(3) Non-GAAP ratio. Refer to "Non-GAAP and Other Financial Measures" within this press release.						
Adjusted funds flow netback <sup>(3)</sup>	45.01	49.22	(9)	45.72	43.60	5

(4) Total sales are netted with blending expense to compare the realized price to benchmark pricing while transportation expense is shown separately. In the interim financial statements blending expense is recorded within blending and transportation expense.

(5) In-the-money dilutive instruments as at September 30, 2024 includes 0.5 million stock options with a weighted average exercise price of \$4.49 and 3.0 million performance share units ("PSU's"). The number of outstanding PSUs has been adjusted for dividends. Restricted Share Units have been excluded as the Company intends to cash settle these awards.

(6) Includes sales of unblended heavy crude oil, natural gas and natural gas liquids. The Company's heavy crude oil sales volumes and production volumes differ due to changes in inventory.

(7) Netbacks are calculated using average sales volumes. For the three months ended September 30, 2024, sales volumes comprised of 19,706 bbls/d of heavy oil, 3.4 mmcf/d of natural gas and 64 bbls/d of natural gas liquids (2023- 16,738 bbls/d, 6.1 mmcf/d and 103 bbls/d). For the nine months ended September 30, 2024, sales volumes comprised of 18,648 bbls/d of heavy oil, 6.8 mmcf/d of natural gas and 72 bbls/d of natural gas liquids (2023- 15,709 bbls/d, 9.1 mmcf/d and 100 bbls/d).

(8) Excludes unrealized foreign exchange gains/losses, accretion on decommissioning liabilities, interest on lease liability and interest on repayable contribution.

(9) See "Barrels of Oil Equivalent".

HIGHLIGHTS FOR THREE MONTHS ENDED SEPTEMBER 30, 2024

- Achieved record production averaging 20,342 boe/d (consisting of 19,718 bbls/d heavy oil, 3.4 mmcf/d natural gas liquids), representing an increase of 13% from the third quarter of 2023.
- Realized adjusted funds flow from operations <sup>(1)</sup> of \$84.2 million (\$0.35 per share basic <sup>(2)</sup>) and cash flows from operations of \$95.3 million (\$0.40 per share basic).
- Achieved an operating netback, including financial derivatives <sup>(2)</sup> of \$52.21/boe and an adjusted funds flow netback of \$45.01/boe.
- Achieved net income of \$47.6 million (\$0.20 per share basic) equating to \$25.47/boe.
- Executed a \$58.2 million capital expenditure <sup>(3)</sup> program drilling 18 multi-lateral crude oil wells and 2 injection wells in Marten Hills West and multi-lateral exploration tests in both Little Horse and Clay at a 100% success rate.
- Generated free cash flow <sup>(3)</sup> of \$26.0 million.
- Returned \$23.8 million, or \$0.10/common share, to shareholders through Headwater's quarterly dividend.
- As at September 30, 2024, Headwater had adjusted working capital <sup>(1)</sup> of \$64.4 million, working capital of \$74.9 million and no outstanding bank debt.

(1) Capital management measure. Refer to "Non-GAAP and Other Financial Measures" within this press release.

(2) Non-GAAP ratio. Refer to "Non-GAAP and Other Financial Measures" within this press release.

(3) Non-GAAP financial measure. Refer to "Non-GAAP and Other Financial Measures" within this press release.

## OPERATIONS UPDATE

### Marten Hills West

In the third quarter of 2024, Headwater drilled 18 successful multi-lateral wells in Marten Hills West.

The Clearwater E pool was discovered with our first test in January 2024. Inclusive of three pool extension wells drilled in the third quarter of 2024, production associated with the Clearwater E pool has risen from zero in January 2024 to current rates in excess of 750 bbls/d. The six producing wells have tested the regional extent of the pool which is now estimated to exist on over 100,000 acres of Headwater lands.

Select results from the recently drilled Clearwater E wells include the 00/13-07-075-01W5 well, the most southern Clearwater E extension well which achieved a 30-day initial production rate of 240 bbls/d of 21 API oil. The 04/16-13-075-02W5 well, the western Clearwater E extension well achieved a 30-day initial production rate of 209 bbls/d of 21 API oil and the 00/13-16-075-01W5 well, our most eastern Clearwater E extension well provided strong reservoir indications while drilling and is currently recovering load fluid.

Reservoir and oil quality from the Clearwater E creates a highly amenable environment for secondary recovery. As a result, Headwater has initiated two secondary recovery pilots. The 03/16-07-075-01W5 well has been on injection for 60 days with injection rates and the 05/16-07-075-01W5 well was commissioned for injection late in October. Both of these waterfloods are designed as lateral waterfloods similar to those initiated by our peers in the Nipisi area. Expansion of the waterflood in the Clearwater E is expected to occur concurrently with the development of the pool.

The Clearwater sandstone, the primary producing zone in Marten Hills West, continues to produce at rates in excess of 750 bbls/d. The third quarter was also characterized by additional successful step outs in this zone. The 02/12-18-075-01W5 well achieved a 30-day initial production rate of 300 bbls/d and the 00/11-10-075-01W5 well achieved a 15-day initial production rate of 250 bbls/d, providing further validation of the Clearwater sandstone eastern boundary expansion.

Results from the Marten Hills West first full section secondary recovery pilot continues to show strong initial performance. Oil rates were increased from 300 bbls/d in March 2024 to the current rates of approximately 900 bbls/d resulting in an immediate response in the gas oil ratio which have decreased by over 50% in the last seven months. Oil rates within the pilot continue to be stable at 260 bbls/d, with early indications of improving oil rates in some wells within the pilot. Headwater has initiated the start of our second full section secondary recovery pilot at 22-75-02W5, which is expected to be commissioned later in the fourth quarter of 2024.

### Marten Hills Core

Secondary recovery in the Marten Hills Core continues to show tremendous results. Despite the decline associated with

unsupported sections, the core area's production has remained flat at rates in excess of 7,000 bbls/d for the last 11 months. Headwater is currently in the process of converting two additional sections to secondary recovery. By year-end, 8 of the sections will be supported by injection.

To date, it is estimated that the implementation of secondary recovery has reduced our corporate decline rates by approximately 5% and maintenance capital requirements by approximately \$25 million per year.

### Greater Nipisi

Headwater is excited to report results from our first exploration well targeting the Bluesky formation on the 49 section L area of Greater Nipisi. The 00/16-29-076-14W5 well, a 12-leg multi-lateral, has achieved a 30-day initial production rate of 15 bbls/d of 15 API oil. This successful exploration test validates a new Bluesky pool estimated to be 15-20 sections in size. A follow-up exploration well will test an additional identified Bluesky prospect on the 20 section northern block in the first quarter of 2025.

### Handel Saskatchewan

Headwater is currently conducting a 3D seismic shoot over the Handel lands which is anticipated to finish prior to year-end. The data will be processed in the first quarter of 2025, establishing the next multi-lateral targets expected to be drilled in the second quarter of 2025.

### Clay

At Clay, in the greater Bonnyville area, Headwater drilled and recently brought on production a 7-leg multi-lateral well targeting the McLaren formation. The 00/04-15-059-13W4 well achieved a 30-day initial production rate of 205 bbls/d of 16 API oil.

### Exploration and Land Update

With the addition of 10.9 net sections of Clearwater land in the third quarter, Headwater now has a total of 539 sections of Clearwater fairway. Additionally, we have 192.5 net sections of land in oil prospective fairways outside of the Clearwater fairway.

### McCully Update

McCully is scheduled to be placed back on production at the beginning of December. We have hedged approximately 80% of McCully's estimated December 2024 to April 2025 production at a price of Cdn\$11.58/mmbtu. The aggressive hedging at McCully provides consistency in the free cash flow <sup>(1)</sup> which is expected to be approximately \$12 million over this winter season <sup>(2)</sup>.

(1) Non-GAAP financial measure. Refer to "Non-GAAP and Other Financial Measures" within this press release.

(2) McCully's winter season is estimated to be December 2024 to April 2025.

### 2024 GUIDANCE UPDATE

Headwater has increased its 2024 annual average production guidance from 20,000 to 20,250 boe/d. Given strong results over the past 2 years, the Board of Directors has approved a \$20 million increase to the Company's 2024 capital expenditures to support secondary recovery projects in Marten Hills West. This capital will continue to stabilize and add duration to corporate cash flow. The Company intends to release its 2025 capital budget in December.

	2024 Guidance as released on March 9, 2024	Updated 2024 Guidance
2024 annual average production (boe/d)	20,000	20,250
Fourth Quarter daily production	21,500	21,500
Capital expenditures <sup>(1)</sup>	\$200 million	\$220 million
Comprised of:		
Development capital	\$135 million	\$135 million
Land	\$20 million	\$25 million
Exploration and enhanced oil recovery	\$45 million	\$60 million
WTI	US\$76.25/bbl	US\$75.33/bbl
WCS	Cdn\$83.88/bbl	Cdn\$82.98/bbl
Adjusted funds flow from operations <sup>(2)</sup>	\$319 million	\$326 million
Exit adjusted working capital <sup>(2)(3)</sup>	\$86 million	\$60 million
Quarterly dividend	\$0.10/common share	\$0.10/common share

(1) Non-GAAP financial measure. Refer to "Non-GAAP and Other Financial Measures" within this press release.

(2) Capital management measure. Refer to "Non-GAAP and Other Financial Measures" within this press release.

(3) Reflects the Board approved change to cash settle the Company's outstanding performance share units.

(4) For assumptions utilized in the above guidance see "Future Oriented Financial Information" within this press release.

#### FOURTH QUARTER DIVIDEND

The Board of Directors of Headwater has declared a quarterly cash dividend to shareholders of \$0.10 per common share payable on January 15, 2025, to shareholders of record at the close of business on December 31, 2024. This dividend is an eligible dividend for the purposes of the Income Tax Act (Canada).

Headwater remains committed to delivering long term top quartile returns through growth and return of capital. Additional corporate information can be found in the Company's corporate presentation and on Headwater's website at [www.headwaterexp.com](http://www.headwaterexp.com).

**FORWARD LOOKING STATEMENTS:** This press release contains forward-looking statements. The use of any of the words "guidance", "initial", "anticipate", "scheduled", "can", "will", "prior to", "estimate", "believe", "potential", "should", "unaudited", "forecast", "future", "continue", "may", "expect", "project", and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained herein, include, without limitation: expectations that the Company will cash settle its restricted share units; the Company's 2024 guidance related to expected annual average production, fourth quarter daily production; capital expenditures and the breakdown thereof and the expectation that this capital will continue to stabilize and add duration to corporate cash flows, adjusted funds flow from operations, dividends and exit adjusted working capital and the expectation to cash settle its performance share units, and the expectation that the increased capital expenditures will be used to accelerate the implementation of additional secondary recovery; the estimated size of certain of the Company's pools; the expectation that the expansion of the waterflood in the Clearwater E is expected to occur concurrently with the development of the pool; the expectation that the secondary pilot of 22-75-02W5 will be commissioned later in the fourth quarter of 2024; the expectation that the Company's 2025 budget will be released in December; the expectation that secondary development will continue to decrease corporate decline rates and maintenance capital

requirements; anticipated reductions in decline rates and maintenance capital requirements as a result of the implementation of secondary recovery at Marten Hills Core; the expectation that a follow-up exploration well will test an additional identified Bluesky prospect on the 20 section northern block in the first quarter of 2025; the expectation that the Company will complete a 3D seismic shoot in Handel Saskatchewan prior to year-end and that data will be processed in the first quarter of 2025, establishing the next multi-lateral targets expected to be drilled in the second half of 2025; the expectation around timing of the McCully startup and the expectation that it will generate \$12 million of free cash flow over the winter season; the anticipated terms of the Company's quarterly dividend, including its expectation that it will be designated as an "eligible dividend"; and the expectation that Headwater is committed to delivering long term top quartile returns through growth and return of capital. The forward-looking statements contained herein are based on certain key expectations and assumptions made by the Company, including but not limited to expectations and assumptions concerning the success of optimization and efficiency improvement projects, the availability of capital, current legislation, receipt of required regulatory approvals, the success of future drilling, development and waterflooding activities, the performance of existing wells, the performance of new wells, Headwater's growth strategy, general economic conditions, availability of required equipment and services, prevailing equipment and services costs, 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. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; risks associated with wildfires in areas in which the Company operates including safety of personnel, asset integrity and potential disruption of operations which could affect the Company's results, business, financial conditions or liquidity; disruptions to the Canadian and global economy resulting from major public health events, the Russian-Ukrainian war and the middle-eastern conflict involving various nations and the impact on the global economy and commodity prices; the impacts of inflation and supply chain issues and steps taken by central banks to curb inflation; pandemics, war, terrorist events, political upheavals and other similar events; events impacting the supply and demand for oil and gas including actions taken by the OPEC + group; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks); commodity price and exchange rate fluctuations; changes in legislation affecting the oil and gas industry; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the risk that Headwater's 2024 operating and financial results may not be consistent with its expectations; the risk that Headwater may not be opportunistic in future accretive acquisitions, land expansion and exploration; the risk that Headwater may not deliver long term top quartile returns through growth and return of capital; the risk that the Company's additional secondary recovery may not lead to the benefits anticipated; and the risk that the Company's pools may be smaller than anticipated. Refer to Headwater's most recent Annual Information Form dated March 7, 2024, on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca), and the risk factors contained therein.

**FUTURE ORIENTED FINANCIAL INFORMATION:** This press release contains information that may be considered a financial outlook or future-oriented financial information under applicable securities laws including: the Company's 2024 guidance related to capital expenditures and the breakdown thereof, adjusted funds flow from operations, dividends and exit adjusted working capital; the expectation that the McCully startup will generate \$12 million of free cash flow over the winter season; and the anticipated terms of the Company's quarterly dividend, including its expectation that it will be designated as an "eligible dividend". Any financial outlook or future oriented financial information in this press release, 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 2024 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 2024 guidance include: annual average production of 20,250 boe/d, WTI of US\$75.33/bbl, WCS of Cdn\$82.98/bbl, AGT US\$4.60/mmbtu, AECO of Cdn\$1.46/GJ, foreign exchange rate of Cdn\$/US\$ of 0.73, blending expense of WCS less \$2.20, royalty rate of 19.0%, operating and transportation costs of \$13.45/boe, G&A and interest income and other expense of \$1.30/boe and cash taxes of \$6.85/boe. The AGT price is the average price for the winter producing months in the McCully field which include January to April and November to December. Q4 2024 production guidance comprised of: 20,250 bbls/d of heavy oil, 40 bbls/d of natural gas liquids and 7.3 mmcf/d of natural gas. 2024 annual production guidance comprised of: 19,051 bbls/d of heavy oil, 64 bbls/d of natural gas liquids and 7.1 mmcf/d of natural gas.

**DIVIDEND POLICY:** The amount of future cash dividends paid by the Company, if any, will be subject to the discretion of the Board of Directors of the Company 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 dividend policy from time to time and, as a result, future cash dividends could be reduced or suspended entirely.

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

**INITIAL PRODUCTION RATES:** References in this press release to IP rates, other short-term production rates or initial performance measures relating to new wells are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. All IP rates presented herein represent the results from wells after all "load" fluids (used in well completion stimulation) have been recovered. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. Accordingly, the Company cautions that the test results should be considered to be preliminary.

#### NON-GAAP AND OTHER FINANCIAL MEASURES

In this press release, we use 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 issuers. The term cash flow in this press release is equivalent to adjusted funds flow from operations.

#### Non-GAAP Financial Measures

##### Total sales, net of blending

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		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
	(thousands of dollars)		(thousands of dollars)	
Total sales	158,382	149,632	456,697	372,808
Blending expense	(6,642)	(5,629)	(20,534)	(21,675)
Total sales, net of blending expense	151,740	144,003	436,163	351,133
Capital expenditures				

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
	(thousands of dollars)		(thousands of dollars)	
Cash flows used in investing activities	63,136	62,030	180,920	188,998
Proceeds from government grant	-	-	354	-
Change in non-cash working capital	(4,940)	8,178	(7,094)	14,798
Capital expenditures	58,196	70,208	174,180	203,796
Free cash flow				

Management utilizes free cash flow to assess the amount of funds available for future capital allocation decisions. It is calculated as adjusted funds flow from operations net of capital expenditures before dividends.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
	(thousands of dollars)		(thousands of dollars)	
Adjusted funds flow from operations	84,185	80,887	248,654	206,279
Capital expenditures	(58,196)	(70,208)	(174,180)	(203,796)
Free cash flow	25,989	10,679	74,474	2,483

#### 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 and dividend policy. Management believes that by excluding the impact of changes in non-cash working capital and adjusting for current income taxes in the period, adjusted funds flow from operations provides a useful measure of Headwater's ability to generate the funds necessary to manage the capital needs of the Company.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
	(thousands of dollars)		(thousands of dollars)	
Cash flows provided by operating activities	95,272	85,568	240,721	212,626
Changes in non-cash working capital	(9,092)	5,618	(2,678)	(1,663)
Current income taxes	(12,223)	(14,647)	(38,848)	(29,322)
Current income taxes paid	10,228	4,348	49,459	24,638
Adjusted funds flow from operations	84,185	80,887	248,654	206,279
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.

	As at	As at
	September 30, 2024	December 31, 2023
	(thousands of dollars)	
Working capital	74,925	78,610
Repayable contribution	(10,713)	(11,405)
Financial derivative receivable	(921)	(3,758)
Financial derivative liability	1,120	79
Adjusted working capital	64,411	63,526

#### 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 from operations per share

Adjusted funds flow from operations per share is a non-GAAP ratio and is 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 on a basic or diluted basis.

Supplementary Financial Measures

Per boe numbers

This press release represents various results on a per boe basis including sales, net of blending boe, realized gains (losses) on financial derivatives per boe, royalty expense per boe, transportation expense per boe, production expense per boe, general and administrative expenses per boe, interest income and other expense per boe, current taxes per boe, settlement of decommissioning liability expense per boe and net income per boe. These figures are calculated using sales volumes.

SOURCE Headwater Exploration Inc.

#### Contact

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