

Headwater Exploration Inc. Announces 2026 Budget And Operations Update

04.12.2025 | [CNW](#)

[Headwater Exploration Inc.](#) (the "Company" or "Headwater") (TSX: HWX) is pleased to announce its preliminary 2026 budget and provide an operations update.

PRELIMINARY 2026 BUDGET

The 2026 budget is a continuation of the momentum generated in 2025 through secondary recovery success in addition to discoveries in the Grand Rapids formation in Marten Hills West and in the Wabiskaw formation in Greater Pelican. The Company has approved an initial 2026 budget as outlined below.

- Capital expenditures ⁽¹⁾ of \$185 million
 - Maintenance and Growth Capital - \$110 million
 - Secondary Recovery Capital - \$50 million
 - Exploration Capital - \$25 million
- Quarterly dividend of \$0.11/common share representing an approximate 5.0% yield ⁽³⁾
- Annual production of 24,500 boe/d representing 8% year over year production per share growth
- Adjusted funds flow from operations ⁽²⁾ of \$300 million at US\$60.00/bbl WTI

The 2026 budget is expected to generate 8% production per share growth at a 37% re-investment rate ⁽⁴⁾ of adjusted funds flow from operations at US\$60.00/bbl WTI, while paying a \$0.44/common share annual dividend and maintaining positive 2026 adjusted working capital.

(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) Calculated based on the closing trading price of \$9.08 per common share on the Toronto Stock Exchange on December 2, 2025. Supplementary financial measure. Refer to "Non-GAAP and Other Financial Measures" within this press release.

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

OPERATIONS UPDATE Refer to the above guidance see "Guidance and Future Oriented Financial Information" within this press release.

Greater Pelican

Since moving a rig back into the Greater Pelican area late October, Headwater has drilled exploration tests in the Wabiskaw and Clearwater E formations in addition to two development and two injection wells following up on our initial discovery at 04/04-19-079-22W4, which has achieved a 210-day initial production rate of 495 bbls/d.

The two follow-up development wells at 03/14-31-079-22W4 and 03/03-19-079-22W4 were drilled as 4-leg multi-lateral wells and encountered comparable reservoir quality to the discovery well at 04-19. They have recently been placed on production and will become the first two polymer pilots to be commissioned mid-December. In addition, the two dedicated single lateral polymer injection wells have been successfully drilled and are ready for injection.

The Wabiskaw exploration test, a 6-leg multi-lateral drilled at 00/13-34-079-23W4 encountered excellent reservoir quality and has recently finished load fluid recovery. The Clearwater E exploration test drilled as a 6-leg multi-lateral at

00/04-09-080-23W4 has been placed on production and is currently recovering load fluid.

Secondary Recovery

Year to date, Headwater has implemented secondary recovery across 4.5 sections of the Clearwater sandstone pool and 1.5 sections of the Clearwater E pool. In addition, Headwater has commenced implementation of two Grand Rapids waterfloods and two Wabiskaw polymer pilots.

In aggregate, 11,000 bbls/d of production is now supported representing more than 50% of the Company's oil production. Secondary recovery efforts to date have reduced corporate decline rates by more than 10%, resulting in a realized 30% reduction in maintenance capital.

In 2026, Headwater intends to spend \$50 million on secondary recovery to continue enhancing our asset duration. By year end 2026, it is estimated 60% of Headwater's corporate oil production will be supported by secondary recovery. This is expected to reduce corporate declines to under 20% and maintenance capital to less than 30% of adjusted funds flow from operations at US\$60 WTI.

Exploration and Land

In 2025, Headwater tested 10 play concepts and added 140 sections of land. The successful exploration program has identified a new core area and a meaningful discovery in the Greater Pelican area, in addition to unlocking the Grand Rapids as an additional stacked reservoir in Marten Hills West.

These successful outcomes are substantial value creators for our shareholders. Since inception, our exploration efforts have resulted in new discoveries that have added in excess of 15,000 bbls/d to our corporate production. The team is excited to continue to create value through our exploration efforts. In 2026, we anticipate spending \$25 million testing 8-10 new play concepts through a combination of stratigraphic tests and multi-lateral wells. The exploration program will test undrilled prospects in Marten Hills and Greater Pelican in addition to new play concepts on undisclosed lands.

McCully

McCully was placed back on production December 1, 2025, to align with our aggressive hedging profile. We have hedged approximately 77% of McCully's estimated December 2025 to April 2026 production at a price of Cdn\$14.85/mmbtu. The aggressive hedging profile used at McCully provides consistency in the cashflow ⁽¹⁾ which is expected to be approximately \$100 million over this winter season ⁽²⁾.

(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 2025 to April 2026.

NCIB UPDATE

To date, Headwater has bought back approximately 1.0 million common shares for cancellation at an average price of \$14.85 per common share.

OUTLOOK

A highly flexible capital budget, strong balance sheet and the short cycle time of adding additional growth with the drill bit allows Headwater to react quickly to changing market conditions.

With a track record of strong capital allocation, Headwater remains focused on maximizing duration and shareholder return through organic expansion, secondary recovery, dividends and strategic buybacks.

Additional corporate information can be found in the Company's corporate presentation and on Headwater's website.

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, 2026 guidance related to expected annual average production, expected capital expenditures and the breakdown thereof, expected adjusted funds flow from operations and expected dividends; the expectation to generate 8% production per share growth at a 37% re-investment of adjusted funds flow from operations at US\$60.00/bbl WTI while paying a \$0.44/common share annual dividend and maintain positive exit adjusted working capital; the expected timing of commissioning of the Greater Pelican polymer pilots; secondary recovery plans in 2026 including the expectation to have 60% of corporate oil production supported by year end 2026 re-investment; corporate declines to under 20% and maintenance capital to less than 30% of adjusted funds flow from operations at US\$60.00/bbl WTI; the expectation to spend \$25 million testing 8-10 new play concepts through a combination of stratigraphic tests and microseismic tests and the expectation the exploration program will test undrilled prospects in Marten Hills and Greater Pelican in addition to new play concepts on undisclosed lands; and the expected cashflow generation from McCully over the upcoming winter season. The forward-looking statements contained herein are based on certain key expectations and assumptions made by the Company, which, in addition to the assumptions identified herein, also include but are not limited to, expectations and assumptions concerning the success of optimization and efficiency improvement projects, the availability of capital, current legislation and 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 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. 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; disruptions to the Canadian and global economy resulting from major public health events, international conflicts and the impacts on the global economy and commodity prices; the impacts of inflation and supply chain issues and steps taken by central banks to curb inflation; 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 and 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 and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures and risks associated with wildfires including the safety of personnel, asset integrity and potential disruption of operations which could affect the Company's results, business operations, financial conditions or liquidity. Refer to Headwater's most recent Annual Information Form dated March 13, 2025, on SEDAR at www.sedarplus.ca, and the risk factors contained therein.

GUIDANCE AND FUTURE ORIENTED FINANCIAL INFORMATION: 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 prospectus financial information as to the anticipated results of its proposed business activities for 2026 have 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 100,000 boe/d, WTI of US\$60.00/bbl, WCS of Cdn\$67.00/bbl, AGT US\$10.60/mmbtu, AECO of \$3.10 CAD/GJ, foreign exchange rate of US\$/Cdn\$ of 0.72, blending expense of WCS less \$1.10, royalty rate of 17.2%, operating and transportation costs of \$1.50/boe, G&A and interest expense of \$1.60/boe and cash taxes of \$3.30/boe. The AGT price is the average price for the winter months in the McCully field which include January to April and December. 2026 annual production guidance is expected to be comprised of: 22,500 bbls/d of heavy oil, 120 bbls/d of natural gas liquids and 11.3 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 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 determine 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) or "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 equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. A

given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from 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 initial production or "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 fractures (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 presented herein are considered to be preliminary.

NON-GAAP AND OTHER FINANCIAL MEASURES

In this press release, we refer to certain financial measures which do not have any standardized meaning prescribed by GAAP. Determinations of these measures may not be comparable with calculations of similar measures for other issuers. In addition, this press release contains the terms adjusted funds flow from operations and adjusted working capital, which are considered non-GAAP management measures. Non-GAAP and other financial measures within this press release may refer to forward-looking information. Non-GAAP and other financial measures are calculated consistently with the three months and nine months ended September 30, 2025 reconciliations as outlined below. The term cashflow in this press release is equivalent to adjusted funds flow from operations.

Non-GAAP Financial Measures

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,	
	2025	2024	2025	2024
	(thousands of dollars)		(thousands of dollars)	
Cash flows used in investing activities	62,881	63,136	166,765	180,920
Proceeds from government grant	-	-	-	354
Change in non-cash working capital	5,790	(4,940)	15,457	(7,094)
Capital expenditures	68,671	58,196	182,222	174,180

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 performance. In addition to being a capital management measure, adjusted funds flow from operations is used by management to assess the performance of the Company's oil and gas properties. Adjusted funds flow from operations is an indicator of operating performance as it varies in response to production levels and management of production and transportation costs. Management believes that eliminating changes in non-cash working capital and restricted cash and adjusting for current income taxes in the period presented, adjusted funds flow from operations is a useful measure of operating performance.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2025	2024	2025	2024
	(thousands of dollars)		(thousands of dollars)	
Cash flows provided by operating activities	85,861	95,272	224,469	240,721
Changes in non-cash working capital	(5,181)	(9,092)	5,829	(2,678)
Current income taxes	(10,591)	(12,223)	(31,044)	(38,848)
Current income taxes paid	10,305	10,228	45,717	49,459
Restricted cash	-	-	2,000	-
Adjusted funds flow from operations	80,394	84,185	246,971	248,654
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, 2025	December 31, 2024
	(thousands of dollars)	
Working capital	41,767	78,735
Repayable contribution	(7,068)	(10,916)
Financial derivative receivable	(549)	(3,088)
Financial derivative liability	2,294	2,847
Adjusted working capital	36,444	67,578

Supplementary Financial Measures

Dividend yield

Dividend yield (also referenced as yield) is a supplementary financial measure used by management to quantify how much Headwater pays out in dividends each year relative to its share price. It is calculated as the annualized dividend divided by the current trading price of the common shares of the Company on the Toronto Stock Exchange.

Reinvestment Rate

Management believes the reinvestment rate is a useful supplementary financial measure to analyze the ratio

of funds generated by the Company and used for reinvestment and is calculated as total maintenance and growth capital expenditures divided by adjusted funds flow from operations.

SOURCE Headwater Exploration Inc.

Contact

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<https://www.rohstoff-welt.de/news/714431--Headwater-Exploration-Inc.-Announces-2026-Budget-And-Operations-Update.html>

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