



November 9, 2023

HEADWATER EXPLORATION INC. ANNOUNCES THIRD QUARTER OPERATING AND FINANCIAL RESULTS, DECLARATION OF Q4 DIVIDEND AND SUCCESSION PLAN

CALGARY, ALBERTA – Headwater Exploration Inc. (the "**Company**" or "**Headwater**") (**TSX:HWX**) is pleased to announce its operating and financial results for the three and nine months ended September 30, 2023. 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**"). These filings will be available at www.sedarplus.ca and the Company's website at www.headwaterexp.com.

Financial and Operating Highlights

	Three months ended September 30,		Percent Change	Nine months ended September 30,		Percent Change
	2023	2022		2023	2022	
Financial (thousands of dollars except share data)						
Sales, net of blending ^{(1) (4)}	144,003	94,949	52	351,133	327,073	7
Adjusted funds flow from operations ⁽²⁾	80,887	58,441	38	206,279	207,899	(1)
Per share - basic	0.34	0.25	36	0.88	0.92	(4)
- diluted	0.34	0.25	36	0.87	0.89	(2)
Cash flows provided by operating activities	85,568	72,060	19	212,626	217,477	(2)
Per share - basic	0.36	0.31	16	0.90	0.96	(6)
- diluted	0.36	0.30	20	0.90	0.93	(3)
Net income	49,677	31,545	57	110,603	122,320	(10)
Per share - basic	0.21	0.14	50	0.47	0.54	(13)
- diluted	0.21	0.13	62	0.47	0.53	(11)
Capital expenditures ⁽¹⁾	70,208	71,001	(1)	203,796	183,818	11
Adjusted working capital ⁽²⁾				35,921	117,967	(70)
Shareholders' equity				587,380	525,006	12
Dividends declared	23,638	-	100	70,763	-	100
Per share	0.10	-	100	0.30	-	100
Weighted average shares (thousands)						
Basic	236,191	229,909	3	235,305	225,794	4
Diluted	239,167	236,658	1	237,683	232,984	2
Shares outstanding, end of period (thousands)						
Basic				236,384	229,911	3
Diluted ⁽⁵⁾				241,175	241,593	-
Operating (6:1 boe conversion)						
Average daily production						
Heavy crude oil (bbls/d)	16,902	10,842	56	15,775	10,695	47
Natural gas (mmcf/d)	6.1	4.3	42	9.1	7.2	26
Natural gas liquids (bbl/d)	103	55	87	100	43	133
Barrels of oil equivalent ⁽⁹⁾ (boe/d)	18,027	11,612	55	17,398	11,929	46
Average daily sales ⁽⁶⁾ (boe/d)	17,862	11,680	53	17,331	11,925	45
Netbacks (\$/boe) ^{(3) (7)}						
Operating						
Sales, net of blending ⁽⁴⁾	87.63	88.36	(1)	74.22	100.46	(26)
Royalties	(16.26)	(21.93)	(26)	(13.06)	(20.21)	(35)
Transportation	(5.32)	(3.94)	35	(5.43)	(4.31)	26
Production expenses	(7.43)	(5.95)	25	(7.11)	(5.79)	23
Operating netback ⁽³⁾	58.62	56.54	4	48.62	70.15	(31)
Realized gains (losses) on financial derivatives	0.18	-	100	1.66	(1.29)	(229)
Operating netback, including financial derivatives ⁽³⁾	58.80	56.54	4	50.28	68.86	(27)
General and administrative expense	(1.52)	(1.46)	4	(1.46)	(1.49)	(2)
Interest income and other ⁽⁸⁾	0.85	1.18	(28)	0.98	0.58	69
Current tax expense	(8.91)	(1.87)	376	(6.20)	(4.09)	52
Adjusted funds flow netback ⁽³⁾	49.22	54.39	(10)	43.60	63.86	(32)

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

(4) Heavy oil 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, 2023 includes 2.8 million stock options with a weighted average exercise price of \$3.67 and 2.0 million performance share units ("PSUs"). The number of 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, 2023, sales volumes comprised of 16,738 bbls/d of heavy oil, 6.1 mmcf/d of natural gas and 103 bbls/d of natural gas liquids (2022- 10,910 bbls/d, 4.3 mmcf/d and 55 bbls/d). For the nine months ended September 30, 2023, sales volumes comprised of 15,709 bbls/d of heavy oil, 9.1 mmcf/d of natural gas and 100 bbls/d of natural gas liquids (2022- 10,690 bbls/d, 7.2 mmcf/d and 43 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, 2023

- Achieved record production averaging 18,027 boe/d (consisting of 16,902 bbls/d heavy oil, 6.1 mmcf/d natural gas and 103 bbls/d natural gas liquids), representing an increase of 55% from the third quarter of 2022.
- Realized record adjusted funds flow from operations ⁽¹⁾ of \$80.9 million (\$0.34 per share basic) and cash flows from operating activities of \$85.6 million (\$0.36 per share basic).
- Achieved an operating netback, including financial derivatives ⁽²⁾ of \$58.80/boe and an adjusted funds flow netback ⁽²⁾ of \$49.22/boe.
- Achieved record net income of \$49.7 million (\$0.21 per share basic) equating to \$30.23/boe.
- Executed a \$70.2 million capital expenditure ⁽³⁾ program focusing on development in Marten Hills West drilling a total of 26 crude oil wells in the area at a 100% success rate.
- Returned \$0.10/share to shareholders. Since announcing the Company's inaugural dividend in November 2022, Headwater has returned a total of \$0.40/share to shareholders.
- As at September 30, 2023, Headwater had adjusted working capital ⁽¹⁾ of \$35.9 million, working capital of \$43.5 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 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 press release.

(3) Non-GAAP 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 press release.

OPERATIONS UPDATE

Marten Hills West

Marten Hills West continues to be an exceptional growth engine. Production has increased from 750 bbls/d in the first quarter of 2022 to current rates greater than 10,000 bbls/d. The area has been characterized by continuous pool extensions and more recently new pool discoveries that are anticipated to add to the long-term growth profile of the area.

In the primary producing formation, the Clearwater A, continuous step out drilling has now extended the pool boundaries to include greater than 35 sections. One of the most recent wells, 03/13-04-076-02W5, achieved a 30-day initial production ("IP30") rate of 231 bbls/d which extended our known pool boundaries by a further 3 miles to the west. Additional step-out tests scheduled over the next six months have the potential to expand the pool boundaries further. The two enhanced oil recovery pilots in Marten Hills West continue to show strong results with stabilized oil rates and collapsing gas oil ratios. Due to these pilot results, Headwater will be implementing phase one of full field waterflood development with a one section flood expected to be implemented in the first half of 2024.

Development in the Clearwater B formation continued with the drilling of our first “StingWray” fan well at 02/01-03-076-03W5 which achieved an IP30 rate of 122 bbls/d. This result provides Headwater with the confidence that this 15-section pool can now be commercially developed with additional delineation wells planned for the 2024 budget.

Headwater also tested two previously untested Clearwater sands in Marten Hills West during the third quarter of 2023. The Clearwater F test at 00/14-19-076-02W5 is currently recovering load fluid at strong rates potentially validating a pool estimated to be ten sections in size. The Clearwater G at 00/02-30-075-01W5 recently came off load fluid recovery and has achieved a 15-day initial production (“IP15”) rate of 180 bbls/d validating a new pool discovery estimated to be seven sections in size. A third exploration test in the untested Clearwater E formation is currently being drilled and is expected to rig release mid-November.

Building on our sustained achievements, which encompass pool extensions and the identification of new pools, the area is now believed to be significantly larger than our Marten Hills core region. The results attained to date establish a strong foundation for ongoing growth of the area.

Marten Hills Core

Enhanced oil recovery efforts in the core continue to provide strong results with 3,000 bbls/d of stabilized oil production from the six sections currently under waterflood. To date, waterflood implementation in the core has reduced our corporate decline by approximately 5% resulting in a reduction to our annual maintenance capital of approximately \$20 million. 2024 will see further waterflood implementation across the pool to continue to improve recovery, asset duration and decrease corporate decline rates.

Seal

Three exploration wells were drilled in Seal late in the third quarter. The Fahler C was tested with the 02/13-06-083-15W5 well. The well encountered heavier oil than anticipated and has achieved an IP15 rate of 29 bbls/d. The Fahler B zone was tested with the well at 03/13-06-083-15W5. It has achieved an IP30 rate of 155 bbls/d validating a new pool discovery that covers approximately ten sections of Headwater lands. The third well was a “StingWray” fan well drilled in the Falher D horizon as a follow up test to the original discovery well at 00/13-06-83-15W5. The 00/07-07-083-15W5 “StingWray” fan recently came off load fluid recovery and has achieved a 10-day initial production rate of 150 bbls/d. Initially, this well is a 70% improvement over the discovery well at 13-06 which validates the commerciality of this pool that is estimated to cover 20 sections of Headwater lands. The favorable results of our exploration efforts during the third quarter have positioned us to embark on an ambitious program for the area's exploitation and development in 2024.

Exploration Land Update

The Headwater team continues to pursue organic growth opportunities in and beyond the Clearwater play.

Year to date we have now added 65 net sections to our Clearwater land base. In addition to our Clearwater land expansion strategy, the team has also now accumulated 141 net sections of land with multiple exploration opportunities throughout various oil prone areas in Western Canada.

Our land accumulation strategy will continue throughout these areas in 2024 and we intend to drill and test 5-7 wells on these prospects in 2024.

McCully Update

McCully is scheduled to be placed back on production at the end of November. We have hedged approximately 77% of McCully's estimated December 2023 to March 2024 production at a price of Cdn\$18.50/mcf. The aggressive hedging profile used at McCully provides consistency in the free cash flow ⁽¹⁾ profile of this asset which is expected to be approximately \$16 million over this winter season ⁽²⁾.

- (1) Non-GAAP 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 press release.
- (2) McCully's winter season is estimated to be November 2023 to April 2024.

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, 2024, to shareholders of record at the close of business on December 29, 2023. This dividend is an eligible dividend for the purposes of the Income Tax Act (Canada).

2023 GUIDANCE UPDATE

Year to date in 2023 we have had extremely favorable drilling conditions allowing us to accelerate some of the planned 2024 drilling into the fourth quarter of 2023. As a result of these changes, the Board has approved a \$10 million expansion to the 2023 capital budget from \$225 million to \$235 million. Our 2023 guidance of 18,000 boe/d remains intact with our exit adjusted working capital ⁽¹⁾ now expected to be \$60 million.

- (1) Capital management measure. Refer to "Non-GAAP and Other Financial Measures" within this press release.
- (2) For assumptions utilized in the above guidance see "Guidance and Future Oriented Financial Information" within this press release.

Headwater expects to release 2024 guidance in early December.

HEADWATER SUCCESSION PLAN

As part of Headwater's ongoing long-term succession planning effective January 1, 2024, Jason Jaskela will transition from President and Chief Operating Officer to President and Chief Executive Officer. Neil Roszell, the current Chairman and Chief Executive Officer, will stay on as Headwater's Executive Chairman. Brad Christman will assume the role of Chief Operating Officer from his current role of Vice President, Production.

Per Neil Roszell: "Jason and Brad have been pivotal in the success of the multiple iterations of our franchise over the past 14 years. They have consistently demonstrated exceptional leadership skills and an unwavering dedication to enhancing shareholder value. As Executive Chairman I look forward to continuing that collaboration in our ongoing pursuit of shareholder value creation."

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

FOR FURTHER INFORMATION PLEASE CONTACT:

HEADWATER EXPLORATION INC.
Mr. Neil Roszell, P. Eng.
Chairman and Chief Executive Officer

HEADWATER EXPLORATION INC.
Mr. Jason Jaskela, P.Eng.
President and Chief Operating Officer

HEADWATER EXPLORATION INC.
Ms. Georgia Little, CPA, CA
Interim Vice President, Finance and Chief Financial Officer

info@headwaterexp.com
(587) 391-3680

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, 2023 guidance related to expected annual average production, expected capital expenditures and the breakdown thereof, expected adjusted funds flow from operations, expected dividends, and expected exit adjusted working capital; the expectation new pool discoveries at Marten Hills West will add to the long-term growth profile of the area; the expectation that additional step-out tests of the Clearwater A in Marten Hills West scheduled over the next six months have the potential to expand the pool boundaries further; the intent to implement phase one of full field waterflood development of the Clearwater A in Marten Hills West with a one section flood expected to be implemented in the first half of 2024; the expectation that the 15-section Clearwater B pool in Marten Hills West can now be commercially developed with additional delineation wells now planned for the 2024 budget; expectations as to additional drilling and pool sizes of other formations in Marten Hills West; the expectation that further waterflood implementation in the Marten Hills core area will continue to improve recovery, asset duration and decrease corporate decline rates; the estimated pool size in Seal; the Company's plans for exploitation and development in the Seal area in 2024; our land accumulation strategy in 2024 and intent to drill and test 5-7 wells on these prospects in 2024; the expectation around timing of McCully startup and the expectation it will generate \$16 million of free cash flow over the winter season; and the expectation to release 2024 guidance in December. 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; disruptions to the Canadian and global economy resulting from major public health events, the Russian-Ukrainian war, the Israeli-Hamas conflict and other 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 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 and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures and risks associated with the Alberta wildfires including safety of personnel, asset integrity and potential disruption of operations which could affect the Company's results, business, financial conditions or liquidity. Refer to Headwater's most recent Annual Information Form dated March 9, 2023, 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 prospective financial information as to the anticipated results of its proposed business activities for 2023 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. In this press release, the Company noted that it has increased its forecast for capital expenditures for 2023 by \$10 million as a result of moving a certain portion of capital expenditures budgeted for 2024 into the fourth quarter of 2023, resulting in an increase in the total forecast 2023 capital expenditures to \$235 million. Due to the timing of the capital expenditures, there is anticipated to be no change in the Company's 2023 annual average production guidance of 18,000 boe/d. Headwater's 2023 adjusted funds flow from operations is forecasted to be approximately \$285 million (which differs from previous forecast of \$280 million in March 9, 2023 press release as a result of increase in commodity prices), dividends of \$94.0 million (consistent with previous guidance) and 2023 exit adjusted working capital of \$60 million. The assumptions used in the 2023 guidance include: annual average production of 18,000 boe/d, WTI of US\$77.95/bbl, WCS of Cdn\$80.15/bbl, AGT US\$5.80/mmbtu, foreign exchange rate of US\$/Cdn\$ of 0.74, blending expense of WCS less \$2.25, royalty rate of 18%, operating and transportation costs of \$12.65/boe, financial derivative gains of \$1.95/boe, G&A and interest income and other expense of \$0.75/boe and cash taxes of \$6.10/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. 2023 annual production guidance comprised of: 16,390 bbls/d of heavy oil, 60 bbls/d of natural gas liquids and 9.3 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 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 refer to certain financial measures (such as total sales, net of blending and capital expenditures) which do not have any standardized meaning prescribed by IFRS. Our 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 capital management measures. 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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	<i>(thousands of dollars)</i>		<i>(thousands of dollars)</i>	
Total sales	149,632	99,587	372,808	349,002
Blending expense	(5,629)	(4,638)	(21,675)	(21,929)
Total sales, net of blending expense	144,003	94,949	351,133	327,073

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 netted by the government grant.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	<i>(thousands of dollars)</i>		<i>(thousands of dollars)</i>	
Cash flows used in investing activities	62,030	54,062	188,998	170,099
Proceeds from government grant	-	1,208	-	1,208
Restricted cash	-	-	-	(5,000)
Change in non-cash working capital	8,178	15,731	14,798	20,102
Government grant	-	-	-	(2,591)
Capital expenditures	70,208	71,001	203,796	183,818

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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	<i>(thousands of dollars)</i>		<i>(thousands of dollars)</i>	
Adjusted funds flow from operations	80,887	58,441	206,279	207,899
Capital expenditures	(70,208)	(71,001)	(203,796)	(183,818)
Free cash flow	10,679	(12,560)	2,483	24,081

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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	<i>(thousands of dollars)</i>		<i>(thousands of dollars)</i>	
Cash flows provided by operating activities	85,568	72,060	212,626	217,477
Changes in non-cash working capital	5,618	(11,610)	(1,663)	3,740
Current income taxes	(14,647)	(2,009)	(29,322)	(13,318)
Current income taxes paid	4,348	-	24,638	-
Adjusted funds flow from operations	80,887	58,441	206,279	207,899

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 contribution receivable and repayable contribution to provide a better indication of Headwater's net financing obligations.

	September 30, 2023	December 31, 2022
	<i>(thousands of dollars)</i>	
Working capital	43,496	109,433
Contribution receivable (long-term)	1,104	1,104
Repayable contribution	(7,082)	(6,720)
Financial derivative receivable	(1,794)	(419)
Financial derivative liability	197	1,520
Adjusted working capital	35,921	104,918

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. The sales price, transportation and blending costs, and sales volumes exclude the impact of purchased condensate. Operating netback, including financial derivatives is defined as operating netback plus realized gains or losses on financial derivatives.

Adjusted funds flow per share

Adjusted funds flow 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.

Per boe numbers

This press release represents various results on a per boe basis including Headwater average realized sales price, net of blending, financial derivative gains (losses) 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 and current taxes per boe. These figures are calculated using sales volumes.