



Headwater Exploration Inc.

CORPORATE PRESENTATION

TSX:HWX

January 2024



Outlook

Average Daily Production	2023 Guidance ⁽¹⁾	2024 Guidance
Annual Daily Production (boe/d)	18,000	20,000
Fourth Quarter Daily Production (boe/d)		21,500
Financial Summary (\$millions)		
Adjusted Funds Flow From Operations ⁽⁴⁾	285	275
Capital Expenditures ⁽³⁾	235	180
Dividends ⁽⁶⁾	94	95
Exit Adjusted Working Capital ⁽⁴⁾	60	58
Pricing and Key Assumptions		
Crude Oil – WTI (US\$/bbl)	77.95	70.00
Crude Oil – WCS (CDN\$/bbl)	80.15	73.30

2024 Highlights

11% production per share growth achieved from \$160 million of development capital, re-investment rate of 58%

\$25 million committed towards accelerating secondary recovery projects

\$20 million attributed towards exploration drilling

Stable quarterly dividend of \$0.10 per common share

Capitalization

Headwater Exploration Inc.	TSX	HWX
Share Price (Dec 7th, 2023)	<i>\$/sh.</i>	\$6.45
Shares Outstanding (Basic)	<i>MM</i>	236.4
Dilutives ⁽⁵⁾	<i>MM</i>	4.8
Shares Outstanding (Fully Diluted) ⁽⁵⁾	<i>MM</i>	241.2
2023 Q3 Exit Adjusted Working Capital ⁽⁴⁾	<i>\$MM</i>	\$35.9

Multi-Year Business Strategy

Grow base production while maintaining positive adjusted working capital

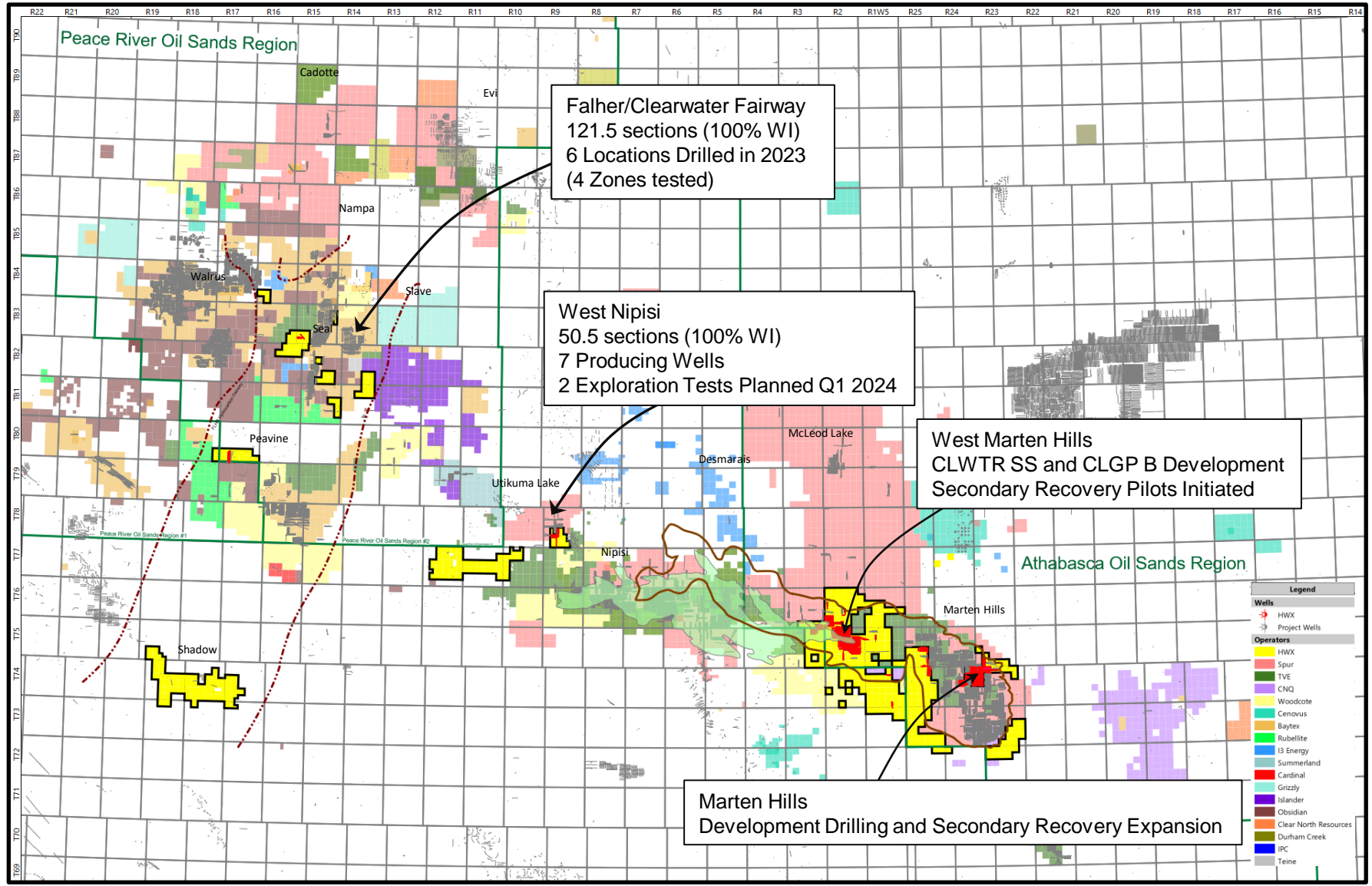
Continue to implement secondary recovery providing asset duration and sustainable long-term returns

Continue adding incremental prospects through strategic land acquisitions and accretive M&A

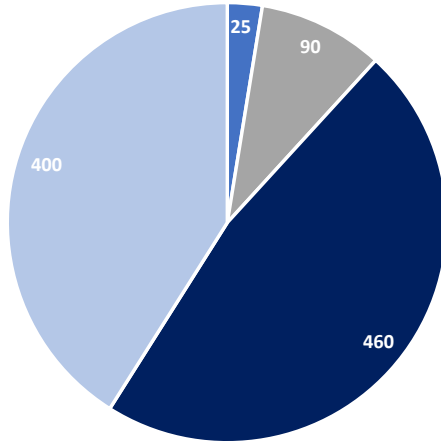
Grow the quarterly dividend

REGIONAL CLEARWATER

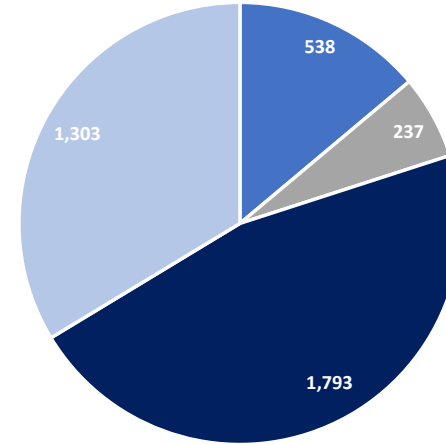
Total Land Holdings >450 net sections with 66 sections added in 2023



975 Identified Clearwater Locations



Total Clearwater OOIP of 3.9 Billion Barrels



■ Marten Hills Core ■ West Nipisi ■ Marten Hills West ■ Greater Peavine

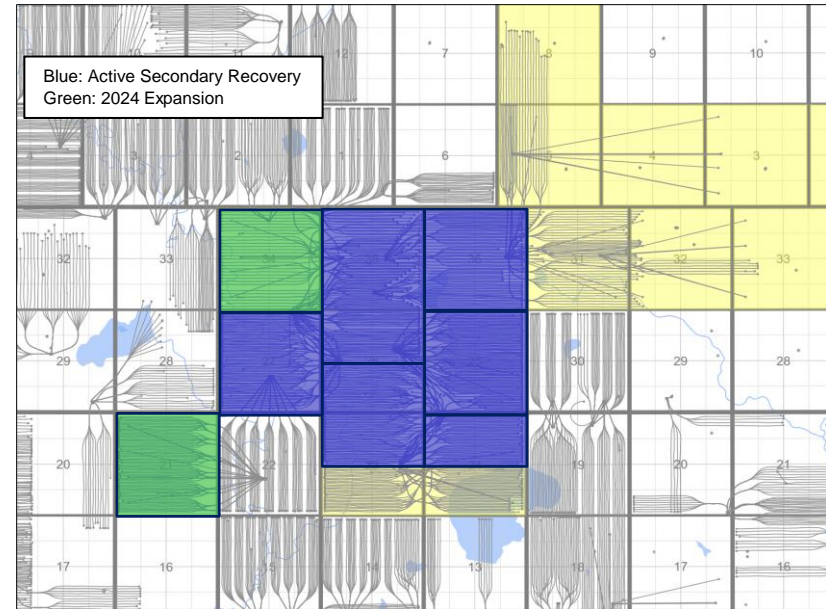
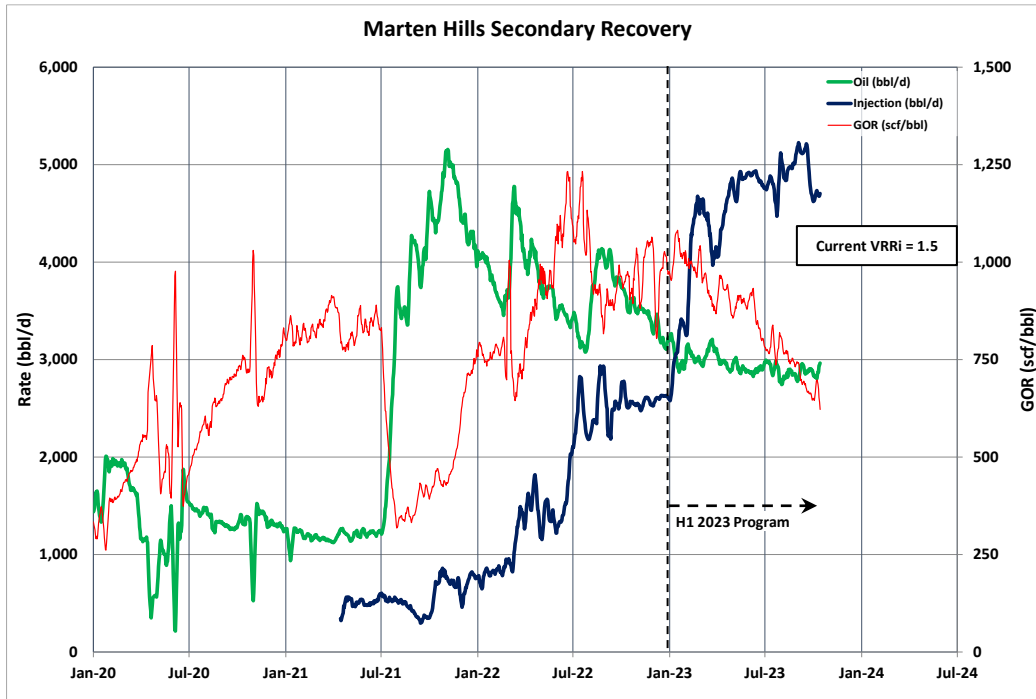
■ Marten Hills Core ■ West Nipisi ■ Marten Hills West ■ Greater Peavine

Development Strategy @ US\$70 WTI

Year	Production	Atax Funds Flow	Dev Capital Program ⁽¹⁾	Production Growth	Development Reinvestment Rate	Exploration Capital Program	Total Capital Reinvestment Rate ⁽²⁾	Free Cash Flow	Dividend Payment @ \$0.40/share	Post Dividend FCF
	Boe/d	\$MM	\$MM	%	%	\$MM	%	\$MM	\$MM	\$MM
2024E	20,000	275	160	11%	58%	20	65%	95	95	0
2025E	22,000	280	145	10%	52%	20	59%	115	96	19

- **Maintenance capital of \$130 million / year required to keep production flat at 22,000 BOE/d**
 - Less than 50% re-investment rate at \$70 WTI
 - Offers flexibility for growth, accelerated secondary recovery, exploration and dividend increases

MARTEN HILLS CORE AREA



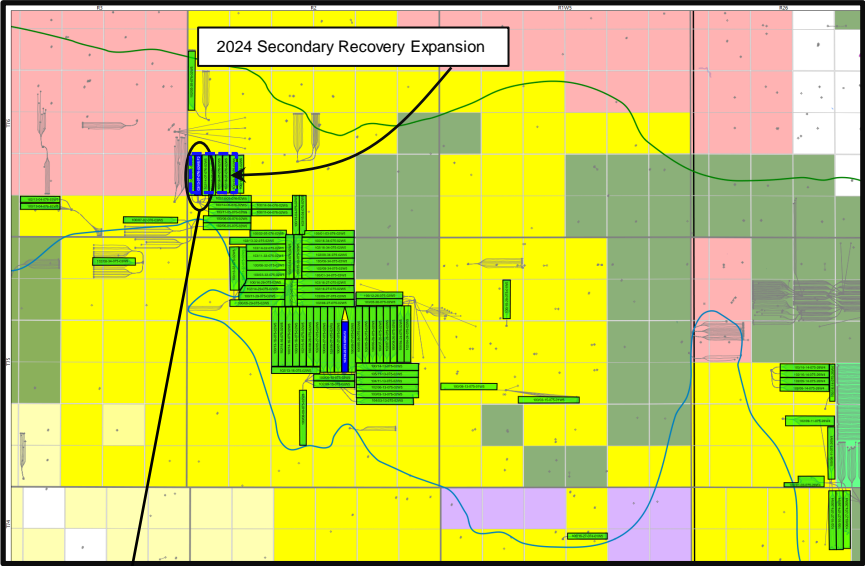
Marten Hills Core Secondary Recovery

- Secondary recovery supported production stable at 3,000 bbl/d
 - **Stabilized production has reduced our corporate decline by approximately 5% resulting in a maintenance capital reduction of \$20 million per year**

2023-2024 Secondary Recovery

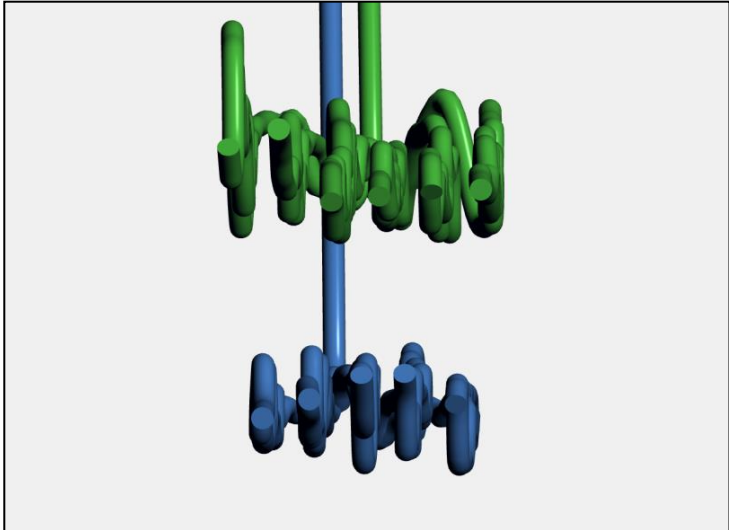
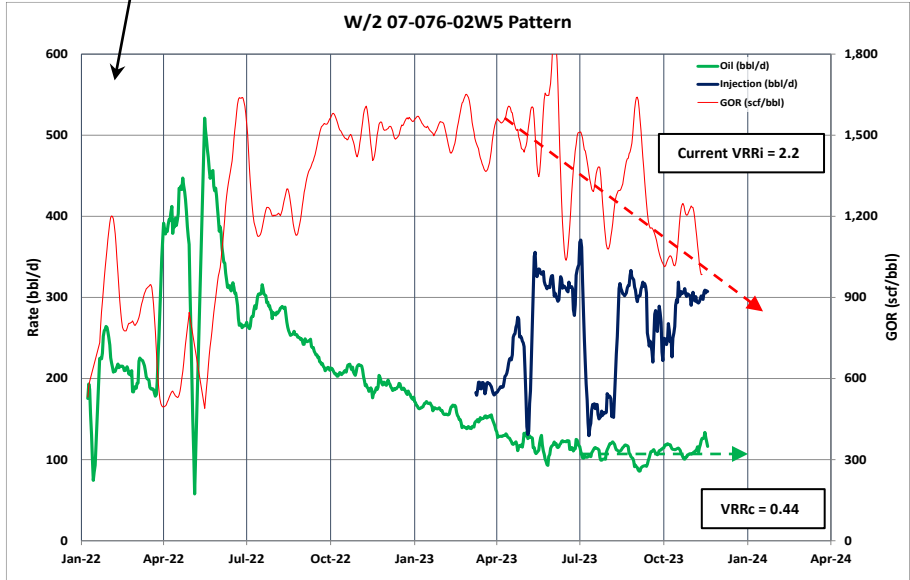
- 2.5 sections were converted in 2023 which increased overall injection rates and allowed for a higher voidage replacement ratio
- 2024 planned expansion of 2 sections will support an incremental 1,000 bbl/day
- **Inclusive of 2024 expansion, 4,000 bbl/day will be supported from 8 sections under secondary recovery in the core**

Marten Hills West Secondary Recovery



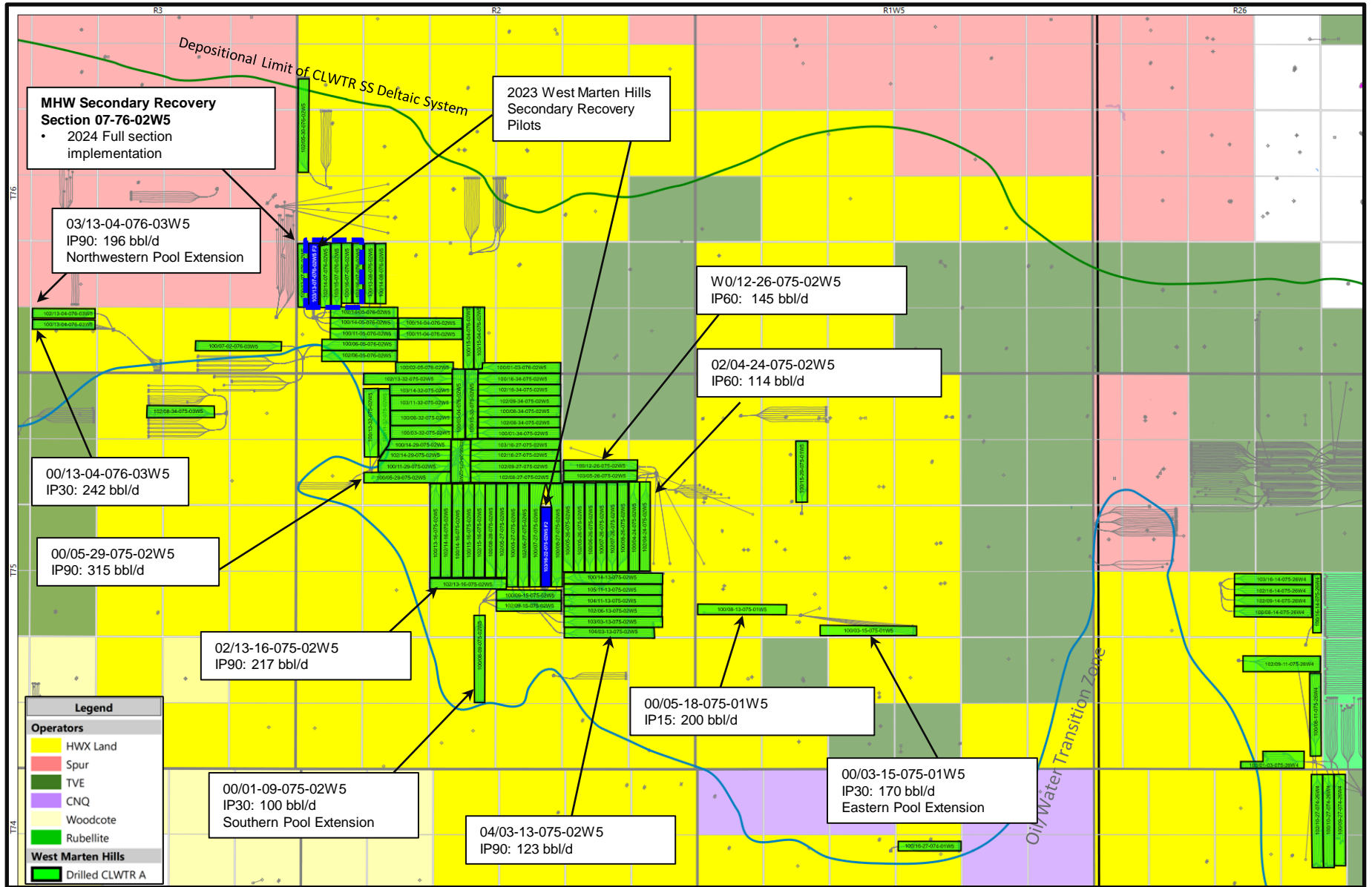
Marten Hills West Secondary Recovery Pilot Summary

- Resulted in GOR decline and oil rate stabilization
- Provided confidence to implement a full section secondary recovery in Section 07-076-02W5 in 2024



MARTEN HILLS WEST

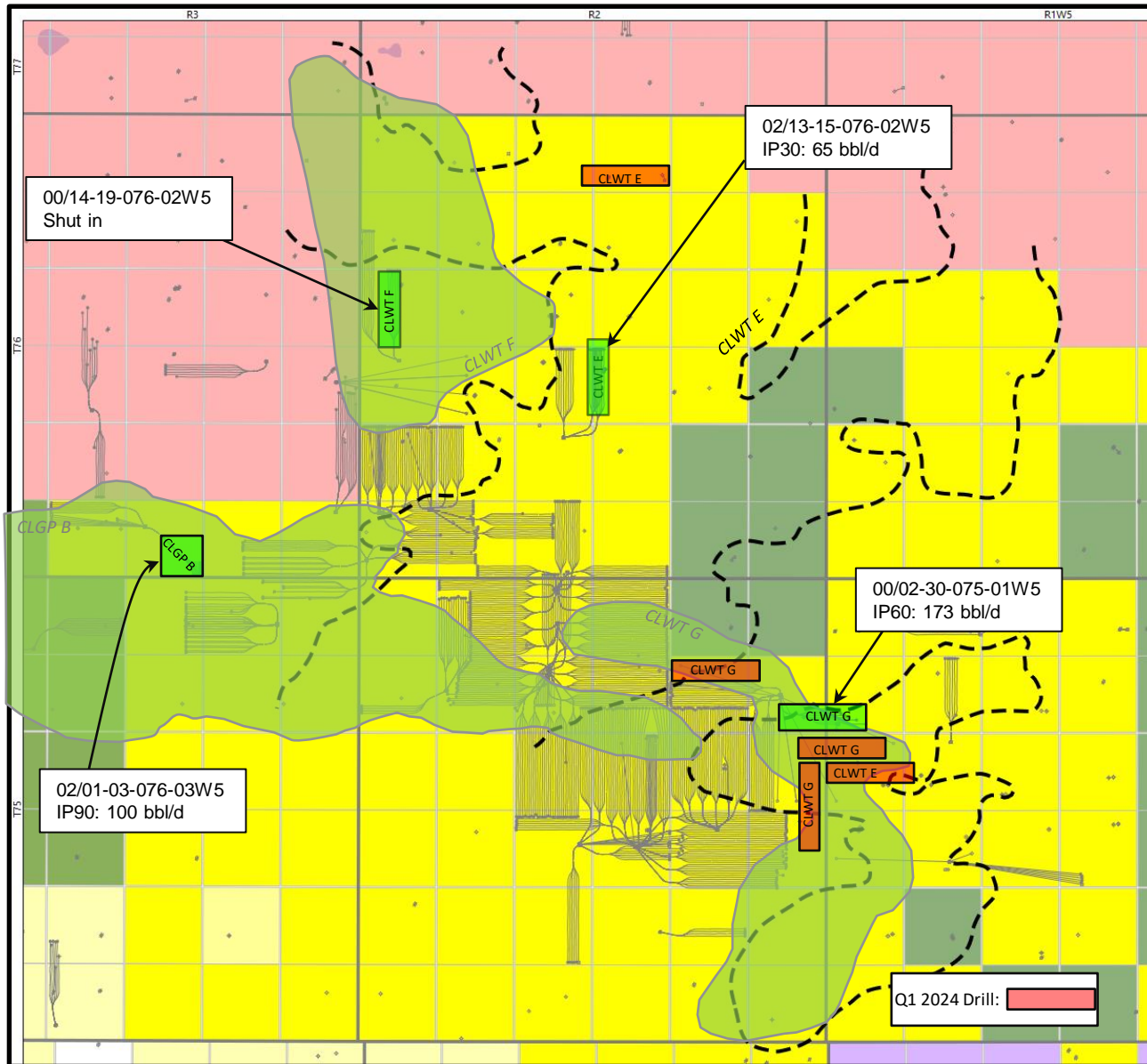
Continued Exploration Success; Initiated Secondary Recovery



MARTEN HILLS WEST EXPLORATION



Tested 4 Prospects and Implemented “Fan-Style” Well Configuration

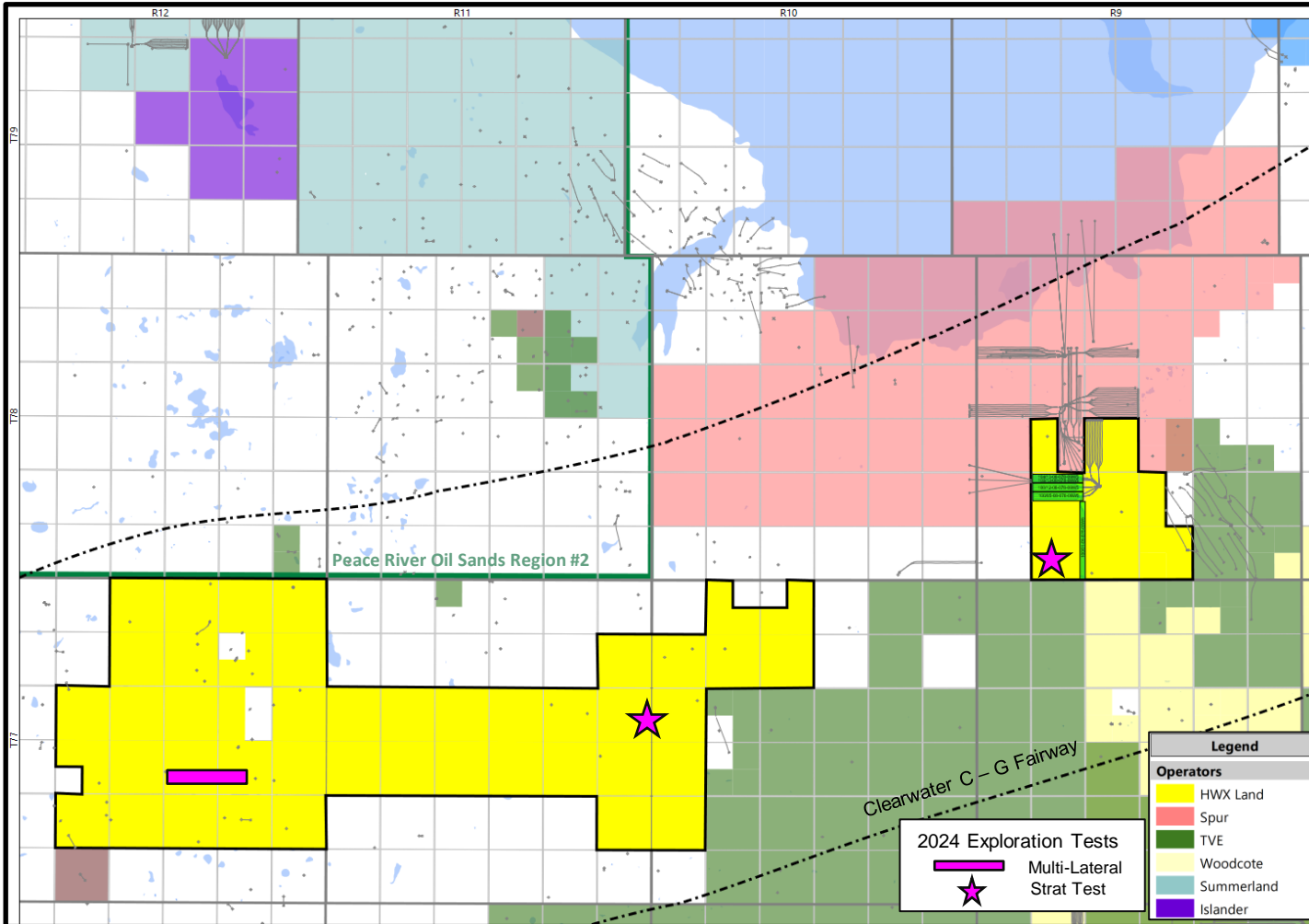


Q4 2023 Exploration

- **CLWTR E test: 02/13-15-076-02W5:** 30 day initial production rate of 65 bbl/d
- Technical learnings have validated two additional CLWTR E exploration tests to be drilled in Q1 2024 north and south of the discovery well at 02/13-15-076-02
- **CLWTR F test: 00/14-19-076-02W5:** Shut in due to high water cuts. Technical learnings have validated a future up-dip test
- **CLWTR G test: 00/02-30-075-01W5:** 60 day initial production of 173 bbl/d
- With successful results, three follow up CLWTR G tests are planned to be drilled in Q1 2024
- **CLWTR B 02/01-03-076-03W5:** “StingWray” fan style well with a 90 day initial production rate of 100 bbl/d
- Key delineation results with new technology providing commercial viability across 15 sections in the CLWTR B sand

WEST NIPISI EXPANSION

Further Development and New Exploration



West Nipisi Development

- 50.5 sections of land
- 6 successful wells with an average IP30 rate of 220 bbl/d
- Southern extension successfully tested with a 3 leg multi-lateral

West Nipisi Exploration

- Two additional prospects identified and will be tested in Q1 2024 on the newly acquired lands

Add incremental prospects through strategic land acquisitions and M&A

- Added 66 net sections of land YTD in the Clearwater
- Added 155 net sections of land in oil fairways outside the Clearwater

Explore and Exploit

- Marten Hills West success resulting in current production of > 10,000 bbl/d
- 3 new exploration prospects tested in Q4 2023
- West Nipisi success with 2 producing zones and 2 additional identified prospects tested Q1 2024
- New “StingWray” fan configuration tested in Marten Hills West CLWTR B and Seal Falher D in Q4 of 2023

Asset Duration – Implement Enhanced Oil Recovery

- 3,000 bbls/d of core area production stabilized from secondary recovery
- Two Marten Hills West secondary recovery pilots on-stream in Q1 and Q3 2023

Implement a return of capital strategy

- Quarterly cash dividend of \$0.10/share implemented Q4 2022

ESG focus

- Released inaugural ESG report Nov 2022
- Minimal uninflated undiscounted corporate ARO of ~ \$59 million
- Active partner with Treaty 8 Nations supporting indigenous businesses and community initiatives



Headwater Exploration Inc.

Appendix

TSX:HWX

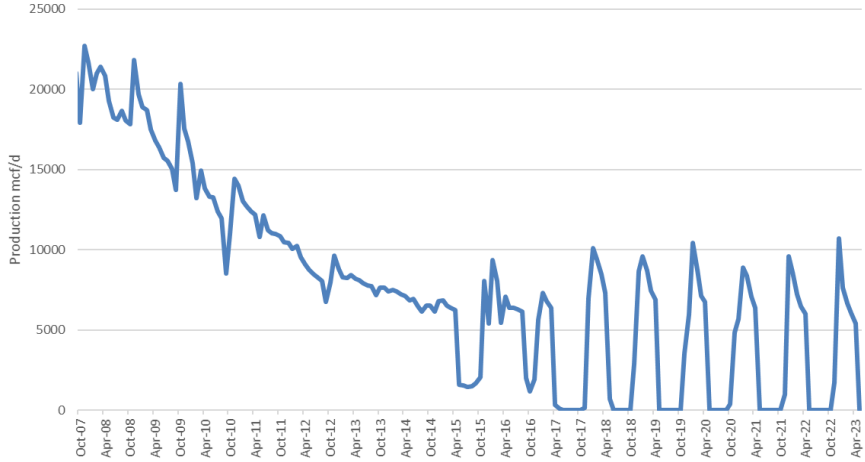
MCCULLY PRODUCING ASSET

DRY GAS WITH 100% OWNED INFRASTRUCTURE AND LIMITED LIABILITY

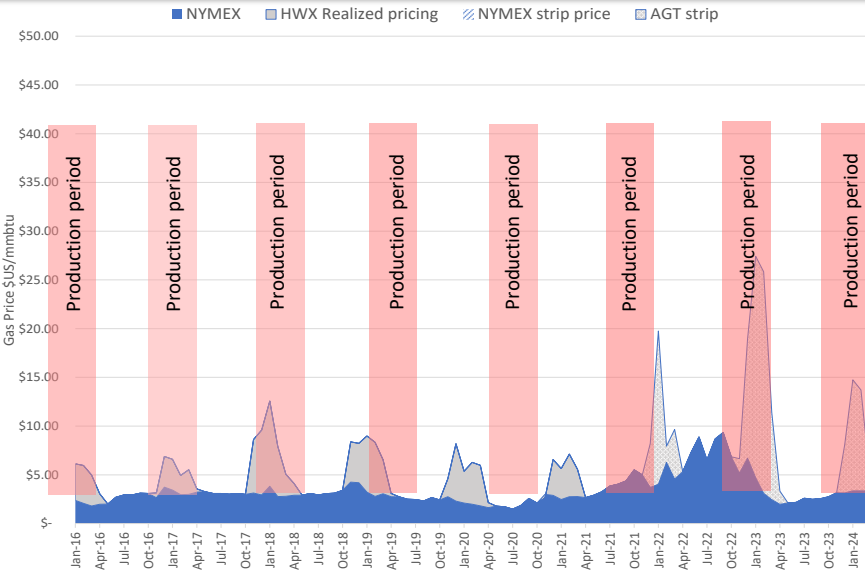


McCully Asset Daily Production

McCully Daily Production mcf/d



HWX Realized Pricing and Winter 2023/2024 Strip (US\$/MMBTU)



Operational Summary

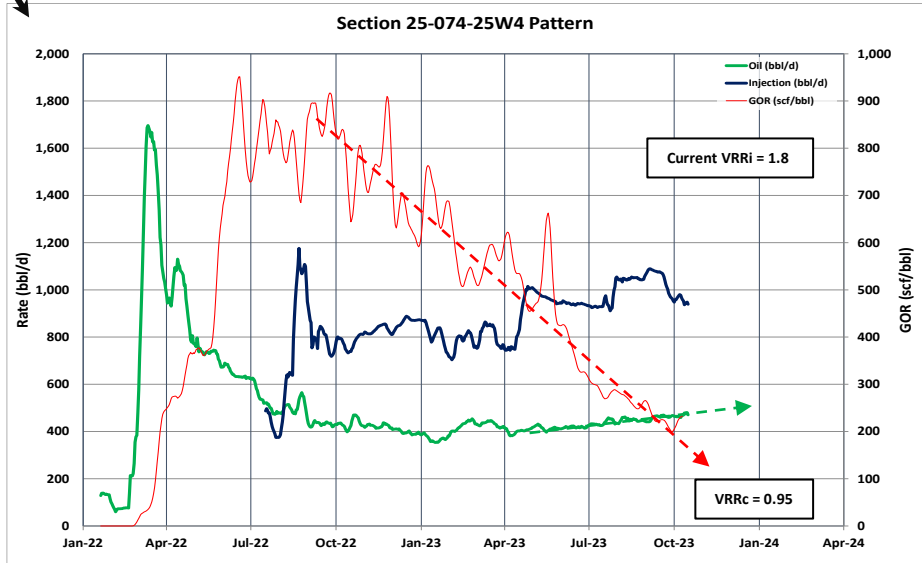
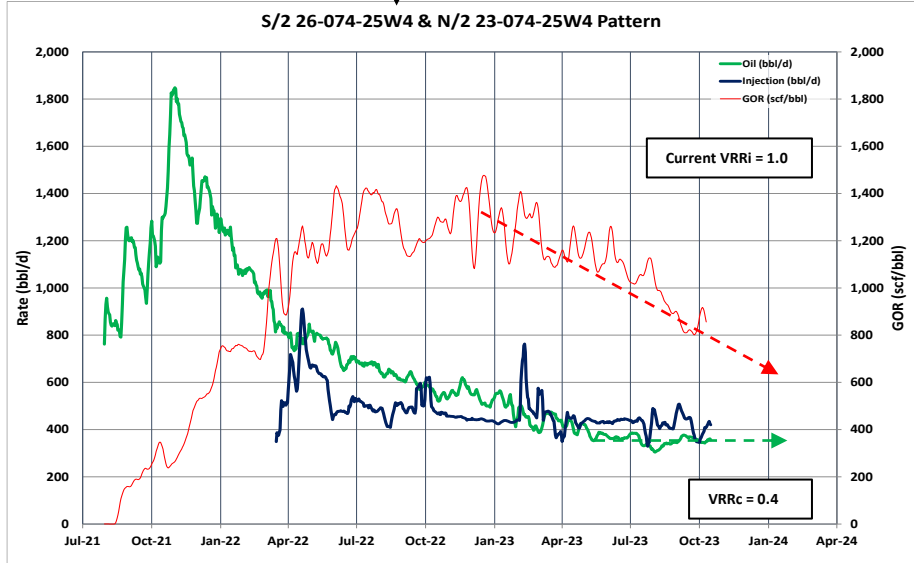
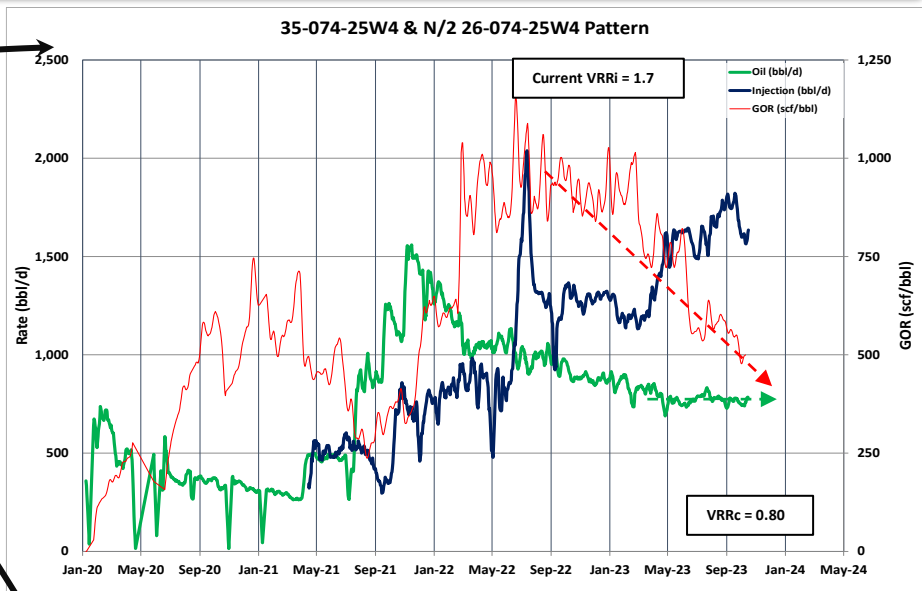
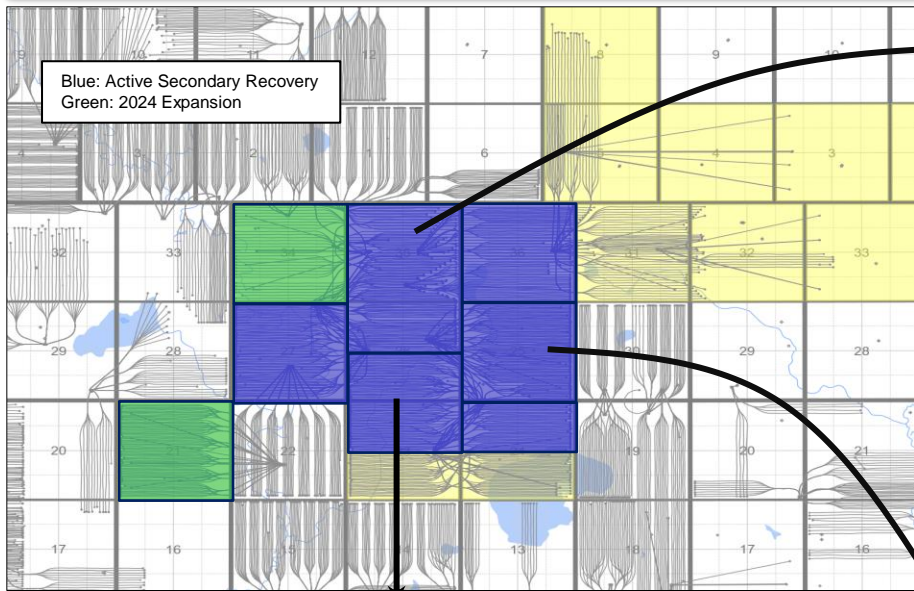
P+P producing RLI ⁽¹⁾	years	15
Undiscounted uninflated ARO ⁽²⁾	\$MM	11.4
Average Seasonal Production Rate	mmscf/d	6.5
2022/23 winter operating cash flow ⁽³⁾	\$MM	22.6
2023/24 est. winter operating cash flow	\$MM	16
Maintenance Capital	\$MM	<0.5

- Asset is produced November through April and shut-in during summer months to capture premium pricing as highlighted in this slide
- Algonquin City-Gate is a unique Boston area demand driven market offering premium winter pricing

See Slide Notes and Advisories including "Non-GAAP Advisory".



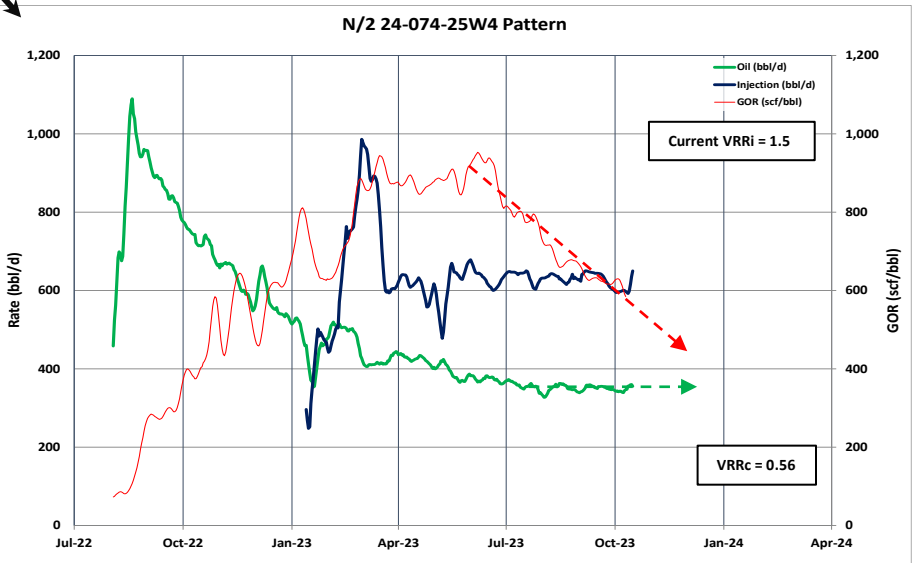
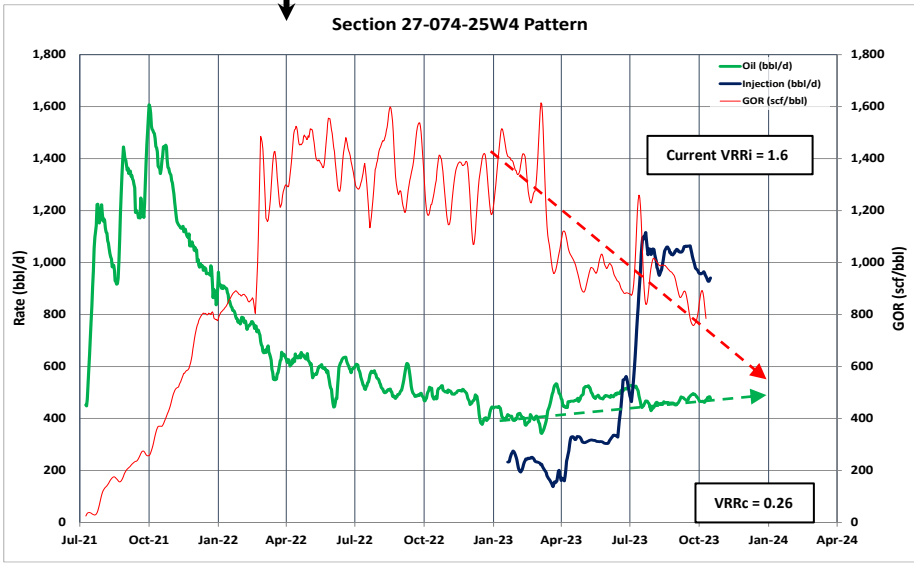
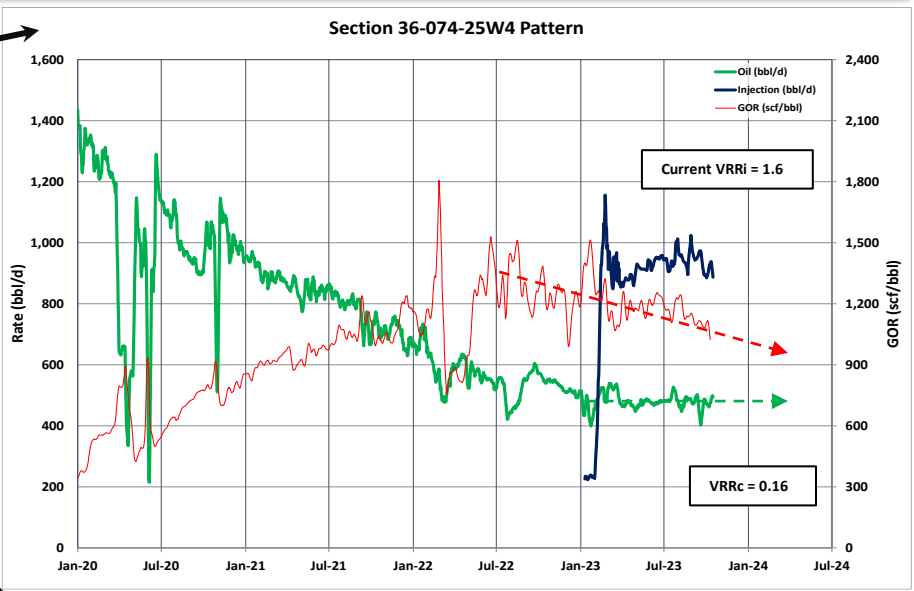
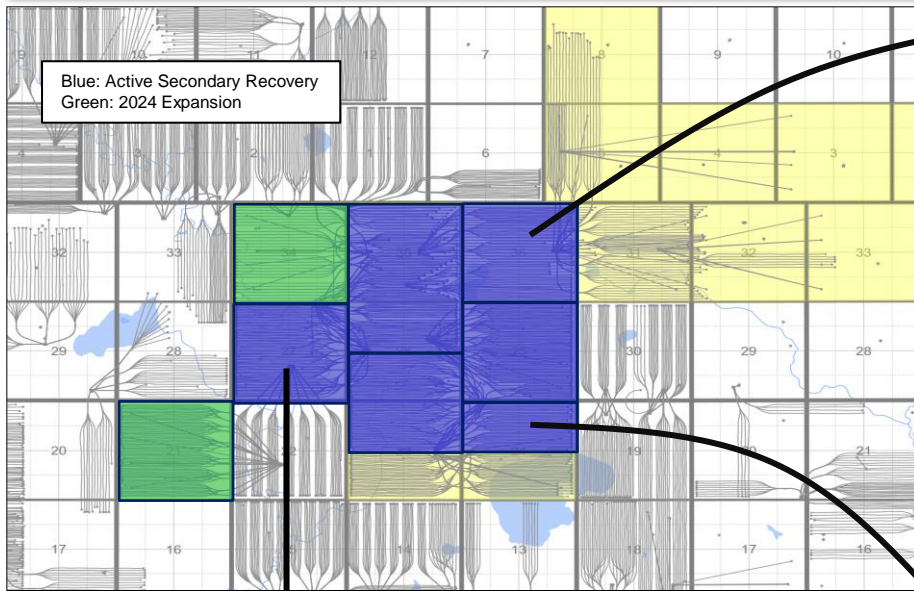
Initial Pilots and 2024 Expansion



SECONDARY RECOVERY IMPLEMENTATION



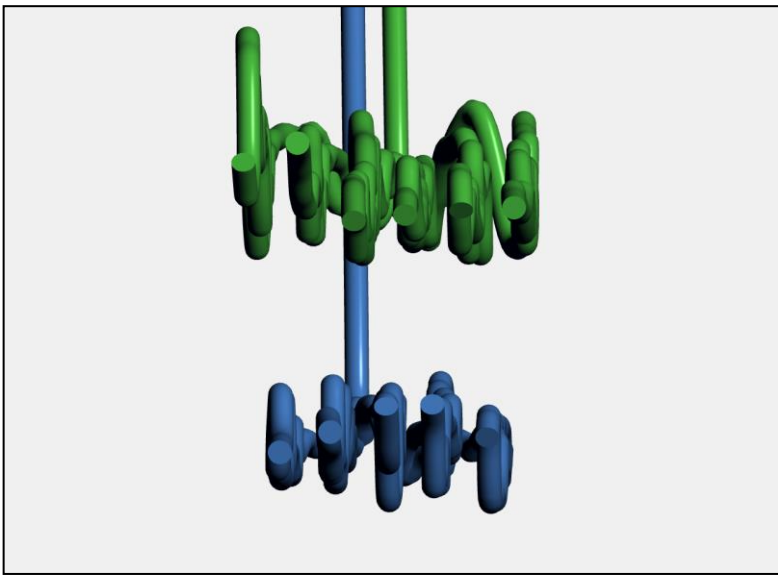
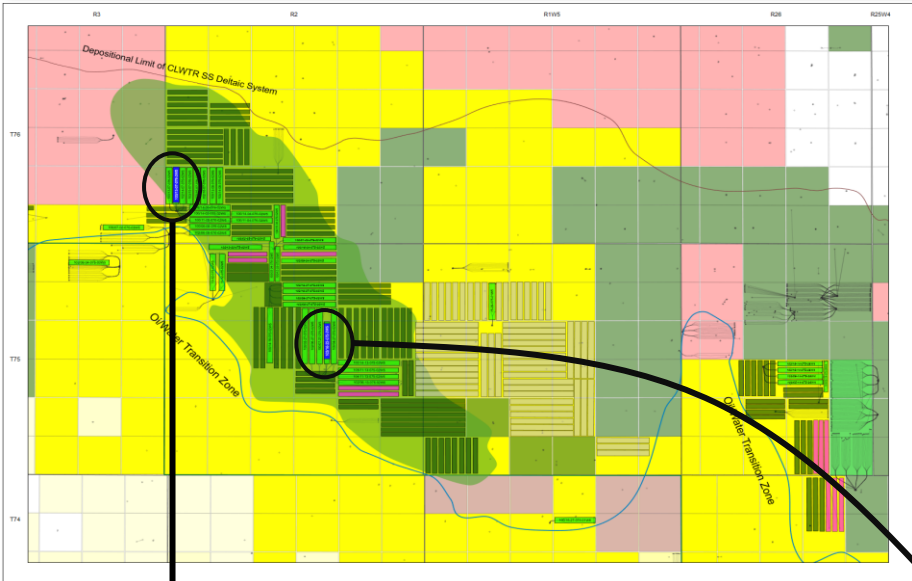
2023 Expansion with Optimized Injector Design



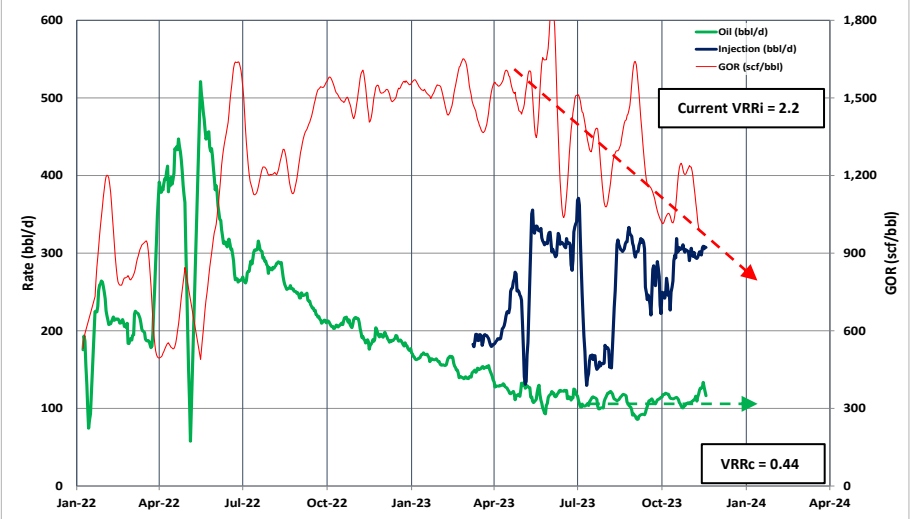
See Advisories

SECONDARY RECOVERY IMPLEMENTATION

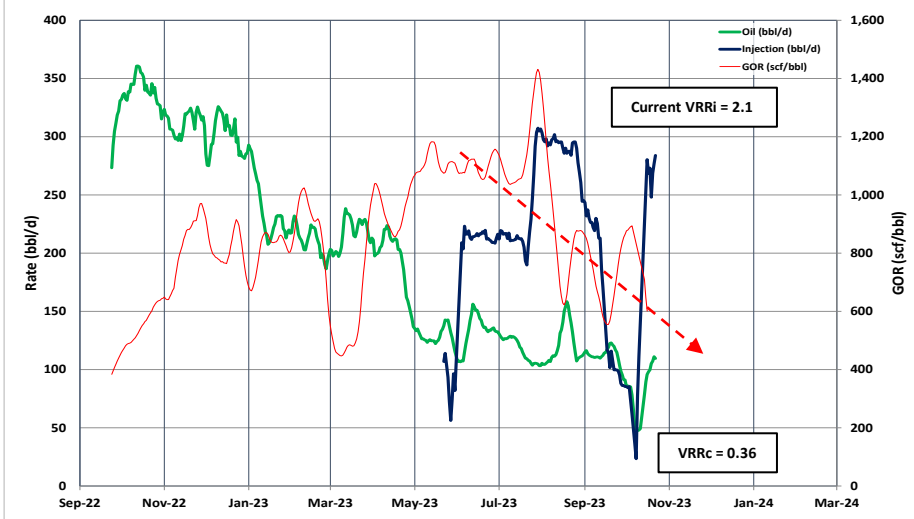
West Marten Hills Pilots – Utilizing Marten Hills Core Learnings



W/2 07-076-02W5 Pattern



00/16-22-075-02W5/00 Pattern



EXPERIENCED TEAM – MANAGEMENT AND DIRECTORS

Headwater Exploration Inc.



Neil Roszell, P. Eng. <i>Executive Chairman</i>	<ul style="list-style-type: none">Former President, CEO and/or Executive Chairman and founder of Raging River Exploration Inc., Wild Stream Exploration Inc. and Wild River Resources Ltd.
Jason Jaskela, P. Eng. <i>President, CEO & Director</i>	<ul style="list-style-type: none">Former COO and founder of Raging River Exploration Inc. and VP Production and founder of Wild Stream Exploration Inc.
Terry Danku, P. Eng. <i>Vice President, Engineering</i>	<ul style="list-style-type: none">Former VP, Engineering of Raging River Exploration Inc. and Engineering Manager of Wild Stream Exploration Inc.
Jonathan Grimwood, P.Geo <i>Vice President, New Ventures</i>	<ul style="list-style-type: none">Former VP, Exploration of Raging River Exploration Inc., President of and founder of RMP Energy Inc.
Ali Horvath, CA, CPA <i>CFO & Vice President Finance</i>	<ul style="list-style-type: none">Former Controller and founder of Raging River Exploration Inc. and Wild Stream Exploration Inc.
Scott Rideout <i>Vice President, Land</i>	<ul style="list-style-type: none">Former VP, Land of Raging River Exploration Inc. and Manager Business Development and Land of Surge Energy Inc.
Brad Christman <i>Chief Operating Officer</i>	<ul style="list-style-type: none">Former Manager of Production and Facilities and founder of Raging River Exploration Inc.
Dieter Deines, P.Geo <i>Vice President, Exploration</i>	<ul style="list-style-type: none">Former Geoscience Manager at Tundra Oil & Gas Ltd.
Kevin Olson	<ul style="list-style-type: none">Former director of Raging River Exploration Inc., Wild Stream Exploration Inc. and Wild River Resources Ltd.
Chandra Henry	<ul style="list-style-type: none">Currently CFO & Chief Compliance Officer of Longbow Capital Inc. and Director of Whitecap Resources Inc.
Stephen Larke	<ul style="list-style-type: none">Currently Director with Vermilion Energy Inc. and Topaz Energy Corp.
Dave Pearce	<ul style="list-style-type: none">Currently Deputy Managing Partner with Azimuth Capital Management and former director of Raging River Exploration Inc.
Phillip Knoll	<ul style="list-style-type: none">Director of Corridor since 2010. Formerly CEO of Corridor and currently a director of AltaGas Ltd.
Kam Sandhar	<ul style="list-style-type: none">Currently Cenovus's Executive Vice-President, Strategy & Corporate Development
Elena Dumitrascu	<ul style="list-style-type: none">Co-founder, Chief Technology Officer of Credivera
Devery Corbin	<ul style="list-style-type: none">Former Chief of Staff for the Mayor of the City of Calgary

Slide 1

1. The assumptions used in the 2023 guidance include: 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 derivatives 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. The Board of Director's approved the revised 2023 capital guidance from \$225 million to \$235 million on November 9, 2023. Due to timing of the additional capital expenditures, there is anticipated to be no change to the Company's annual average production guidance of 18,000 boe/d. Assumptions used in the 2024 guidance include: WTI of US\$70.00, WCS of Cdn\$73.30/bbl, AGT US\$9.10/mmbtu, foreign exchange rate of US\$/Cdn\$ of 0.74, blending expense of WCS less \$2.20, royalty rate of 17.8%, operating and transportation costs of \$13.20/boe, G&A and interest income and other expense of \$1.30/boe and cash taxes of \$5.30/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.
2. Forecasted 2023 annual average production of 18,000 boe/d is comprised of 16,390 bbls/d of heavy oil, 60 bbls/d of natural gas liquids and 9.3 mmcf/d of natural gas. Forecasted 2024 annual production guidance comprised of: 18,650 bbls/d of oil, 50 bbls/d of natural gas liquids and 7.8 mmcf/d of natural gas.
3. Capital expenditures is a non-GAAP measure. Please refer to Non-GAAP Advisory.
4. Adjusted funds flow from operations and exit adjusted working capital are capital management measures. Please refer to Non-GAAP Advisory.
5. Basic shares outstanding consists of 236.4 million common shares of Headwater as at December 7, 2023. Fully diluted shares outstanding includes 2.8 million stock options outstanding at a weighted average strike price of \$3.67 and 2.0 million performance share units.
6. See Dividend Advisory.
7. Reinvestment rate is a non-GAAP ratio and free cash flow is a non-GAAP measure. Please refer to Non-GAAP Advisory.

Slides 2, 6, 8 & 9

Public data obtained from geoSCOUT.

Slide 3

Refer to Advisory Relating to Development Strategy.

1. Development capital program includes development capital expenditures before acquisitions, dispositions and other corporate expenditures and excludes land/new prospect exploration.
2. Reinvestment rate is calculated as capital expenditures divided by adjusted funds flow from operations (also referred to as Atax Funds Flow).
3. Dividend payment per share per year is calculated using basic common shares outstanding and post dividend annual free cash flow is calculated as free cash flow (see non-GAAP Advisory) net of dividends.
4. Adjusted funds flow from operations is a capital measurement measure. Capital expenditures (also capital program), free cash flow and post dividend free cash flow are non-GAAP measures. Reinvestment rate is a non-GAAP ratio. Please refer to Non-GAAP Advisory.
5. See Dividend Advisory.
6. Management identified Clearwater locations.
7. Management's internal interpretation of OOIP. Refer to OOIP Advisory.

Slides 5, 6, 7 & 15

Management's internal interpretation of pool outline.

Slides 6, 7, 8 & 9

IP: initial production rate of well, post load recovery, for a certain number of days.

Slide 10

1. ARO as at September 30, 2023.
2. See Dividend Advisory.

Slide 12

1. Proved plus probable producing (P+P) reserves life index ("RLI") is calculated by dividing the P+P producing reserves by the average annual production for 2022.
2. As at September 30, 2023.
3. McCully winter operating cash flow includes financial derivatives. Operating cash flow including financial derivatives is a non-GAAP measure. Please refer to Non-GAAP Advisory.

Forward Looking Statements Advisory

This investor presentation of Headwater Exploration Inc. ("Headwater") contains forward-looking statements and forward-looking information (collectively, "forward-looking statements"). More particularly, this investor presentation contains forward-looking statements concerning: 2023 and 2024 guidance including annual daily production and fourth quarter daily production, capital expenditures and details of such capital expenditures, adjusted funds flow from operations, dividend payments and exit adjusted working capital; Headwater's multi-year business strategy and the expected benefits of such strategy including maintaining positive working capital, continuing to add incremental lands through land acquisitions and accretive M&A, continuing to implement secondary recovery providing asset duration and sustainable long-term returns, grow base production while maintaining positive adjusted working capital and growing the quarterly dividend; the expectation to test 2 exploration prospects in West Nipisi in Q1 2024; the expectation maintenance capital of \$130 million is required to keep production flat at 22,000 boe/d and less than 50% re-investment rate required at US\$70 WTI; the expectation of 2024 planned expansion of 2 sections to support an incremental 1,000 bbls/d in Marten Hills Core and inclusive of 2024 expansion, the expectation 4,000 bbls/d will be supported from 8 sections under secondary recovery; the expected timing of waterflood activities in the Marten Hills core area and in Marten Hills West; the expected timing of certain future exploration tests including two additional prospects in West Nipisi to be tested in Q1 2024; the performance characteristics of the natural gas properties in McCully field including timing of operations, P+P reserves life index, average seasonal production rate, maintenance capital and abandonment and reclamation obligations; Headwater's strategy with respect to the development of the Marten Hills assets including certain expected type curve and economics associated with drilling and waterflood operations; the future success associated with waterflood implementation; and the expectation of future M&A activity. Additional forward-looking information includes. In addition, the use of any of the words "guidance" "initial", "scheduled", "can", "will", "prior to", "estimate", "anticipate", "believe", "should", "forecast", "future", "continue", "may", "expect", and similar expressions are intended to identify forward-looking statements.

Additional information on these and other factors that could affect Headwater's operations and financial are included in its Annual Information Form for the year ended December 31, 2022, and other reports on file with Canadian securities regulatory authorities, which may be accessed through the SEDAR website (www.sedar.com).

Statements relating to reserves and resources are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.

The forward-looking statements contained in this investor presentation are based on certain key expectations and assumptions made by management of Headwater 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 approval, the success of future drilling, development and waterflooding activities, the performance of existing wells, the performance of new wells, Headwater's growth strategy, general economic conditions, availability of required equipment and services, prevailing equipment and services costs and prevailing commodity prices, Canada-U.S. exchange rate, and other assumptions identified herein, including certain expectations and assumptions made by Headwater in respect thereof. Although Headwater Management 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 there is 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 (including but not limited to operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects, capital expenditures, acquisitions or other corporate transactions; the uncertainty of reserve estimates (including the estimates in respect of the Marten Hills assets); the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), inflation risks, supply chain risks, commodity price and exchange rate fluctuations, the short and long-term impacts of the Covid-19 pandemic, wars (including Russia's military actions in Ukraine), 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.

This investor presentation contains financial outlook and future oriented financial information (together, "FOFI") about Headwater including the Company's 2023 and 2024 guidance comprised of expected capital expenditures, dividend payments, adjusted funds flow from operations and adjusted working capital. Such FOFI has been included herein to provide prospective investors with an understanding the plans and assumptions for budgeting purposes and prospective investors are cautioned that the information may not be appropriate for other purposes. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on any financial outlook or FOFI. Headwater's actual results, performance could differ materially from those expressed in, or implied by, these FOFI, or if any of them do so, what benefits Headwater will derive therefrom. Headwater disclaims any intention or obligation to update or revise any FOFI statements, whether as a result of new information, future events or otherwise, except as required by law.

The information contained in this investor presentation does not purport to be all inclusive or to contain all information that prospective investors and shareholders may require. Prospective investors and shareholders are encouraged to conduct their own analysis and reviews of Headwater, Headwater management and the other information contained in this investor presentation. Without limitation, prospective investors and shareholders should consider the advice of their financial, legal, accounting, tax and other advisors prior to making investment decisions with respect to Headwater securities.

Advisory Relating to Development Strategy (Slide 3)

The Company has presented herein a two-year development strategy. The development strategy is based on a number of assumptions as presented in such slides including, without limitation: the required reinvestment rates required to maintain production; expected results from wells drilled in the areas; expected percentage of lands under waterflood and expected recovery factors resulting from waterfloods and other enhanced oil recovery options; average production per year resulting from such strategy; expected adjusted funds flow from operations, free cash flow and post dividend free cash flow; capital expenditures per year; expectations as to commodity prices, royalty rates, production costs, general and administrative expenses and certain other assumptions. Waterflood results in development strategy are based on management's analysis and interpretation of the results from analogous waterflood projects and pilots in the greater Clearwater area including management's analysis of how such results may apply to the Company's assets. See "Type Curve information and Well Economics" under oil and gas advisories. For the purposes of determining the adjusted funds from operations based on the three-year strategy presented, the following pricing assumptions have been utilized:

		2024E	2025E
WTI	US\$/bbl	\$ 70.00	\$ 70.00
WCS	Cdn\$/bbl	\$ 73.30	\$ 74.30
AECO	Cdn\$/mmbtu	\$ 2.40	\$ 3.50
AGT ⁽¹⁾	US\$/mmbtu	\$ 9.10	\$ 10.70
FX	US\$/Cdn\$	0.74	0.74

(1) The AGT price is the average price for the winter producing months in the McCully field which include January – April and November – December of the applicable year.

Such development strategy is not based on a budget or capital expenditures plan approved by the Board of Directors of the Company beyond 2024 and is not intended to present a forecast of future performance or a financial outlook. In addition, such development strategy does not represent management's expectations of the Company's future performance but rather is intended to present readers insight into management's view of the opportunities associated with the Company's assets as used by management for planning and strategy purposes based on the commodity pricing and other assumptions used for such strategy. In addition, the development strategy does not represent an estimate of reserves or resources or the future net present value of reserves or resources.

There is no certainty that the Company will proceed with all of the drilling of wells, enhanced oil recovery plans or other capital expenditures contemplated by the development strategy and even if the Company does proceed with such plans there is no certainty that the reserves or resources recovered will match the expectations used for such strategy. All future drilling, enhanced oil recovery plan and other capital expenditures will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors.

There is no certainty that cash will be available for distribution to shareholders even if all assumptions are met as management and the Board of Directors of the Company have not made any decision to pay dividends or otherwise distribute cash to shareholders. Management and the Board of Directors of the Company may determine to utilize cash for other purposes if determined in the best interests of the Company to do so. See "Dividend Advisory".

The assumptions used for the development strategy presented herein are subject to a number of risks including the risks set out under the forward-looking advisory on the previous slide, the risk factors identified above and the risk factors set out in the Company's Annual Information Form for the year ended December 31, 2022, which is available on SEDAR at www.sedar.com.

Non-GAAP Advisory

NON-GAAP MEASURES AND RATIOS

This investor presentation contains the terms “adjusted funds flow from operations (“AFFO”)”, “adjusted working capital”, “capital expenditures or capital program”, “free cash flow”, “post dividend free cash flow”, “operating cash flow”, “reinvestment rate”, “post dividend free cash flow per share” and “adjusted funds flow from operations netback” which do not have standardized meanings prescribed by International Financial Reporting Standards (“IFRS” or, alternatively, “GAAP”) and therefore may not be comparable with the calculation of similar measures by other companies. The non-GAAP measures used in this presentation, defined terms outlined below, are used by Headwater as key measures of financial performance and are not intended to represent operating profits nor should they be viewed as an alternative to cash provided by operating activities or other measures of financial performance calculated in accordance with IFRS.

Capital Management Measures

Adjusted funds flow from operations (“AFFO”)

Management considers adjusted funds flow from operations to be a key measure to assess the Company’s management of capital. 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 by eliminating changes in non-cash working capital and adjusting for current income taxes in the period, adjusted funds flow from operations is a useful measure of operating performance.

	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.

	As at		As at	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
	<i>(thousands of dollars)</i>		<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 Measures

Capital expenditures or capital program

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 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⁾	-	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 uses free cash flow for its own performance measure and to provide shareholders and potential investors with a measurement of the Company’s efficiency and its ability to generate the cash necessary to fund its future growth expenditures. Free cash flow is defined as adjusted funds flow from operations less capital expenditures.

	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

Post dividend free cash flow

Post dividend free cash flow is defined as free cash flow net of dividends declared or paid in the period. This measure is used by the Company to assess the funds available for future growth after dividends.

Operating cash flow and operating cashflow including financial derivatives

Management uses operating cash flow and operating cash flow including financial derivatives as a measure of profitability. Operating cash flow is defined as sales net of royalties, blending and transportation and production expense. Operating cash flow including financial derivatives is defined as sales net of royalties, blending and transportation and production expense plus realized gains or losses on financial derivatives.

Non-GAAP Advisory

Non-GAAP Ratios

Reinvestment Rate

Management believes the reinvestment rate is a useful measure to analyze the ratio of funds generated by the Company and used for reinvestment and is calculated as total capital expenditures divided by AFFO.

Post dividend free cash flow per share

Post dividend free cash flow per share is a useful measure of potential shareholder return and is calculated as post dividend free cash flow divided by basic common shares outstanding.

Operating cash flow netback

Operating cash flow netback is calculated as operating cash flow divided by annual sales volumes.

Certain Oil and Gas Advisories

TYPE CURVE INFORMATION AND WELL ECONOMICS

Headwater has presented certain type curve information and well economics for certain development, exploration and waterflood wells in the Clearwater area. The type curve information and well economics presented are based on historical production in respect of Headwater's Clearwater assets as well as production history from analogous Clearwater developments located in close proximity to Headwater's Clearwater assets. Such type curve information is useful in understanding Headwater management's assumptions of well performance in making investment decisions in relation to development and exploration drilling in the Marten Hills area and for determining the success of the performance of development and exploration wells; however, such type curve information and well economics are not necessarily determinative of the production rates and performance of existing and future wells. In addition, the type curves and well economics presented do not reflect the type curves used by GLJ (as defined below) in estimating the reserves volumes attributed to the Marten Hills assets.

EXPLORATION LANDS

This presentation discloses Headwater's newly acquired exploration lands. All exploration lands have specifically been identified by management based on evaluation of applicable geologic, seismic, engineering, analogous information, production and reserves data on prospective acreage and geologic formations. There is no certainty that the Company will develop all or any exploration sections identified and if developed there is no certainty that such development will result in additional oil and gas reserves, resources or production. The sections on which Headwater drills wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results and other factors.

EXPLORATION DRILLING INVENTORY

This presentation discloses the drilling locations and inventory associated with certain of Headwater's exploration prospects. All of the drilling locations and inventory associated with Headwater's exploration prospects are considered unbooked locations. Unbooked locations are internal estimates and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Un-booked locations do not have attributed reserves or resources. Unbooked locations have been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that the Company will drill all unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which the Company drills wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. The majority of the unbooked drilling locations are associated with exploration prospects where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

RESERVES INFORMATION

Headwater currently has reserves in the Marten Hills and West Nipisi areas of Alberta and the McCully Field near Sussex, New Brunswick. The reserves information contained in this presentation in respect of Headwater assets is based on an evaluation by GLJ Ltd. ("GLJ") of Headwater's reserves in its report dated effective December 31, 2022, which was prepared in accordance with standards of the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook") and NI 51-101 and is based on the average forecast prices as at January 1, 2023, of three independent reserves evaluation firms. Additional information regarding reserves data and other oil and gas information is included in Headwater's Annual Information Form for the year ended December 31, 2022, which may be accessed through the SEDAR website (www.sedar.com).

Reserves are estimated remaining quantities of petroleum anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical, and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are further classified according to the level of certainty associated with the estimates and may be sub-classified based on development and production status. Proved Reserves are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations. Proved Developed Producing Reserves (or PDP Reserves) are a subset of Proved Reserves and are Proved Reserves which are producing at the time of the reserves evaluation. Probable Reserves are those additional quantities of petroleum that are less certain to be recovered than Proved Reserves, but which, together with Proved Reserves, are as likely as not to be recovered.

Certain Oil and Gas Advisories

BARRELS OF OIL EQUIVALENT

The term "boe" or barrels of oil equivalent may be misleading, particularly if used in isolation. A boe 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.

OIL AND GAS METRICS

In presenting type curves, inputs and economics information and in this presentation generally, Headwater has used a number of oil and gas metrics which do not have standardized meanings and therefore may be calculated differently from the metrics presented by other oil and gas companies. Such metrics include "P+P producing RLI". P+P producing RLI is calculated by dividing the P+P producing reserves by the average annual production for that period. Corporate decline is calculated by the year over year reduction in the corporate production if the Company is not drilling any additional wells. Such metrics have been included herein to provide readers with additional measures to evaluate the performance of the Marten Hills assets or McCully assets, as applicable; however, such measures are not a reliable indicator of the future performance of Headwater's assets or value of its common shares.

INITIAL PRODUCTION RATES

References in this presentation to initial production 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. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. 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.

ANALOGOUS INFORMATION

Certain information in this investor presentation may constitute "analogous information" as defined in National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"), including, but not limited to, information relating to the areas in geographical proximity to the Marten Hills assets and production information related to wells that are believed to be on trend with the Marten Hills assets. Headwater Management believes the information is relevant as it helps to define the characteristics of the Marten Hills assets. Headwater is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor. Such information is not an estimate of the reserves or resources attributable to lands held or to be held by Headwater and there is no certainty that the data and economics information for the Marten Hills assets will be similar to the information presented herein. The reader is cautioned that the data relied upon by Headwater may not be analogous to the Marten Hills assets.

OOIP

Original Oil-In-Place ("OOIP") is equivalent to Total Petroleum Initially-In-Place ("TPIIP") and has been estimated as December 7, 2023. TPIIP, as defined in the Canadian Oil and Gas Evaluations Handbook, is that quantity of petroleum that is estimated to exist in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered. A portion of the TPIIP is considered undiscovered and there is no certainty that any portion of such undiscovered resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of such undiscovered resources. With respect to the portion of the TPIIP that is considered discovered resources, there is no certainty that it will be commercially viable to produce any portion of such discovered resources. A significant portion of the estimated volumes of TPIIP will never be recovered. The OOIP contained in this presentation has been internally estimated by Headwater management.

DIVIDENDS

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 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 dividend policy of the Company from time to time and, as a result, future cash dividends could be reduced or suspended entirely.