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

(Cdn$ thousands)	March 31, 2024	December 31, 2023
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	126,583	146,052
Restricted cash	350	350
Accounts receivable (note 12)	65,792	46,744
Contribution receivable (note 6)	886	1,771
Financial derivative receivable (note 12)	205	3,758
Inventories	997	788
Prepaids and deposits	1,893	1,461
Total current assets	196,706	200,924
Exploration and evaluation assets (note 3)	23,663	17,930
Property, plant and equipment (note 4)	647,506	616,375
Other assets	1,077	1,106
Total assets	868,952	836,335
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	102,854	73,715
Stock-based compensation payable (note 8)	3,812	2,431
Financial derivative liability (note 12)	2,329	79
Current portion of lease liability	20	34
Current income tax liability	5,626	22,397
Dividend payable	23,729	23,658
Total current liabilities	138,370	122,314
Financial derivative liability (note 12)	53	-
Stock-based compensation payable (note 8)	368	498
Lease liability	815	808
Decommissioning liability (note 5)	42,861	40,951
Repayable contribution (note 6)	11,619	11,405
Deferred income tax liability	49,191	49,861
Total liabilities	243,277	225,837
Shareholders' Equity		
Capital stock (note 7)	484,938	483,013
Contributed surplus	18,332	18,970
Retained earnings	122,405	108,515
Total shareholders' equity	625,675	610,498
Total liabilities and shareholders' equity	868,952	836,335

Subsequent events (note 13)

See accompanying notes to the interim condensed financial statements

Approved on behalf of the Board of Directors:

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

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

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

	Three months ended March 31, 2024	2023
(Cdn$ thousands, except per share data)	$	$
REVENUE		
Sales (note 9)	134,034	104,209
Royalties	(21,844)	(15,332)
Revenue, net of royalties	112,190	88,877
Gains on financial derivatives (note 12)	273	9,243
	112,463	98,120
EXPENSES		
Blending and transportation	16,136	18,036
Production	12,459	9,979
General and administrative	2,601	2,063
Stock-based compensation	2,723	1,615
Depletion and depreciation	30,528	28,657
	64,447	60,350
Interest income and other expense (note 10)	1,166	1,396
Income before income taxes	49,182	39,166
Income taxes		
Current income tax expense	12,233	8,572
Deferred income tax (recovery) expense	(670)	615
	11,563	9,187
Net income and comprehensive income	**37,619**	**29,979**
Net income per share (note 7)		
Basic	0.16	0.13
Diluted	0.16	0.13

See accompanying notes to the interim condensed financial statements

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

Cash flow related to the following activities:	Three months ended March 31, 2024	2023
(Cdn$ thousands)	$	$
OPERATING		
Net income	37,619	29,979
Items not involving cash:		
Unrealized losses (gains) on financial derivatives (note 12)	5,841	(2,003)
Stock-based compensation	2,723	1,615
Depletion and depreciation	30,528	28,657
Income tax expense	11,563	9,187
Non-cash finance charges	500	294
Settlement of decommissioning liability (note 5)	(95)	-
Income taxes paid	(29,004)	(15,942)
Change in non-cash operating working capital (note 11)	(4,628)	8,414
Cash flows provided by operating activities	55,047	60,201
FINANCING		
Payment of lease liability	(22)	(197)
Proceeds from exercise of stock options & warrants (note 7)	35	743
Dividends paid	(23,658)	(23,392)
Proceeds from repayable contribution (note 6)	709	-
Cash flows used in financing activities	(22,936)	(22,846)
INVESTING		
Capital expenditures – property, plant and equipment (note 4)	(46,175)	(53,735)
Capital expenditures – exploration and evaluation (note 3)	(19,092)	(15,759)
Government grant (note 6)	177	-
Change in non-cash investing working capital (note 11)	13,510	11,537
Cash flows used in investing activities	(51,580)	(57,957)
Change in cash and cash equivalents	(19,469)	(20,602)
Cash and cash equivalents, beginning of period	146,052	175,447
Cash and cash equivalents, end of period	126,583	154,845

See accompanying notes to the interim condensed financial statements

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

(Cdn$ thousands)	Notes	Capital stock $	Warrants $	Contributed surplus $	Retained earnings $	Total shareholders' equity $
Balance at January 1, 2023		**479,157**	**2**	**17,312**	**46,864**	**543,335**
Exercise of stock options	7	2,354	-	(1,616)	-	738
Exercise of warrants	7	7	(2)	-	-	5
Stock-based compensation	8	-	-	1,205	-	1,205
Reclassification to stock-based compensation payable	8	-	-	(563)	-	(563)
Net income		-	-	-	29,979	29,979
Dividends declared	7	-	-	-	(23,539)	(23,539)
Balance at March 31, 2023		**481,518**	**-**	**16,338**	**53,304**	**551,160**
Balance at January 1, 2024		**483,013**	-	**18,970**	**108,515**	**610,498**
Exercise of stock options	7	1,925	-	(1,890)	-	35
Stock-based compensation	8	-	-	1,252	-	1,252
Net income		-	-	-	37,619	37,619
Dividends declared	7	-	-	-	(23,729)	(23,729)
Balance at March 31, 2024		**484,938**	**-**	**18,332**	**122,405**	**625,675**

See accompanying notes to the interim condensed financial statements

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

As at and for the three months ended March 31, 2024 and 2023

(All tabular amounts in thousands, unless otherwise stated)

1. NATURE OF OPERATIONS

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

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

2. BASIS OF PREPARATION

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). The unaudited interim condensed financial statements do not include all information required for annual financial statements and should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2023. These unaudited interim condensed financial statements have been prepared following the same accounting policies as the Company’s audited financial statements for the year ended December 31, 2023, except for the below.

The IASB issued amendments to IAS 1 “Presentation of financial statements” re: classification of liabilities as current or non-current which is effective for annual periods beginning on or after January 1, 2024. The amendment clarifies that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period.

These amendments to IAS 1 did not have a material impact on the Company’s financial statements.

The timely preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in the audited financial statements for the year ended December 31, 2023.

These unaudited interim condensed financial statements were approved and authorized for issue by the Board on May 9, 2024.

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

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

	March 31, 2024	December 31, 2023
	$	$
Balance, beginning of period	17,930	42,872
Additions	19,092	28,556
Dispositions (1)	-	(3,750)
Transfers to PP&E	(13,359)	(49,748)
Balance, end of period	23,663	17,930

(1) Relates to the sale of a gross overriding royalty. No gain or loss was recorded related to the sale.

The Company concluded there are no indicators of impairment for its E&E assets as at March 31, 2024.

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

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

	Oil and gas properties	Corporate	Total
Cost	$	$	$
Balance at December 31, 2022	835,220	2,835	838,055
Additions	213,179	38	213,217
Transfers from E&E	49,748	-	49,748
Government grant	(2,474)	-	(2,474)
Changes in decommissioning liability	7,425	-	7,425
Balance at December 31, 2023	1,103,098	2,873	1,105,971
Additions (1)	46,569	6	46,575
Transfers from E&E	13,359	-	13,359
Changes in decommissioning liability	1,696	-	1,696
Balance at March 31, 2024	1,164,722	2,879	1,167,601
Accumulated depletion, depreciation and impairment			
Balance at December 31, 2022	367,717	2,296	370,013
Depletion or depreciation expense	119,510	73	119,583
Balance at December 31, 2023	487,227	2,369	489,596
Depletion or depreciation expense	30,482	17	30,499
Balance at March 31, 2024	517,709	2,386	520,095
Net book value at December 31, 2023	615,871	504	616,375
Net book value at March 31, 2024	647,013	493	647,506

(1) Includes capitalized general and administrative expenses of $1.0 million and capitalized stock-based compensation of $0.4 million.

The Company concluded there are no indicators of impairment for its PP&E assets as at March 31, 2024.

5. DECOMMISSIONING LIABILITY

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

	March 31, 2024	December 31, 2023
	$	$
Balance, beginning of period	40,951	32,343
Additions	2,696	12,975
Settlements	(95)	-
Change in estimate (1)	(1,000)	(5,550)
Accretion (note 10)	309	1,183
Balance, end of period	42,861	40,951
Key assumptions		
Risk free rate	3.3%	3.0%
Inflation rate	1.8%	1.6%

(1) Relates to changes in the inflation rate and risk-free rate. Of this amount, a $2.6 million upward revision is a result of an increase in the inflation rate over the period from 1.6% at December 31, 2023 to 1.8% at March 31, 2024 and a $3.6 million downward revision is a result of an increase in the risk-free rate over the period from 3.0% at December 31, 2023 to 3.3% at March 31, 2024.

The Company has estimated the net present value of its total decommissioning liabilities to be $42.9 million as at March 31, 2024 (December 31, 2023 - $41.0 million). The total future inflated and undiscounted amount of estimated cash flows required to settle these obligations is $110.3 million (December 31, 2023 - $97.4 million). Management estimates the settlement of these obligations will occur over the next 25 to 40 years.

6. REPAYABLE CONTRIBUTION (NRCan ERF)

In 2022 and 2023, the Company received approval of a total of four claims pursuant to a repayable contribution agreement with the Department of Natural Resources Canada ("NRCan"), under the Emissions Reduction Fund ("ERF") Onshore Program. As at March 31, 2024, all funds were received by the Company, with the exception of one holdback amount of $0.9 million (December 2023 - $1.8 million) which has been recorded as a short-term receivable, and subsequent to March 31, 2024, was collected.

The Company has recognized a repayable contribution of $14.2 million, undiscounted, and $11.6 million discounted as at March 31, 2024 (December 31, 2023 – $14.2 million and $11.4 million respectively), with respect to claims submitted to the ERF and confirmed by NRCan. The Company discounts the repayable contribution at a weighted average interest rate of 7.7%. The repayable portion of the funds received are to be repaid as follows: 10% on June 30, 2025, 33% on June 30, 2026, and 57% on June 30, 2027.

	March 31, 2024	December 31, 2023
	$	$
Balance, beginning of period	11,405	6,720
Repayable contribution	-	4,195
Interest (note 10)	214	490
Balance, end of period	11,619	11,405

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

7. CAPITAL STOCK

a) Issued and outstanding

	March 31, 2024		December 31, 2023	
	Number of shares	Amount	Number of shares	Amount
		$		$
Balance, beginning of period	236,580	483,013	233,920	479,157
Exercise of stock options	710	1,925	2,654	3,849
Exercise of warrants	-	-	6	7
Balance, end of period	237,290	484,938	236,580	483,013

Stock Options

During the three months ended March 31, 2024, 1.3 million stock options were exercised for 0.7 million common shares on a cashless basis, and 33 thousand stock options were exercised for 33 thousand common shares for total proceeds of $35 thousand. Contributed surplus related to the options exercised of $1.9 million was transferred to capital stock.

During the three months ended March 31, 2023, 1.6 million stock options were exercised for 1.1 million common shares on a cashless basis, and 0.4 million stock options were exercised for 0.4 million common shares for total proceeds of $0.7 million. Contributed surplus related to the options exercised of $1.6 million was transferred to capital stock.

b) Per share amounts

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

	Three months ended March 31,	
	2024	2023
Weighted average shares outstanding		
Basic	235,742	234,069
Diluted	237,552	236,279

c) Dividends

On November 3, 2022, Headwater announced its inaugural quarterly cash dividend of $0.10 per common share ($0.40 per common share annualized). The first dividend was paid on January 16, 2023, to shareholders of record at the close of business on December 30, 2022. In 2023, Headwater declared $94.4 million related to its quarterly cash dividend.

On March 7, 2024, Headwater declared a cash dividend of $0.10 per common share. The dividend was paid on April 15, 2024, to shareholders of record at the close of business on March 29, 2024.

8. STOCK-BASED COMPENSATION

a) Share awards

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

RSUs (Cash Settled)

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

	March 31, 2024	December 31, 2023
Balance, beginning of period	1,188	-
Reclassified from contributed surplus	-	563
Increase in liability/fair value adjustment [(1)]	656	968
Payout	(620)	(343)
Balance, end of period	1,224	1,188
Current portion of stock-based compensation payable	856	690
Long-term portion of stock-based compensation payable	368	498

(1) Includes dividend adjustment.

The RSU liability as at March 31, 2024 of $1.2 million is based on a fair value of $7.67 per RSU which is the Company's closing share price on March 31, 2024.

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

	March 31, 2024	December 31, 2023
Outstanding, beginning of period	377	179
Granted	202	274
Forfeited	(8)	(22)
Exercised	(108)	(54)
Outstanding, end of period	463	377

PSUs (Equity Settled)

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

	March 31, 2024	December 31, 2023
Outstanding, beginning of period	1,917	838
Granted	827	1,082
Forfeited	-	(3)
Outstanding, end of period	2,744	1,917

For the three months ended March 31, 2024, with respect to RSUs and PSUs outstanding, the Company recorded gross stock-based compensation expense of $1.8 million and capitalized stock-based compensation expense of $0.4 million.

b) Deferred share units ("DSUs")

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

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

	March 31, 2024	December 31, 2023
	$	$
Balance, beginning of period	1,741	825
Increase in liability/fair value adjustment (1)	1,215	916
Balance, end of period	2,956	1,741
Current portion of stock-based compensation payable	2,956	1,741

(1) Includes dividend adjustment.

The DSU liability as at March 31, 2024 of $3.0 million is based on a fair value of $7.67 per DSU which is the Company's closing share price on March 31, 2024.

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

	March 31, 2024	December 31, 2023
Outstanding, beginning of period	264	141
Granted	102	123
Outstanding, end of period	366	264

c) Stock options

The Company has an old and new stock option plan (the "Option Plans") under which options to purchase common shares of the Company may be granted to directors, officers, employees and consultants of the Company. The Company does not intend to grant any further options under the Option Plans.

The following table summarizes the changes in the outstanding stock options for the periods:

	Three months ended March 31, 2024		Year ended December 31, 2023	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	2,508	$ 3.88	6,086	$ 2.74
Forfeited or expired	-	-	(8)	$ 2.39
Exercised (1)	(1,356)	$ 3.53	(3,570)	$ 1.94
Options outstanding, end of period	1,152	$ 4.29	2,508	$ 3.88
Options exercisable, end of period	1,014	$ 4.25	1,383	$ 3.60

(1) The Company's weighted average share price, at the date of exercise, for stock options exercised during the three months ended March 31, 2024 was $7.31 per common share (three months ended March 31, 2023 - $6.21 per common share).

There were no stock options granted in three months ended March 31, 2024, or in the year ended December 31, 2023.

The range of exercise prices of stock options outstanding and exercisable as at March 31, 2024 is as follows:

	Outstanding options			Exercisable options	
Exercise prices	Number of options outstanding	Weighted average remaining term (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
$ 2.39 - $ 3.00	192	0.73	$ 2.48	192	$ 2.48
$ 3.01 - $ 5.23	960	1.09	$ 4.65	822	$ 4.67
Total	1,152	1.03	$ 4.29	1,014	$ 4.25

For the three months ended March 31, 2024, with respect to stock options, the Company recorded gross stock-based compensation expense of $149 thousand and capitalized stock-based compensation expense of $31 thousand.

9. SALES

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

	Three months ended March 31, 2024	Three months ended March 31, 2023
	$	$
Heavy oil	127,446	96,422
Natural gas	5,267	6,437
Natural gas liquids	557	546
Gathering, processing and transportation	764	804
	134,034	104,209

Included in accounts receivable as at March 31, 2024 is $46.9 million (December 31, 2023 - $36.3 million) of accrued sales related to March 2024 production.

10. INTEREST INCOME AND OTHER EXPENSE

Interest income and other expense consists of the following:

	Three months ended March 31, 2024	Three months ended March 31, 2023
	$	$
Interest income	1,671	1,788
Realized and unrealized foreign exchange gains (losses)	33	(3)
Accretion on decommissioning liability (note 5)	(309)	(262)
Interest on repayable contribution (note 6)	(214)	(117)
Interest on lease liability	(15)	(10)
	1,166	1,396

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31, 2024	2023
	$	$
Change in non-cash operating working capital:		
Accounts receivable	(7,357)	5,707
Inventories	(209)	708
Prepaids and deposits	(432)	(268)
Accounts payable and accrued liabilities	3,990	2,439
Stock-based compensation payable	(620)	(172)
	(4,628)	8,414
Change in non-cash investing working capital:		
Accounts receivable	(11,639)	-
Accounts payable and accrued liabilities	25,149	11,537
	13,510	11,537

Cash income taxes paid	29,004	15,942
Cash standby fees paid	44	36
Cash interest received	1,713	1,824

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) The Company is exposed to the following risks:

i) Commodity price risk

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

The Company had the following outstanding financial derivative commodity contracts as at March 31, 2024:

Commodity	Index	Type	Term	Daily Volume	Contract Price
Natural Gas	AECO 5A	Fixed	April 2024 - Oct 2024	2,000 GJ	Cdn$2.12/GJ
Natural Gas	AECO 5A	Fixed	April 2025 - Oct 2025	2,000 GJ	Cdn$2.78/GJ
Natural Gas	AGT (1)	Fixed	April 2024	2,500 mmbtu	Cdn$2.33/mmbtu
Natural Gas	AGT	Fixed	Dec 2024 - Mar 2025	2,500 mmbtu	Cdn$10.65/mmbtu
Crude Oil	WCS Basis (2)	Differential	Apr 2024 - Jun 2024	5,000 bbl	US$15.18/bbl
Crude Oil	WCS Basis	Differential	Jul 2024 – Sep 2024	3,000 bbl	US$13.25/bbl

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

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

	Three months ended March 31, 2024	Three months ended March 31, 2023
	$	$
Gains (losses) on financial derivatives:		
- realized gains	6,114	7,240
- unrealized (losses) gains	(5,841)	2,003
Gains on financial derivatives	273	9,243

The following table summarizes the fair value as at March 31, 2024 and the change in fair value for the three months ended March 31, 2024:

	Commodity contracts	Foreign exchange contracts	Total
	$	$	$
Net financial derivative receivable, beginning of period	3,662	17	3,679
Unrealized change in fair value (1)	(5,841)	(15)	(5,856)
Net financial derivative (liability) receivable, end of period	(2,179)	2	(2,177)

(1) Unrealized change in fair value related to the Company's foreign exchange contracts is included in interest income and other expense.

The fair value of the net financial derivative liability related to the Company's commodity contracts of $2.2 million as at March 31, 2024 is based on estimated future natural gas and oil prices as of that date. The fair values of these financial derivative commodity contracts are sensitive to changes in the natural gas and oil reference prices. Holding other assumptions constant, if the AECO 5A and AGT price increased by 10% and the WCS differential to WTI decreased by 10%, the fair value of the net financial derivative liability would increase (decrease) by $1.8 million.

ii) Foreign currency risk

The Company is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing and from exposure to its U.S. dollar denominated heavy oil, natural gas and natural gas liquids marketing arrangements.

Headwater mitigates this risk by entering into commodity contracts in Canadian dollars and entering into foreign exchange contracts.

The Company had the following outstanding foreign exchange contracts as at March 31, 2024:

Type	Buy Currency	Sell Currency	Rate	Notional Amount	Settlement Date
Forward contract	CAD	USD	March 2024 average (1)	US$0.5 million	April 26, 2024

(1) WM/Reuters Intraday Spot Rate as of Noon EST

Fair Value Measurement

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

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

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

iii) Credit risk

At March 31, 2024, the expected credit loss on the Company's accounts receivable was $nil. As at March 31, 2024, the Company's receivables consisted of $46.9 million (December 31, 2023 - $36.3 million) from crude oil and natural gas marketers, $2.3 million from commodity contract counterparties (December 31, 2023 - $4.8 million), $16.3 million (December 31, 2023 - $3.9 million) from joint venture partners and $0.3 million (December 31, 2023 - $1.7 million) related to accrued interest and other.

During the year ended December 31, 2023, Headwater entered into an agreement to construct a natural gas gathering system with an estimated capital cost of approximately $22.5 million. Once commissioned, which is expected to occur late 2024, the Company is entitled to be reimbursed the capital costs. Included in the joint venture receivable balance at March 31, 2024, is a balance outstanding related to this agreement in the amount of $15.2 million. As this amount is expected to be collected during the year ended December 31, 2024, it has been recorded as a current asset and included within accounts receivable in the Statement of Financial Position. Except for this joint venture receivable, trade receivables generally have a 30-day term.

iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through its working capital and an actively managed operating and capital expenditure budgeting process. The Company also entered into a $100.0 million credit facility in the fourth quarter of 2022 to strengthen its liquidity. As at March 31, 2024, the Company was holding cash of $126.6 million.

Credit Facility

The Company has a senior secured revolving syndicated credit facility with the National Bank of Canada and the Bank of Montreal ("the Lenders"). The credit facility is comprised of extendible revolving credit facilities consisting of a $20.0 million operating facility and an $80.0 million syndicated facility.

As at March 31, 2024, Headwater had not drawn on the credit facilities.

The credit facilities have a revolving period of 364 days, extendible annually at the request of the Company, subject to approval of the Lenders. If not extended, the credit facilities will automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period. The borrowing base is subject to semi-annual redeterminations occurring by May 31st and by November 30th of each year. The credit facilities are secured by a demand debenture in the amount of $250.0 million. Repayments of principal are not required until the maturity date, provided that the borrowings do not exceed the authorized borrowing base and the Company is in compliance with all covenants, representations and warranties.

The credit facilities bear interest at a floating market rate with margins charged by the Lenders linked to the Company's senior debt to EBITDA ratio. EBITDA, for the purposes of calculating the senior debt to EBITDA ratio, is calculated as net income adjusted for non-cash items, interest expense and income taxes. Senior debt, for the purposes of calculating the senior debt to EBITDA ratio, is calculated as any debt of the Company excluding the financial derivative liability and repayable contribution.

The credit facilities are not subject to any financial covenants. Additionally, distributions are permitted subject to compliance with a Board approved distributions policy.

b) Management of capital

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

On November 3, 2022, Headwater announced its inaugural quarterly cash dividend of $0.10 per common share ($0.40 per common share annualized). The first dividend was paid on January 16, 2023, to shareholders of record at the close of business on December 30, 2022. In 2023, Headwater declared $94.4 million related to its quarterly cash dividend.

On March 7, 2024, Headwater declared a cash dividend of $0.10 per common share. The dividend was paid on April 15, 2024, to shareholders of record at the close of business on March 29, 2024.

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

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

i) Adjusted working capital

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

	As at March 31, 2024	As at December 31, 2023
	$	$
Working capital	58,336	78,610
Repayable contribution	(11,619)	(11,405)
Financial derivative receivable	(205)	(3,758)
Financial derivative liability	2,329	79
Adjusted working capital	48,841	63,526

ii) Adjusted funds flow from operations

Management considers adjusted funds flow from operations to be a key measure to assess the Company's management of capital. Adjusted funds flow from operations is an indicator as to whether adjustments are necessary to the level of capital expenditures. For example, in periods where adjusted funds flow from operations is negatively impacted by reduced commodity pricing, capital expenditures may need to be reduced or curtailed to preserve the Company's capital 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 March 31,	
	2024	2023
	$	$
Cash flows provided by operating activities	55,047	60,201
Changes in non-cash working capital	4,628	(8,414)
Current income taxes	(12,233)	(8,572)
Income taxes paid	29,004	15,942
Adjusted funds flow from operations	76,446	59,157

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

13. SUBSEQUENT EVENTS

a) Dividend

Subsequent to March 31, 2024, the Company declared a cash dividend of $0.10 per common share. The dividend will be paid on July 15, 2024, to shareholders of record at the close of business on June 28, 2024.

b) Financial derivative contract

Subsequent to March 31, 2024, Headwater entered into the following commodity contract:

Commodity	Index	Type	Term	Daily Volume	Contract Price
Natural Gas	AGT	Fixed	Dec 2024 - Jan 2025	2,500 mmbtu	Cdn$13.75/mmbtu