

March 25, 2020

HEADWATER EXPLORATION INC. ANNOUNCES 2019 RESERVES, FOURTH QUARTER AND YEAR END 2019 OPERATING AND FINANCIAL RESULTS, OPERATIONS UPDATE AND ADOPTION OF NEW BY-LAWS

CALGARY, ALBERTA – Headwater Exploration Inc. (the "**Company**" or "**Headwater**") (**TSX:HWX**) announces its operating and financial results for the three months and year ended December 31, 2019. Selected financial and operational information is outlined below and should be read in conjunction with the audited financial statements and the related management's discussion and analysis ("MD&A"). These filings will be available at www.sedar.com and the Company's website at www.headwaterexp.com. In addition, readers are also directed to the Company's Annual Information Form for the year ended December 31, 2019, dated March 25, 2020, filed on SEDAR at www.sedar.com. Proforma numbers inclusive of the Recapitalization Transaction (as defined below) are included in the highlights table below.

Financial and Operating Highlights

	Three months ended December 31, Pro Forma ⁽¹⁾⁽²⁾	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Financial (thousands of dollars except share data)					
Sales	2,310	2,310	3,525	9,333	16,944
Cash flow provided by operating activities ⁽⁵⁾	(192)	(192)	(1,609)	8,861	10,115
Per share - basic	-	-	(0.02)	0.10	0.11
- diluted	-	-	(0.02)	0.10	0.11
Funds flow from operations ⁽⁵⁾	1,929	1,929	1,338	8,206	10,232
Per share - basic	0.01	0.02	0.02	0.09	0.12
- diluted	0.01	0.02	0.02	0.09	0.11
Net income (loss)	1,447	1,447	6,104	2,815	(314)
Per share - basic	0.01	0.02	0.07	0.03	-
- diluted	0.01	0.02	0.07	0.03	-
Capital expenditures	227	227	724	685	2,254
Working capital	109,992			64,622	57,190
Shareholders' equity				114,310	111,700
Weighted average shares (thousands)					
Basic		88,147	88,799	88,472	88,700
Diluted		88,542	89,237	88,757	89,095
Shares outstanding, end of period (thousands)					
Basic	144,327			88,147	88,899
Diluted	167,291			89,842	91,470
Operating (6:1 boe conversion)					
Average daily production					
Natural gas (mmcf/d)	3.5	3.5	4.4	3.7	4.2
Natural gas liquids (bbld)	2	2	-	4	3
Barrels of oil equivalent ⁽⁴⁾ (boe/d)	586	586	726	620	709
Netbacks (\$/boe)					
Operating					
Sales	42.84	42.84	52.74	41.24	65.46
Royalties	(0.96)	(0.96)	(1.44)	(1.02)	(1.95)
Production expenses	(12.19)	(12.19)	(12.13)	(11.54)	(10.58)
Transportation expenses	-	-	-	-	(0.39)
Field netback ⁽³⁾	29.69	29.69	39.17	28.68	52.54
Realized gains (losses) on financial derivatives	14.70	14.70	12.99	16.31	(2.05)
Operating netback ⁽³⁾	44.39	44.39	52.16	44.99	50.49
General and administrative expense	(13.22)	(13.22)	(12.25)	(13.26)	(10.06)
Interest income and other ⁽⁶⁾	4.73	4.73	5.30	4.64	5.88
Decommissioning liabilities settled	(0.13)	(0.13)	(25.20)	(0.11)	(6.78)
Funds flow netback ⁽³⁾⁽⁵⁾	35.77	35.77	20.01	36.26	39.53
Net income (loss) (\$/boe)	26.84	26.84	91.32	12.43	(1.21)

(1) The Pro Forma calculations reflect the issuance of an aggregate of 54,347,826 Common Shares (as defined below) and 21,739,130 Warrants (as defined below) for gross proceeds of \$50 million less agents' fees of \$1.5 million, stock option proceeds of \$1.67 million and expenses of \$4.8 million pursuant to the Recapitalization Transaction.

(2) Pro Forma per share values are calculated using Pro Forma basic common shares outstanding and Pro Forma diluted common shares outstanding.

(3) See "Non-IFRS" measures

(4) See "Barrels of Oil Equivalent."

(5) Comparative period revised to reflect current period presentation. Decommissioning liabilities settled was previously not included in cash flow from operations, funds flow from operations or the funds flow netback calculation.

(6) Excludes accretion on decommissioning liabilities.

RECAPITALIZATION TRANSACTION SUBSEQUENT TO DECEMBER 31, 2019

On March 4, 2020, the Company completed its previously announced recapitalization transaction (the "**Recapitalization Transaction**"), as further described in the Company's management information circular dated February 3, 2020. The Recapitalization Transaction involved the following:

- A non-brokered private placement of 21,739,130 units of the Company at a price of \$0.92 per unit for aggregate gross proceeds of \$20.0 million. Each unit was comprised of one common share ("**Common Share**") and one Common Share purchase warrant ("**Warrant**") of the Company. Each Warrant entitles the holder to purchase one Common Share at a price of \$0.92 per Common Share for a period of 4 years from the issuance date. The Warrants vest and become exercisable as to one-third upon the 20-day volume weighted average price of the Common Shares equaling or exceeding \$1.30, \$1.60 and \$1.90, respectively. Pursuant to the rules of the Toronto Stock Exchange, the non-brokered private placement was approved by shareholders of the Company at a special meeting held on March 4, 2020.
- Concurrently with the closing of the non-brokered private placement, the appointment of a new management team and reconstitution of the board of directors was completed.
- A brokered private placement of 32,608,696 subscription receipts of the Company (the "**Subscription Receipts**"), which were sold at a price of \$0.92 per Subscription Receipt through a syndicate of dealers for aggregate gross proceeds of \$30.0 million, was completed on February 11, 2020. Pursuant to the terms of the Subscription Receipts, upon completion of the non-brokered private placement, reconstitution of the board of directors and appointment of the new management team on March 4, 2020, the net proceeds of the brokered private placement were released to the Company and each holder of Subscription Receipts received one Common Share for each Subscription Receipt held.
- The Company also changed its name to Headwater Exploration Inc., which name change was also approved by shareholders of the Company at the special meeting held on March 4, 2020. The Common Shares began trading under the new name and the symbol "HWX" on the TSX on March 9, 2020.

HIGHLIGHTS FOR YEAR ENDED DECEMBER 31, 2019

- As at December 31, 2019, Headwater had cash and cash equivalents of \$60.9 million, net working capital of \$64.6 million and no outstanding debt. Pro forma the Recapitalization Transaction the Company had estimated working capital of approximately \$110 million and no outstanding debt.
- Achieved funds flow from operations of \$8.2 million and generated net income of \$2.8 million.
- Total proved and proved developed producing reserves stayed flat year over year at 3.0 mmboe due to positive technical revisions which offset production during 2019.
- Proved plus probable reserves stayed flat year over year at 3.7 mmboe due to positive technical revisions which offset production during 2019. 100% of the proved plus probable reserves at year end are producing reserves.
- The net present value of future net revenues discounted at 10% after taxes of the proved producing reserves inclusive of all future abandonment and reclamation costs is \$46.7 million.

- The net present value of future net revenues discounted at 10% after taxes of the proved plus probable reserves inclusive of all future abandonment and reclamation costs is \$55.6 million.
- On a pro forma basis based on the net present value of future net revenues discounted at 10% after taxes of Headwater's proved developing producing reserves and proved plus probable reserves as presented and proforma positive working capital of approximately \$110 million, the Company's net asset value as at December 31, 2019 equates to \$1.09 per basic Common Share on a proved basis and \$1.15 per basic Common Share on a proved plus probable basis based on approximately 144.3 million Common Shares outstanding. Of note is that all Headwater's reserves are producing reserves.

2019 Reserve Information

Headwater currently has natural gas reserves in the McCully Field near Sussex, New Brunswick. GLJ Petroleum Consultants Ltd. ("GLJ") assessed the Company's reserves in its report dated effective December 31, 2019 which were prepared in accordance with standards of the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") and National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* and is based on the average forecast prices as at December 31, 2019 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, 2019.

December 31, 2019

Reserves Category

	Conventional Natural Gas MMcf	Shale Gas MMcf	NGL Mbbbl	Oil Equivalent MBOE	After Tax Net Present Value Discounted at 10% (\$000's)	Future Development Capital ⁽¹⁾ (\$000's)
Proved Developed Producing	17,163	836	18	3,018	46,706	2,643
Total Proved	17,163	836	18	3,018	46,706	2,643
Probable Developed Producing	3,921	197	4	691	8,883	-
Total Proved Plus Probable	21,084	1,034	22	3,709	55,589	2,696

Notes

- 1) All future development capital is associated with future facility optimization.
- 2) Reserves have been presented on gross basis which are the Company's total working interest share before the deduction of any royalties and without including any royalty interests of the Company.
- 3) Based on three independent reserves evaluation firms average December 31, 2019 escalated price forecasts.
- 4) It should not be assumed that the net present value of estimated future net revenue presented in the tables above represents the fair market value of the reserves.
- 5) There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserves estimates of Headwater's natural gas and natural gas liquids herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual natural gas and natural gas liquids reserves may be greater than or less than the estimates provided herein.

- 6) All future net revenues are stated prior to provision for interest, general and administrative expenses and after deduction of royalties, operating costs, estimated well and facility abandonment and reclamation costs and estimated future capital expenditures. Future net revenues have been presented on an after tax basis.
- 7) Totals may not add due to rounding.
- 8) Pursuant to the COGE Handbook, reported reserves should target at least a 90 percent probability that the quantities actually recovered will be equal to or exceed the estimated proved reserves and that at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

2020 OUTLOOK

Headwater is in an enviable position to consolidate assets in the Canadian energy sector with a forecasted positive working capital balance of approximately \$115 million as at March 31, 2020 in addition to a strong tax pool balance of approximately \$159 million (as at December 31, 2019).

The rapid deterioration in crude oil prices from simultaneous supply and demand shocks are providing a generational opportunity for well capitalized companies in the Canadian energy sector. The Headwater team continues to assess the unique opportunities that have been and continue to be created by the current market dynamics. Our focus on asset quality, balance sheet strength and investor returns are anticipated to result in one or more strategic acquisitions in the western Canadian sedimentary basin that will be combined with organic development to obtain superior corporate level returns.

2020 Guidance

Headwater plans to continue the Company's previous strategy of production optimization of the McCully gas field in New Brunswick. The field is expected to be shut-in from approximately May 1 to November 1 to optimize production levels, revenue, cash flow and returns by taking advantage of premium gas pricing during the peak demand months.

With this release Headwater is returning to conventional fiscal year guidance as follows:

- 2020 average production of 4.1 mmcf/d (approximately 99% natural gas and 1% natural gas liquids)(assumes all production shut-in from May 1 to November 1, 2020)
- Operating cash flow of \$6.8 million (inclusive of realized financial derivatives)
- 2020 funds flow from operations of \$5.5 million
- Capital expenditures on McCully base assets of \$0.5 million
- 2020 exit working capital (assuming no other acquisitions or development) of \$115 million

With our significant capital resources, it is expected that the budget including acquisitions and development will be very fluid to accommodate the opportunities identified by the team and approved by the Board of Directors (the "**Board**") of Headwater throughout 2020. We look forward to reporting back on the transformation of the Company over the next several quarters.

New By-Laws

Headwater is also pleased to announce that the Board has approved new by-laws (the "**New By-Laws**") to replace the Company's existing by-laws. The New By-Laws were adopted to modernize the Company's by-laws to current standards including, among other things: (i) increasing the quorum requirements for shareholders' meetings to a quorum of 2 persons present, either in person or by proxy, representing 25% of more of the outstanding Common Shares; (ii) ensuring that the Chair of the Board does not have a second or casting vote in the event of an equality of votes at any meeting of shareholders or directors; (iii) adding advance notice provisions (the "**Advance Notice Provisions**"); and (iv) adding provisions that allow for participation in shareholders' meetings by electronic means, telephone or other communication facilities and also provide for shareholders' meetings to be conducted entirely by electronic means.

The Advance Notice Provisions provide that advance notice to the Company must be made in circumstances where nominations of persons for election to the Board are made by shareholders, other than pursuant to a proposal or requisition made in accordance with the *Business Corporations Act* (Alberta). More specifically, the Advance Notice Provisions provide that:

- In the case of an annual meeting of shareholders, notice to the Company of the nomination of directors must be made not less than 30 days prior to the date of the annual meeting of shareholders; provided, however, that in the event that the annual meeting of shareholders is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the tenth (10th) day following the date of such announcement.
- In the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), notice to the Company must be made not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement of the date of the special meeting of shareholders was made.
- If notice-and-access is used for delivery of proxy related materials in respect of a meeting of shareholders called for any purpose including the election of directors and the notice date in respect of the meeting is not less than 50 days before the date of the applicable meeting, the notice must be received not later than the close of business on the 40th day before the date of the applicable meeting.
- Additionally, in the event of an adjournment or postponement of an annual meeting or special meeting of shareholders or any announcement thereof, a new time period shall commence for the giving of timely notice.

The Advance Notice Provisions also require a nominating shareholder to include specific information in the written notice to the Company and otherwise comply with such provisions for an effective nomination to occur. No person will be eligible for election as a director of the Company unless nominated in accordance with the Advance Notice Provisions

The New By-Laws, including the Advance Notice Provisions, are now effective and in full force and effect. The New By-Laws will be considered by the shareholders of the Company for approval at the Company's next meeting of shareholders. If the New By-Laws are not confirmed by the shareholders, the New By-Laws will terminate and be of no further force and effect following the termination of the shareholders meeting and the old by-laws will come back into force.

The full text of the New By-Laws, including the Advance Notice Provisions, are available on the Company's website at www.headwaterexp.com and on SEDAR at www.sedar.com.

Additional corporate information can be found in our corporate presentation on our 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. Ali Horvath, CPA, CA
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, Headwater's intent to consolidate assets in the Canadian energy sector and focus on asset quality, balance sheet strength and investor returns; the anticipation that Headwater's business plan will result in one or more strategic acquisitions combined with organic development that will result in superior corporate level returns; Headwater's intent to continue the Company's previous strategy of production optimization of the McCully gas field in New Brunswick; the expectation that production from the McCully field will be shut-in from approximately May 1 to November 1 to optimize production levels, revenue, cash flow and returns by taking advantage of premium gas pricing during the peak demand months; guidance relating to 2020 expected annual average production, expected 2020 operating cash flow, expected 2020 funds flow from operations, 2020 expected capital expenditures on McCully base assets and expected 2020 exit working capital; the expectation that the Company's budget including acquisitions and development will be very fluid to accommodate the opportunities identified by the team and approved by the Board of Directors of Headwater throughout 2020; and the expectation that the New By-Laws will be considered by shareholders of the Company at the next meeting of the Company's shareholders. 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 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. 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, including the COVID-19 pandemic, war, terrorist events, political upheavals and other similar events; events impacting the supply and demand for oil and gas including the COVID-19 pandemic and actions taken by the OPEC + group; delays or changes in plans with respect to exploration or development projects or capital expenditures; as 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. Refer to Headwater's most recent Annual Information Form dated March 25, 2020, on SEDAR at www.sedar.com, and the risk factors contained therein.

The forward-looking statements contained in this press release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

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 2020 has been prepared on a reasonable basis, reflecting management's best estimates and judgments, and represent, to the best of management's knowledge and opinion, the Company's expected course of action. However, because this information is highly subjective, it should not be relied on as necessarily indicative of future results.

NON-IFRS MEASURES: This document contains the terms "funds flow from operations", "field netback", "operating cash flow", "operating netback" and "funds flow netback", which do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable with the calculation of similar measures by other companies. Management uses funds flow from operations to analyze operating performance and leverage. Funds flow from operations is calculated as cash flow provided by operating activities before changes in non-cash working capital. Operating cash flow is calculated by taking the amount of sales received after royalties, production, transportation costs and realized gain (loss) on financial derivatives. Management believes "field netback", "operating netback" and "funds flow netback" are useful supplemental measures to consider the profitability of the Company's operations on a per unit basis and have been calculated in respect of field netback by taking the amount of sales received after royalties and production and transportation costs, in respect of operating netback by taking the amount of sales received after royalties, production, transportation costs and realized gains (losses) on financial derivatives, and in respect of funds flow netback by taking the amount of sales received after royalties, production, transportation costs, realized gains (losses) on financial derivatives, general and administrative costs, interest income and other (excluding accretion on decommissioning liabilities) and decommissioning liabilities settled. Additional information relating to certain of these non-IFRS measures, including the reconciliation between funds from operations and cash flow from operating activities, can be found in the MD&A.

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.

OIL AND GAS METRICS: This press release contains the term net asset value, which does not have a standardized meaning or standard method of calculation and therefore such measure may not be comparable to similar measures used by other companies. Such metric has been included herein to provide readers with additional measures to evaluate the value of the Company's assets; however, such measure is not a reliable indicator of the Company's future performance or value of the Common Shares. The inputs for the calculation of net asset value are identified in the body of this press release.