

May 14, 2020

HEADWATER EXPLORATION INC. ANNOUNCES FIRST QUARTER OPERATING AND FINANCIAL RESULTS AND OPERATIONS UPDATE

CALGARY, ALBERTA – Headwater Exploration Inc. (the "**Company**" or "**Headwater**") (**TSX:HWX**) announces its operating and financial results for the three months ended March 31, 2020. Selected financial and operational information is outlined below and should be read in conjunction with the unaudited interim condensed 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.

Financial and Operating Highlights

	Three months ended March 31,		Percent Change
	2020	2019	
Financial (thousands of dollars except share data)			
Sales	2,308	6,009	(62)
Cash flow provided by operating activities	1,182	7,720	(85)
Per share - basic	0.01	0.09	(89)
- diluted	0.01	0.09	(89)
Adjusted funds flow from operations ⁽¹⁾	5,413	7,554	(28)
Per share - basic	0.05	0.08	(38)
- diluted	0.05	0.08	(38)
Net income (loss)	(6,810)	2,960	(330)
Per share - basic	(0.06)	0.03	(300)
- diluted	(0.06)	0.03	(300)
Capital expenditures	70	178	(61)
Working capital	114,200	64,034	78
Shareholders' equity	157,235	114,768	37
Weighted average shares (thousands)			
Basic	105,436	88,919	19
Diluted	105,436	89,213	18
Shares outstanding, end of period (thousands)			
Basic	144,327	88,924	62
Diluted	145,552	90,430	61
Operating (6:1 boe conversion)			
Average daily production			
Natural gas (mmcf/d)	8.9	9.0	(1)
Natural gas liquids (bbl/d)	7	10	(30)
Barrels of oil equivalent ⁽³⁾ (boe/d)	1,487	1,510	(2)
Netbacks (\$/boe)			
Operating			
Sales	17.06	44.23	(61)
Royalties	(0.42)	(1.17)	(64)
Production expenses	(4.78)	(5.50)	(13)
Field netback ⁽¹⁾	11.86	37.56	(68)
Realized gains on financial derivatives	29.09	20.95	39
Operating netback ⁽¹⁾	40.95	58.51	(30)
General and administrative expense	(5.05)	(4.43)	14
Interest income and other ⁽³⁾	4.10	1.49	175
Decommissioning liabilities settled	-	0.03	(100)
Adjusted funds flow netback ⁽¹⁾	40.00	55.60	(28)

(1) See "Non-IFRS" measures

(2) See "Barrels of Oil Equivalent."

(3) Excludes accretion on decommissioning liabilities.

FIRST QUARTER 2020 HIGHLIGHTS

- On March 4, 2020, the Company completed its previously announced recapitalization transaction (the "Recapitalization Transaction") pursuant to which the Company raised aggregate gross proceeds of \$50 million pursuant to two equity private placements, a new management team was appointed and the board of directors of the Company was reconstituted. In connection with the transaction, the Company incurred \$4.4 million of transaction costs and \$1.9 million in share issue costs.
- As at March 31, 2020, Headwater has cash and cash equivalents of \$111.6 million, net working capital of \$114.2 million and no outstanding debt.
- Q1 2020 production averaged 1,487 boe/d, representing a 154 percent increase from Q4 2019, due to an additional month of production in Q1 2020 compared to Q4 2019.
- Effectively optimized our risk management strategy recognizing realized financial derivative gains of \$3.9 million, assisting to offset a significant decline in natural gas pricing, to achieve an operating netback of \$40.95/boe.
- Achieved adjusted funds flow from operations of \$5.4 million and an adjusted funds flow netback of \$40.00/boe.

RESPONSE TO COVID-19

Headwater's top priority is the health and safety of the Company's employees, contractors, partners, service providers and the communities in which we operate. During the first quarter of 2020, the Company introduced measures to protect the well-being of all stakeholders and follow the guidance of public health officials, while maintaining safe operations and business continuity.

2020 GUIDANCE

Headwater has continued the strategy of revenue optimization of the McCully gas field by shutting in all gas production as of May 1, 2020. The field is expected to be shut-in until November 1, 2020 to optimize production levels, revenue, cash flow and returns, by taking advantage of premium gas pricing during the peak demand months.

Headwater is pleased to re-confirm its previously released guidance.

2020 OUTLOOK

To date the COVID-19 pandemic has had minimal impact on Headwater's base operations or cashflow expectations; however, the pandemic is anticipated to have lasting effects which will reshape the exploration and production business. The Headwater team continues to diligently evaluate the multiple unique opportunities that continue to evolve in the Canadian oil and gas sector. With our significant capital resources, experience and tenacity, it is expected that one or more of these opportunities will result in acquisitions that are transformative to our business in 2020.

Additional corporate information can be found in our corporate presentation on our website at www.headwaterexp.com

FOR FURTHER INFORMATION PLEASE CONTACT:

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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 expected strategy of revenue optimization of the McCully gas field by shutting in all gas production from May 1, 2020 to November 1, 2020; Headwater's intent to evaluate the multiple unique opportunities that continue to evolve in the Canadian oil and gas sector; and the expectation that one or more opportunities will result in acquisitions that are transformative to our business in 2020.

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 "adjusted funds flow from operations", "field netback", "operating netback" and "adjusted 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 adjusted funds flow from operations to analyze operating performance, leverage and liquidity. Adjusted funds flow from operations is calculated as cash flow provided by operating activities before changes in non-cash working capital and adding back transaction costs. Management believes "field netback", "operating netback" and "adjusted 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 in respect of operating netback by taking the amount of sales received after royalties, production and realized gains (losses) on financial derivatives, and in respect of adjusted funds flow netback by taking the amount of sales received after royalties, production, 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 adjusted funds flow 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.