

November 9, 2020

HEADWATER EXPLORATION INC. ANNOUNCES TRANSFORMATIONAL TRANSACTION WITH CENOVUS ENERGY INC. AND THIRD QUARTER OPERATING AND FINANCIAL RESULTS

CALGARY, ALBERTA – Headwater Exploration Inc. (the "**Company**" or "**Headwater**") (**TSX:HWX**) announces it has entered into a definitive agreement with Cenovus Energy Inc. ("**Cenovus**") for a transformational transaction (the "**Transaction**") to acquire 100% of Cenovus' assets in the Marten Hills area of Alberta for approximately \$100 million. Pursuant to the Transaction, Headwater will acquire a 100% working interest in approximately 2,800 barrels per day of medium oil production and 270 net sections of Clearwater rights.

The total consideration to be paid to Cenovus for the Transaction consists of:

- \$35 million cash
- 50 million common shares of Headwater and 15 million purchase warrants (the "**Warrants**") exercisable at \$2.00 per common share with a three-year term

"We are extremely pleased to have obtained a strategic investor and business partner with Cenovus. Our common goals of developing and maximizing the value associated with this enviable position in the prolific Clearwater play have aligned us on all key business principles" said Neil Roszell, Headwater's Chairman and Chief Executive Officer. Upon closing of the Transaction, Cenovus will own approximately 26% of the basic common shares of the Company and will be entitled to appoint two nominees to the Board of Directors of the Company. In addition, Headwater has provided Cenovus with the ability to participate in Headwater's future equity financings based on its pro rata ownership level at such time for as long as Cenovus holds 20% or more of the issued and outstanding Headwater common shares.

Cenovus will retain a gross overriding royalty on the lands allowing them to benefit from execution strength of the Headwater team in the development of the Clearwater formation at Marten Hills. In conjunction with the Transaction, Headwater has committed to spend \$100 million on the acquired lands by December 31, 2022.

Strategic Rationale

The Transaction solidifies Headwater's strategy to become a premier publicly traded oil and gas producer focused on asset quality, corporate level returns and sustainability while maintaining a pristine balance sheet.

Relevance

The Transaction establishes Headwater as the only pure play public company with material interests in the Clearwater play, a unique high return play with compelling economics. Headwater's acquisition of the assets will allow public company investors exposure to the Clearwater play through a team that has historically proven to be skilled capital allocators and consolidators. The acquired assets have top decile inventory in the core Marten Hills area of the Clearwater play, with Cenovus having 7 of the top 11 producing wells drilled to date.

Returns

In the context of current strip commodity pricing, the Headwater five-year business plan is expected to deliver 20-30% annualized debt adjusted funds flow growth with the potential to generate significant free cash flow.

Resiliency & Exploration Upside

The acquired development inventory on the core lands is highly economic on strip pricing. Our five-year business plan, under our current capital structure, is projected to have negligible to no leverage without any further capital injections.

Headwater plans to continue Cenovus' efforts to de-risk the approximate 250 sections of exploration acreage. The 6 historical exploration wells drilled by Cenovus have established 4 potential development areas, which Headwater intends to follow-up on using a methodical delineation approach. Exploration success is not built into the above debt adjusted funds flow growth estimate.

ESG

The Transaction, in addition to Headwater's existing business, combine to create sound building blocks for Headwater to be an industry environmental, social and governance leader. The assets acquired have a minimal undiscounted uninflated asset retirement obligation of \$3.5 million. The environmental footprint associated with the development of the asset will be minimized with pipeline connected multi-well pad development. Fresh

water usage will also be negligible with no fracture stimulations required to realize the full potential of the assets and future enhanced oil recovery initiatives are currently planned to be implemented using only saline water.

Asset Acquisition Summary

Cash consideration	\$35 million
Approximate equity consideration	\$65 million
Total consideration	\$100 million
Estimated January 2021 production	2,800 boe/d (100% medium oil, average 22° API)
Total land	189,000 acres
Land with Clearwater rights	172,800 acres
P+P reserves ⁽¹⁾	8.3 MMbbls
ARO undiscounted ⁽²⁾	\$3.5 million

1. The reserves information is based on an evaluation by GLJ Ltd. ("GLJ") of the reserves associated with the Marten Hills assets in its report dated effective December 31, 2020, which was prepared in accordance with the COGE Handbook and NI 51-101 and is based on average forecast prices of three consultant's average (GLJ, McDaniel & Associates Consultants Ltd. and Sproule Associates Ltd.) as of October 1, 2020.
2. Asset retirement obligations calculated in accordance with the policies and directives of the Alberta Energy Regulator.

2021 Preliminary Pro forma Outlook ⁽¹⁾

Capital expenditures	\$60-\$70 million
Average production	6,000-6,500 boe/d (90% Oil)
2021 funds flow from operations	\$41-\$45 million
2021 exit working capital position	\$50-\$55 million
Q4 2021 production	7,500-8,000 boe/d
2021 forecast operating netback	\$20.00 per boe

1. 2021 preliminary pro forma outlook has been formulated using strip pricing as at November 4, 2020 which includes an average WTI price of US\$41.06/bbl; an average WTI-WCS differential of US\$12.41/bbl, an average AECO price of Cdn\$2.89/mmbtu, an average NYMEX Henry Hub price of US\$3.02/mmbtu, an average AGT price of CAD\$5.36/mcf, and an average US\$/CAD\$ exchange rate of 1.31. The preliminary outlook is conditional on required approvals as discussed below.

Enhanced Oil Recovery ("EOR") has the potential to materially increase recovery factors and is an important part of the Headwater business plan. In 2021, we anticipate testing multiple injection pilots to validate full scale development of the EOR.

The Transaction has an effective date of October 1, 2020 and is expected to close on or about December 22, 2020. Headwater has paid a \$10 million deposit to Cenovus which will be credited against the consideration on closing.

As the Transaction will result in the issuance of greater than 25% of the issued and outstanding common shares of Headwater to Cenovus, the Transaction will require the approval of Headwater's shareholders in accordance with the rules of the TSX. Subject to the approval of the TSX, Headwater may seek shareholder approval by obtaining the written consents of shareholders holding in excess of 50% of the issued and outstanding Headwater common shares. Alternatively, Headwater will hold a special meeting of shareholders to approve the Transaction, which will require the affirmative vote of holders holding in excess of 50% of the votes cast at such meeting. The Transaction will also be subject to certain regulatory and other approvals and the satisfaction or waiver of other customary closing conditions.

New Board Members

On closing of the Transaction Cenovus and Headwater have agreed that Cenovus' initial nominees to Headwater's Board of Directors will be Kam Sandhar, Cenovus' Senior Vice-President, Conventional, and Sarah Walters, Cenovus' Senior Vice-President, Corporate Services. "We are very excited to have Kam and Sarah join our Board on closing of the Transaction. The skills and experience that Kam and Sarah bring to the Board table will add to and compliment the already strong skill set of our existing Board members." said Mr. Roszell.

Advisors

Peters & Co. Limited is acting as exclusive financial advisor to Headwater. Burnet, Duckworth & Palmer LLP is acting as legal counsel to Headwater.

THIRD QUARTER RESULTS

Headwater is also pleased to announce its operating and financial results for the three and nine months ended September 30, 2020. Selected financial and operational information is outlined below and should be read in conjunction with the unaudited condensed interim financial statements and the related management's discussion and analysis ("MD&A"). These filings will be available at www.sedar.com and the Company's website at www.headwaterexp.com.

Financial and Operating Highlights

	Three months ended September 30,		Percent Change	Nine months ended September 30,		Percent Change
	2020	2019		2020	2019	
Financial (thousands of dollars except share data)						
Sales	-	-	-	2,873	7,023	(59)
Cash flow provided by (used in) operating activities	(364)	(342)	6	1,681	9,053	(81)
Per share - basic	(0.00)	(0.00)	-	0.01	0.10	(90)
- diluted	(0.00)	(0.00)	-	0.01	0.10	(90)
Adjusted funds flow (used in) from operations ⁽¹⁾	(837)	(1,427)	(41)	3,966	6,278	(37)
Per share - basic	(0.01)	(0.02)	(50)	0.03	0.07	(57)
- diluted	(0.01)	(0.02)	(50)	0.03	0.07	(57)
Net income (loss)	(1,723)	(1,318)	31	(10,212)	1,368	(846)
Per share - basic	(0.01)	(0.02)	(50)	(0.08)	0.02	(500)
- diluted	(0.01)	(0.02)	(50)	(0.08)	0.02	(500)
Capital expenditures	61	69	(12)	529	458	16
Working capital				112,536	62,059	81
Shareholders' equity				155,148	112,792	38
Weighted average shares (thousands)						
Basic	145,044	88,172	65	131,997	88,602	49
Diluted	145,044	88,172	65	131,997	88,861	49
Shares outstanding, end of period (thousands)						
Basic				145,044	88,147	65
Diluted ⁽⁴⁾				158,627	88,935	78
Operating (6:1 boe conversion)						
Average daily production						
Natural gas (mmcf/d)	-	-	-	3.7	3.8	(3)
Natural gas liquids (bbl/d)	-	-	-	2	4	(50)
Barrels of oil equivalent ⁽²⁾ (boe/d)	-	-	-	625	632	(1)
Netbacks (\$/boe)						
Operating						
Sales	-	-	-	16.76	40.74	(59)
Royalties	-	-	-	(0.42)	(1.03)	(59)
Production expenses	-	-	-	(9.92)	(11.33)	(12)
Field netback ⁽¹⁾	-	-	-	6.42	28.38	(77)
Realized gains on financial derivatives	-	-	-	22.97	16.81	37
Operating netback ⁽¹⁾	-	-	-	29.39	45.19	(35)
General and administrative expense	-	-	-	(12.44)	(13.28)	(6)
Interest income and other ⁽³⁾	-	-	-	6.19	4.62	34
Decommissioning liabilities settled	-	-	-	-	(0.10)	(100)
Adjusted funds flow netback ⁽¹⁾	-	-	-	23.14	36.43	(36)

(1) See "Non-IFRS" measures

(2) See "Barrels of Oil Equivalent."

(3) Excludes accretion on decommissioning liabilities.

(4) Includes in-the-money dilutive securities as at September 30, 2020, which include 6.3 million stock options at a weighted average exercise price of \$1.04/share and 7.2 million warrants vested and exercisable at an average exercise price of \$0.92/share.

Third Quarter 2020 Highlights

- As at September 30, 2020, Headwater has cash and cash equivalents of \$112.7 million, a working capital surplus of \$112.5 million and no outstanding debt.
- The Company's natural gas production was shut-in during the quarter to take advantage of higher pricing in the winter months. The Company resumed production on October 30, 2020. Startup operations at

McCully were seamless and average production is expected to be 5 mmcf/d during November and 10 mmcf/d during December.

- Locked into a financial derivative contract for 2,500 mmbtu/d at AGT Fixed CAD \$5.00/mmbtu for November 2020.
- To appropriately manage the volatility in our natural gas pricing, Headwater has now entered a cumulative hedge position for the December 2020 through March 2021 period of 5,000 mmbtu/d that provides for an average fixed price of CAD \$7.81/mmbtu.

RESPONSE TO COVID-19

Headwater continues to prioritize the health and safety of the Company's employees, contractors, partners, service providers and the communities in which we operate. The Company remains committed to protecting the well-being of all stakeholders and following the guidance of public health officials, while maintaining safe operations and business continuity.

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

FOR FURTHER INFORMATION PLEASE CONTACT:

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HEADWATER EXPLORATION INC.
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Forward Looking Statements Advisory

This press release of the Company contains forward-looking statements and forward-looking information (collectively, "forward-looking statements"). More particularly, this press release contains forward-looking statements concerning: the terms of the Transaction including the consideration to be paid, the closing date and the nominees of Cenovus to be appointed to the board of Headwater; the performance characteristics of the oil and natural gas properties (the "Assets") to be acquired pursuant to the Transaction including, the reserves attributable, estimated January 2021 production, associated abandonment and reclamation obligations (undiscounted, uninflated), the ability of the Company to increase the recovery factor of the Assets by implementing EOR and the limited use of fresh water and fracturing techniques in the development of the Assets; the participation of Cenovus in future equity financings of the Company; Cenovus' ownership in Headwater following the completion of the Transaction; the amount of capital that will be spent by the Company in the next two calendar years on the Assets; the strategy of Headwater in developing the Assets including, the development of the Assets with negligible debt, the de-risking of the exploration acreage, the annualized debt adjusted funds flow growth, potential to generate significant free cash flow and the environmental impact of the development of the Assets; the Company's 2021 outlook including, expected capital expenditures, average annual production, 2021 funds flow from operations, 2021 exit working capital position, fourth quarter 2021 production, 2021 forecast operating netback; the ability of the Company to obtain regulatory approvals in respect of the Transaction including, shareholder, TSX and Competition Act (Canada) approval. 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. Statements relating to reserves are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves 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 press release are based on certain key expectations and assumptions made by management of Headwater ("Headwater Management") including but not limited to the receipt of all regulatory and other approvals required for the Transaction; general economic conditions; availability of required equipment and services; assumptions of future commodity prices (including premiums); the outcome of the U.S. election and the impacts on the economy generally and, in particular, the oil and gas industry; Canada-U.S. exchange rate; and other assumptions identified herein, including certain expectations and assumptions made by Headwater Management 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; failure to realize the anticipated benefits of the Transaction; the uncertain outcome of the U.S. election; 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 Assets); the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks); commodity price and exchange rate fluctuations; the short and long-term impacts of the Covid-19 pandemic; 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.

In addition, Headwater cautions that current global economic uncertainty with respect to the spread of COVID-19 may have a significant negative effect on Headwater. While the precise impact of COVID-19 on Headwater remains unknown, the rapid spread of the virus may have a material adverse effect on global economic activity, and can result in volatility and disruption to global supply chains, operations, mobility of people and financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to Headwater.

Additional information on these and other factors that could affect Headwater's operations and financial results are included in its Annual Information Form for the year ended December 31, 2019 and other reports on file with Canadian securities regulatory authorities, which may be accessed through the SEDAR website (www.sedar.com).

This press release contains financial outlook and future oriented financial information (together, "FOFI") about Headwater and the Assets, including, 2021 capital expenditures, 2021 funds flow from operations, 2021 exit working capital and 2021 forecast operating netback, each of which are made as of November 6, 2020 and included herein to provide readers with an understanding the plans and assumptions for budgeting purposes and readers 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 and 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 Management 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.

Unless explicitly noted otherwise, forward-looking statements contained in this press release are made as of the date hereof and Headwater Management does not undertake any obligation to update 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.

All information in respect of past and current performance characteristics of the Assets has been provided by Cenovus to Headwater Management, or GLJ, its independent reserves evaluator. All forward looking statements in respect of the Assets are based on management of Headwater's reasonable expectations and assumes the completion of the Transaction.

NON-IFRS MEASURES: This document contains the terms "annualized debt adjusted funds flow growth", "free cash flow", "funds flow from operations", "adjusted funds flow (used in) 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. Headwater Management believes that "annualized debt adjusted funds flow growth" is a useful measure to compare transaction metrics on an unlevered basis and is calculated as annualized funds flow from operations before interest expense measured as the compounded growth over a 5-year period. Management uses funds flow from operations, adjusted funds flow (used in) from operations and free cash flow to analyze operating performance, leverage, and liquidity. Funds flow from operations is calculated as cash flow provided by (used in) operating activities before changes in non-cash working capital. Adjusted funds flow from operations is calculated as cash flow provided by (used in) operating activities before changes in non-cash working capital and adding back transaction costs. Free cash flow is defined as funds flow from operations after capital expenditures. Cash flow is the equivalent to funds flow from operations. 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.