December 14, 2020

HEADWATER EXPLORATION INC. ANNOUNCES 2021 CAPITAL BUDGET

CALGARY, ALBERTA (December 14, 2020) Headwater Exploration Inc. ("**Headwater**" or the "**Company**") (TSX:HWX) announces that the Company's board of directors (the "Board") has approved a 2021 capital budget of $85 - $90 million designed to provide December 2020 to fourth quarter average 2021 production growth of approximately 125%. The approved budget is expected to leave Headwater with a working capital surplus of approximately $45 million at the end of 2021.

2021 GUIDANCE SUMMARY

Average Daily Production	
Crude oil (bbls/d) (1)	5,850 - 6,350
Natural gas (mcf/d)	3,800
Barrels of oil equivalent (boe/d) (2)	6,500 - 7,000
Fourth quarter 2021 daily production (boe/d) (2)	8,000 - 8,500
Pricing	
Crude oil - WTI ($US/bbl)	45.00
Crude oil - WCS ($Cdn/bbl)	40.40
Exchange rate ($Cdn/$US)	0.78
Natural gas - AGT ($US/mmbtu) (3)	4.45
Key Assumptions	
Cash costs ($/boe) (4)	19.00 - 20.00
Funds flow netback ($/boe) (4)	19.50 - 20.50
Financial Summary ($millions)	
Capital expenditures	85 - 90
Funds flow from operations (4)	48 - 52
Exit working capital surplus	45
Capital Expenditures ($millions)	
Producing wells	35
Injection/source wells	26
Facility infrastructure	20 - 25
Land, seismic, and other	4
Total	85 - 90

(1) Expected to be comprised of 100% medium crude oil.
(2) See "Barrels of Oil Equivalent".
(3) The AGT price is the average for the winter producing months in the McCully field which include January – March 2021 and November – December 2021.
(4) See "Non-IFRS measures".

2021 Outlook

2021 is anticipated to be a defining year for the Company as we embark on an exploration and development capital program in the Marten Hills area of $85 - $90 million that is expected to result in the drilling of 24 8-leg multi-lateral wells, 25 injector wells and 3 source wells.

Core Area Development

Preparation for the first quarter of 2021 activities are well underway. It is anticipated that 4 drilling rigs will be operational in early January. The budget contemplates expenditures of approximately $35 million in the first quarter inclusive of 10 to 12 producing wells, 3 stratigraphic test/saline source wells in addition to 5 injection wells and some preliminary facilities construction.

Development activities in the core area are expected to recommence in September with the drilling of an additional 8 to 10 producing wells, 20 injection wells and the construction commencement of our 15,000 bbls/d oil processing facility. The oil processing facility construction will take several months with the expectation to commission the facility in March of 2022.

Exploration Expenditures

The budget contemplates drilling 4 to 5 exploration wells which, depending on access, is expected to commence in September. The exploration targets exist as a combination of follow up locations to historical Cenovus successful exploration wells in addition to some new play concepts.

Enhanced Oil Recovery

Enhanced Oil Recovery ("EOR") has the potential to materially increase recovery factors and is an important part of the Headwater business plan. The first 5 injection wells, drilled in the first quarter, are anticipated to have injection commence during the third quarter of 2021. The source water wells being drilled are expected to provide sufficient saline water volumes for our first phase of injection. The learnings from our first pilot phase are then expected to be applied to phase one of our full field EOR development. Phase one of our full scale EOR is expected to be on-stream with the commissioning of our facility in March of 2022.

Beyond 2021

The first quarter of 2022 will see the completion of our infrastructure spend allowing the majority of our production volumes to be pipeline connected. This spend is expected to reduce corporate transportation costs by $3.50 - $4.00/boe in addition to allowing phase two and three of the development and waterflood implementation to occur with nominal future infrastructure expenditures.

As we look further into the future, the projected EOR development is expected to moderate corporate declines to the low double-digit level. When combined with the strong capital efficiencies of the Clearwater play, we expect to have meaningful steady free cashflow in 2023 and beyond.

About Headwater Exploration Inc.

Headwater Exploration Inc. is a Canadian publicly traded resource company engaged in the exploration for and development and production of petroleum and natural gas in Canada. Headwater currently has high quality oil production, reserves, and lands in the prolific Clearwater play in the Marten Hills area of Alberta as well as low decline natural gas production and reserves in the McCully Field near Sussex, New Brunswick. Headwater is focused on providing superior corporate level returns by focusing on sustainability, asset quality, social responsibility, and balance sheet strength.

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:

Mr. Neil Roszell, P. Eng.
Chairman and Chief Executive Officer

Mr. Jason Jaskela, P.Eng.
President and Chief Operating Officer

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", "budget", "plan", "target", "result", "future", "continue", "may", "expect", "project", and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained herein, include, without limitation; 2021 guidance including 2021 average production, fourth quarter 2021 average production, cash costs, funds flow netback, capital expenditures, funds flow from operations and exit working capital surplus; the expectation that 4 drilling rigs will be operational in early January; the expectation that operations will recommence in September; the expectation that the oil processing facility will be commissioned in March of 2022; the anticipated success of exploration and development drilling; the expectation the EOR will materially increase recovery factors and moderate corporate declines; the expectation that injector wells will provide sufficient saline water volumes; the expectation that the majority of production volumes will be pipeline connected by the first quarter of 2022; the expectation that infrastructure spend will result in a reduction of transportation costs by $3.50 - $4.00/boe; and the expectation that the Clearwater play will create meaningful free cashflow in 2023 and beyond.

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 relating to, among other things, restrictions on activities resulting from the COVID-19 pandemic; 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 2021 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 "cash costs", "funds flow netback", "funds flow from operations", and "free cashflow", 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 (which incorporates cash costs) and free cashflow to analyze operating performance, leverage and liquidity. Funds flow from operations is calculated as cash flow provided by operating activities before changes in non-cash working capital. Management believes "funds flow netback" is a useful supplemental measure to consider the profitability of the Company's operations on a per unit basis and has been calculated by taking the amount of sales received after royalties, production costs, 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. Free cashflow is defined as funds flow from operations after capital expenditures. Cash costs include royalties, production costs, transportation costs, general and administrative costs, interest income and other (excluding accretion on decommissioning liabilities) and decommissioning liabilities settled.*

BARRELS OF OIL AND CUBIC FEET OF NATURAL GAS EQUIVALENT: The term "boe" (or barrels of oil equivalent) and "mcfe" (or thousand cubic feet of natural gas equivalent) may be misleading, particularly if used in isolation. A boe and mcfe 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.

ABBREVIATIONS

TSX	Toronto Stock Exchange
HWX	Headwater Exploration Inc.
Bbls	Barrels
Bbls/d	Barrels per day
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
Boe	Barrels of oil equivalent
Boe/d	Barrels of oil equivalent per day
$US	United States dollars
$Cdn	Canadian dollars
WTI	West Texas Intermediate
WCS	Western Canadian Select
AGT	Algonquin City Gates
MMBtu	Million British thermal units
EOR	Enhanced oil recovery
COVID-19	Coronavirus disease 2019
OPEC	Organization of the Petroleum Exporting Countries
SEDAR	System for Electronic Document Analysis and Retrieval
IFRS	International Financial Reporting Standards