November 10, 2021

HEADWATER EXPLORATION INC. ANNOUNCES 2022 BUDGET, 2021 GUIDANCE UPDATE, THIRD QUARTER FINANCIAL RESULTS AND OPERATIONAL UPDATE

CALGARY, ALBERTA – Headwater Exploration Inc. (the "**Company**" or "**Headwater**") **(TSX:HWX)** is pleased to announce its operating and financial results for the three and nine months ended September 30, 2021. 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,		Nine months ended September 30,	
	2021	2020	2021	2020
Financial ***(thousands of dollars except share data)***				
Sales, net of blending (1)	48,841	-	109,392	2,873
Cash flow provided by operating activities	27,888	(364)	63,903	1,681
Per share - basic	0.14	(0.00)	0.32	0.01
- diluted (3)	0.12	(0.00)	0.27	0.01
Adjusted funds flow (used in) from operations (2)	31,524	(837)	69,185	3,966
Per share - basic	0.16	(0.01)	0.35	0.03
- diluted (3)	0.13	(0.01)	0.29	0.03
Net income (loss)	26,106	(1,723)	17,901	(10,212)
Per share - basic	0.13	(0.01)	0.09	(0.08)
- diluted	0.12	(0.01)	0.08	(0.08)
Adjusted net income (loss) (2)	28,868	(1,723)	45,831	(10,212)
Per share - basic	0.14	(0.01)	0.23	(0.08)
- diluted (3)	0.12	(0.01)	0.19	(0.06)
Capital expenditures	37,293	61	91,346	529
Adjusted working capital (2)			63,709	112,667
Shareholders' equity			295,528	155,148
Weighted average shares *(thousands)*				
Basic	202,313	145,044	198,385	131,997
Diluted	218,190	145,044	214,166	131,997
Shares outstanding, end of period *(thousands)*				
Basic			202,466	145,044
Diluted (4)			240,447	158,627
Operating ***(6:1 boe conversion)***				
Average daily production				
Heavy crude oil *(bbls/d)*	7,637	-	5,751	-
Natural gas *(mmcf/d)*	0.3	-	3.7	3.7
Natural gas liquids *(bbls/d)*	-	-	3	2
Barrels of oil equivalent (5) *(boe/d)*	7,688	-	6,363	625
Average daily sales (6) *(boe/d)*	7,613	-	6,355	625
Netbacks *($/boe)* (7)				
Operating				
Sales, net of blending (1)	69.73	-	63.05	16.76
Royalties	(10.46)	-	(8.66)	(0.42)
Transportation (1)	(8.68)	-	(7.86)	-
Production expenses	(4.42)	-	(4.88)	(9.92)
Field netback (2)	46.17	-	41.65	6.42
Realized gains on financial derivatives	-	-	(0.23)	22.97
Operating netback (2)	46.17	-	41.42	29.39
General and administrative expense	(1.40)	-	(1.61)	(12.44)
Interest income and other (8)	0.24	-	0.08	6.19
Adjusted funds flow netback (2)	45.01	-	39.89	23.14

(1) Heavy oil sales are netted with blending expense to compare the realized price to benchmark pricing while transportation expense is shown separately. In the interim condensed financial statements blending is recorded within blending and transportation expense.
(2) See "Non-IFRS Measures" and "Operating Metrics".
(3) Calculated based on fully diluted shares outstanding for both the three and nine months ended September 30, 2021 (refer to note (4)).

(4) Includes in-the-money dilutive instruments as at September 30, 2021 which include 7.6 million stock options with a weighted average exercise price of $1.63, 15.4 million warrants issued pursuant to the recapitalization transaction with an exercise price of $0.92 and 15 million warrants with an exercise price of $2.00.
(5) See '"Barrels of Oil Equivalent."
(6) Includes sales of unblended heavy crude oil, natural gas and natural gas liquids. The Company's heavy crude oil sales and production volumes differ due to changes in inventory.
(7) Netbacks are calculated using average sales volumes.
(8) Excludes accretion on decommissioning liabilities and interest on lease liability.

THIRD QUARTER 2021 HIGHLIGHTS

- Generated average production of 7,688 boe/d representing an increase of 17% over the second quarter of 2021 and an increase of 60% over the first quarter of 2021.

- Achieved adjusted funds flow from operations of $31.5 million ($0.16 per share basic), representing an increase of 36% over the second quarter of 2021 and an increase of 118% over the first quarter of 2021.

- Achieved an operating netback of $46.17/boe and an adjusted funds flow netback of $45.01/boe.

- Achieved adjusted net income of $28.9 million ($0.14 per share basic).

- Commissioned the Company's joint gas processing facility in the Marten Hills area which resulted in first sales gas and an approximate 50% reduction in CO2e emissions intensity from the first quarter of 2021.

- Executed a $37.3 million capital program in the Marten Hills area including 3 successful exploration wells and 16 multi-lateral development wells at a 100% success rate.

- As at September 30, 2021, Headwater had adjusted working capital of $63.7 million and no outstanding debt.

OPERATIONS UPDATE

Marten Hills Core Area

As of September 30th, the Company has drilled 30 multi-lateral horizontal wells in the core development area which has grown oil production from 3,385 bbls/d in the first quarter of 2021 to current levels exceeding 9,000 bbls/d.

Significant capital efficiency improvements have been realized with the drilling technique changes that were implemented after the first quarter. As of September 30th, 18 producing wells have been drilled with the improved drilling techniques and 11 of these wells have been on production post load recovery for at least 30 days. The 30-day average rate post load recovery production of these 11 wells is approximately 400 bbls/d per well. This represents a 33% improvement in capital efficiency from our first quarter wells that achieved 30-day average rates of 300 bbls/d per well.

Construction on the 100% owned Headwater oil processing facility is currently in progress. Once complete, the facility will tie-in directly to the Rangeland pipeline system and is anticipated to reduce our corporate transportation costs by approximately $4.00/boe resulting in a facility payout in less than 2 years. Commissioning of the facility is expected to occur in mid-January 2022.

Headwater has expanded its waterflood pilot operations with 2 additional injection wells placed on injection in mid-October. Results from our first pilot that commenced in April 2021 continue to be strong, with oil rates stabilizing at approximately 280-300 bbls/d which is 20% above the oil rates prior to injection.

Marten Hills Exploration Update

During the third quarter, Headwater drilled its first 3 successful exploration tests in Marten Hills west. Headwater is highly encouraged by the results which have begun to validate and provide confidence in the value associated with the Company's 285 net sections of exploration lands.

The first two of these wells were drilled as 6-leg lateral wells targeting the upper Clearwater formation in section 32-75-02W5. The first exploration well drilled, 11-32-75-02W5, achieved load recovery on September 19th and achieved average oil production in October of 127 bbls/d of 16.5 degree API crude oil. Based on current pricing, this well is expected to achieve payout within its first 7 months of production. The second exploration well, 13-32-75-02W5, is still producing load fluid however the inflow characteristics are very similar to the 11-32 well. With the encouragement provided from these two successful wells, Headwater has licensed an additional 17 development locations in this area with plans to drill 2 additional delineation wells prior to year-end.

The third exploration well, 16-14-075-26W4, was drilled as a 4-leg lateral well targeting the upper Clearwater formation. The well was designed as an 8-leg lateral, but a structural anomaly showed productive reservoir approximately 10 metres above the initial prognosis. This well appears to be producing from only two laterals and achieved average oil production in October of 67 bbls/d. This is encouraging as we believe modest drilling orientation adjustments will allow Headwater to take advantage of improved up hole reservoir. Headwater plans to licence 6 follow-up development wells targeting the upper Clearwater sand adjacent to the 16-14 well.

In addition to the above-mentioned activity, Headwater anticipates drilling five incremental unique exploration prospects on our Marten Hills land base prior to the end of the first quarter of 2022.

McCully Update

Consistent with the Company's historical strategy of producing the McCully field during the winter months to take advantage of premium winter gas pricing, the McCully asset is expected to be placed back on production in the middle of November.

2021 Guidance Update

Headwater's Board of Directors has approved an increase to Headwater's 2021 capital budget from $130 million to $140 million, which will allow our two drilling rigs to maintain steady operations throughout the balance of the fourth quarter.

The performance of the Company's second half drilling program has exceeded expectations and we now expect to achieve average annual production of 7,400 boe/d (6,690 bbls/d of heavy oil and 4.2 mmcf/d of natural gas) and fourth quarter production of 10,400 boe/d (9,410 bbls/d of heavy oil and 6.0 mmcf/d of natural gas). We anticipate exit 2021 adjusted working capital to be approximately $66 million.

2022 Budget

The Board of Directors has approved an initial capital budget for 2022 of $120 million.

The capital budget includes approximately $78 million directed towards the continued development of the Marten Hills core area and approximately $42 million to continued delineation and development of our Marten Hills west acreage. Headwater has incorporated a 5% increase in drilling, completions and infrastructure costs to account for inflationary pressures in materials and manpower.

Resulting 2022 annual average production is expected to be 12,500 boe/d (11,500 bbls/d of heavy oil and 6.2 mmcf/d of natural gas) with fourth quarter 2022 average production expected to be 15,000 boe/d (13,770 bbls/d of heavy oil and 7.4 mmcf/d of natural gas).

The $120 million capital budget is expected to generate 70% production per share growth at a reinvestment rate of 58% of 2022 forecasted adjusted funds flow from operations. At US$75/bbl WTI, Headwater forecasts 2022 adjusted funds flow from operations of $207 million and free cash flow of approximately $87 million, resulting in positive exit 2022 adjusted working capital of approximately $153 million.

The $78 million of expenditures directed towards the core development area will result in the drilling of 19 multi-lateral producing wells, 24 injection wells, and 6 water source wells / stratigraphic tests. With the commissioning of Headwater's oil processing facility in January 2022, we plan to expand our waterflood implementation throughout our core acreage. By the end of the first quarter, we expect to have a total of 14 4-leg lateral injectors on injection, with an additional 13 4-leg lateral injectors on injection in the third quarter. By year end 2022, approximately 30% of our core area will be under waterflood.

The $42 million directed towards development and exploration of our Marten Hills west land includes the drilling of 7 exploration wells, 15 development wells and 3 stratigraphic wells. Additional exploration capital of $10 million (included in the $42 million) will be spent on infrastructure upgrades, seismic and additional land purchases.

2022 and Beyond

2022 is expected to be another pivotal year for Headwater. With full scale waterflood development implemented across our Marten Hills core acreage, we expect corporate declines to moderate to the low double-digit level and provide meaningful steady state free cash flow.

Our exploration evaluation program will continue throughout 2022 and with continued success, will set not only the next leg of growth for Headwater, but more importantly the next leg of free cash flow generation.

We continue to evaluate acquisition expansion opportunities in the Clearwater fairway and continue to maintain our balance sheet strength to be strategically positioned to participate in the Clearwater consolidation.

As the Company evolves with rapid growth and execution of the corporate strategy, there will be an increased focus on returning excess free cash flow to shareholders. While it is early, we look forward to providing clarity on these elements over the next 18 months.

Headwater's guiding principles of shareholder value creation, sustainability, asset development with an emphasis on environmental, social, and governance goals, and maintaining a pristine balance sheet continue to be unwavering.

Additional corporate information can be found in the Company's corporate presentation and on Headwater's website at www.headwaterexp.com.

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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, the revised 2021 guidance including expected 2021 annual average daily production, fourth quarter 2021 daily production, expected 2021 capital expenditures and estimated exit 2021 adjusted working capital; 2022 budget including expected 2022 annual average daily production, fourth quarter 2022 daily production, expected 2022 capital expenditures and details of such capital expenditures, expected 2022 adjusted funds flow from operations, expected 2022 free cash flow and estimated exit 2022 adjusted working capital; the expectation the Company's oil processing facility will be commissioned in mid-January 2022 and tie-in directly to the Rangeland pipeline system resulting in a facility payout in less than 2 years and a reduction to corporate transportation costs by approximately $4.00/boe; the expectation the 11-32-75-02W5 exploration well will achieve payout within its first 7 months of production based on current pricing; the expectation that the 16-14-075-26W4 well has encouraging results as modest drilling orientation adjustments is expected to allow Headwater to take advantage of improved up hole reservoir; the expectation that Headwater will drill 2 delineation wells prior to year-end; the expectation that Headwater plans to license 6 follow-up development wells that target upper Clearwater sand; the expectation that Headwater will drill 5 unique exploration prospects prior to the end of the first quarter in 2022; the expected timing for the McCully field to be brought back on production; the timing of the injection well conversion; the expectation the Company will maintain two drilling rigs throughout the balance of the fourth quarter of 2021; the expectation the $120 million 2022 capital budget will result in 70% production per share growth at a reinvestment rate of 58% of 2022 forecasted funds flow from operations; the expectation that with the commissioning of Headwater's oil processing facility in January 2022, the Company will be able to expand its waterflood implementation through the core acreage and by the end of 2022 approximately 30% of the core area will be under waterflood; the expectation 2022 will be another pivotal year for Headwater; the expectation that during 2022, full scale waterflood implementation will occur resulting in corporate declines to moderate to the low double-digit level and provide meaningful steady state free cash flow; the expectation that the Company's exploration program will continue through 2022; and the expectation to focus on returning excess free cash flow to 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; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), the uncertainty associated with exploration and development projects, including waterfloods, 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 10, 2021, 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. The assumptions used in the revised 2021 guidance include: WTI US$68.95/bbl, WCS Cdn$69.80/bbl, AGT US$6.70/mmbtu and a foreign exchange rate of US$/Cdn$ of 0.80. The assumptions used in the 2022 budget include: WTI US$75.00/bbl, WCS Cdn$74.00/bbl, AGT US$12.95/mmbtu and a foreign exchange rate of US$/Cdn$ of 0.80. The AGT price is the volume weighted average price for the winter producing months in the McCully field which include January to April and November to December. The 2021 and 2022 estimated exit adjusted working capital does not contemplate Headwater exercising its call right on the Cenovus warrants which could result in exercise proceeds of up to $30 million.

NON-IFRS MEASURES: This document contains the terms "adjusted funds flow from operations", "adjusted net income", "adjusted working capital", "free cash flow", "operating cash flow", "payout", "capital efficiency" and "reinvestment rate" 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 and leverage. 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. Management uses adjusted net income to assess financial performance that is more comparable between periods and is calculated as net income or loss before the remeasurement loss of the warrant liability. Adjusted working capital is used by the Company to measure liquidity. Adjusted working capital is defined as working capital excluding the effects of the Company's financial derivatives and warrant liability. Management uses free cash flow as a measure of profitability and ability to return capital to shareholders and is calculated as adjusted funds flow from operations after capital expenditures. Management uses operating cash flow as a measure of the company's efficiency and its ability to fund future capital expenditures and is calculated as sales received after royalties, production, blending and transportation costs and realized gains (losses) on financial derivatives. Payout is a capital budgeting metric used to determine the period of time required for a project to pay for itself and is calculated as the time at which a project's cumulative operating cash flow equals its total capital expenditures. The Company believes capital efficiency and reinvestment rate are useful measures to analyze operating and financial performance. Capital efficiency is calculated as the capital cost to drill, complete, equip and tie-in a well divided by the total production of the well. Reinvestment rate is calculated as annual capital expenditures divided by adjusted funds from operations. Additional information relating to certain of these non-IFRS measures, including the reconciliation of cash flow from operating activities to adjusted funds from operations, net income or loss to adjusted net income or loss, working capital to adjusted working capital, and operating cash flow can be found in the MD&A.*

OPERATING METRICS: Operating metrics including field netback, operating netback, adjusted funds flow netback, cash flow provided by operating activities per share, adjusted funds flow per share and adjusted net income (loss) per share are metrics used in the oil and gas industry and are used by management to better analyze the Company's performance against prior periods on a comparable basis. These metrics have no equivalent IFRS measure and are therefore excluded from the discussion under "Non-IFRS Financial Measures". They also may not be comparable with the calculation of similar measures presented by other issuers. Field netback, operating netback and adjusted funds flow netback are presented as field cash flow, operating cash flow and adjusted funds flow from operations on a per boe basis. Volumes used to calculate these netbacks include unblended heavy crude oil sales volumes in addition to sales volumes for natural gas and natural gas liquids. Cash flow provided by operating activities per share, adjusted funds flow per share and adjusted net income (loss) per share are calculated as cash flow provided by operating activities, adjusted funds flow from operations and adjusted net income (loss) divided by the number of weighted average basic or diluted shares outstanding during the period.

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.

INITIAL PRODUCTION RATES: References in this press release to initial production rates, other short-term production rates or initial performance measures relating to new wells are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. Accordingly, the Company cautions that the test results should be considered to be preliminary.

OIL AND GAS METRICS: In this press release, Headwater has used a number of oil and gas metrics which do not have standardized meanings and therefore may be calculated differently from the metrics presented by other oil and gas companies. Such metrics include "production per share growth" and "corporate declines". Production per share growth is calculated as the year over year change in annual production divided by fully diluted shares outstanding. Corporate decline is calculated by the year over year reduction in the corporate production if the Company is not drilling any additional wells. Such metrics have been included herein to provide readers with additional measures to evaluate the performance of the Company exploration and development projects. Such measures are not a reliable indicator of the future performance of Headwater's assets or value of its common shares.