FEBRUARY 1, 2022

HEADWATER EXPLORATION INC. ANNOUNCES EXPLORATION SUCCESS, FOURTH QUARTER PRODUCTION RESULTS AND OPERATIONAL UPDATE

CALGARY, ALBERTA – Headwater Exploration Inc. (the "**Company**" or "**Headwater**") **(TSX:HWX)** is pleased to announce successful exploration well results, fourth quarter 2021 production details and a material expansion of its land base and prospect inventory. Highlights include:

- Q4 2021 average production of 10,400 boe/d consisting of 9,400 bbls/d of heavy oil and 6 mmcf/d of natural gas
- 2021 exit working capital is estimated at $90 million and 2021 exit adjusted working capital[1] is estimated at $93 million
- Current production is approximately 12,400 boe/d (85% heavy oil) which is on track with our first quarter 2022 expectations
- Three successful exploration wells
- Material growth in our prospect inventory with the addition of 75 net sections of unburdened land
- Ongoing three-rig program with two rigs drilling on our core acreage and one rig dedicated to exploration wells
- Headwater's 100% owned 15,000 bbls/d oil processing facility is on-line, on time and on budget

1 This press release presents certain measures that do not have standardized meanings under Canadian generally accepted accounting principles ("GAAP") to assist readers in understanding the Company's performance. Further details on these measures are included under the heading "Non-GAAP Measures" in this press release.

Preliminary Fourth Quarter 2021 Results

Based on field estimates, fourth quarter 2021 production averaged approximately 10,400 boe/d consisting of 9,400 bbls/d of heavy oil and 6 mmcf/d of natural gas. Current production is approximately 12,400 boe/d (85% heavy oil) which is on track with our first quarter 2022 expectations. Core area heavy oil production has recently exceeded 10,000 bbls/d.

On December 23, 2021, a subsidiary of Cenovus Energy Inc. exercised warrants to purchase 15,000,000 common shares of the Company at an exercise price of $2.00 per share resulting in $30 million of cash proceeds received by Headwater increasing our anticipated exit adjusted working capital balance to approximately $93 million as at December 31, 2021.

Marten Hills West Exploration Update

Three exploration wells were drilled, completed, and brought on production in Marten Hills West during the fourth quarter of 2021. The results, in all cases, exceeded our expectations and we are pleased to provide the following initial production details.

The 00/08-34-075-03W5/03 well was drilled with 8 one-mile laterals in the Clearwater B (lower Clearwater sand) and finished recovering load fluid on December 20, 2021. On its initial 42 days of production, post load recovery, it has averaged 155 bbls/d of 19 degree API oil at an average water cut of 11%. This well represents Headwater's first test of the Clearwater B formation and is anticipated to have unlocked a significant Clearwater B resource in the Marten Hills West area. A follow up well is expected to be drilled late in the first quarter of 2022.

Two additional exploration wells targeting the Clearwater A (upper Clearwater sand) were drilled in the fourth quarter of 2021 as follow ups to the successful 00/11-32-075-02W5/06 well placed on production in September 2021. The first well, 00/11-05-076-02W5/03, was drilled with 6 one-mile laterals and has produced at an average rate of 275 bbls/d of 21 degree API oil at a water cut of 13% over its first 31 days of production post load recovery. The second well, 02/13-07-076-02W5/00, was drilled with 6 one-mile laterals and has produced at an average rate of 215 bbls/d of 19 degree API oil at an average water cut of 6% over its first 19 days of production post load recovery. These two wells, in conjunction with our previous tests of the same pool have provided confirmation of a substantial new pool discovery in the Clearwater A formation. Additional drilling, including two stratigraphic tests and two follow up locations, is currently scheduled to occur in the first quarter of 2022.

One of our three drilling rigs continues to drill exploration prospects with four additional distinct drilling prospects being evaluated prior to the end of the first quarter of 2022. The first two of these prospects, 00/15-29-075-01W5 and 00/16-27-074-01W5 were drilled with 6 one-mile laterals and were placed on production at the end of January. They continue to recover load fluid with first production results available in conjunction with our fourth quarter and audited year end 2021 financial results press release on March 10, 2022.

Undeveloped Land Update

Headwater has continued to be active with our land expansion strategy as recent exploration success has increased technical confidence in various play-types. Since October 1, 2021, we have been successful at adding 75 net sections of unburdened exploration lands. This increases our total exploration land holdings to greater than 350 net sections. Five new exploration prospects have been identified on these recently acquired lands. We continue to work through the logistics of drilling these prospects and anticipate five wells will be drilled on four distinct prospects during the fourth quarter of 2022.

2022 Guidance Update

Headwater's Board of Directors has approved an increase in the 2022 capital budget from $120 million to $145 million to allow for the drilling of the newly acquired exploration prospects. The resulting increase in capital is expected to have a nominal increase on 2022 production from the Company's previously released 2022 production guidance of 12,500 boe/d (11,500 bbls/d of heavy oil and 6.2 mmcf/d of natural gas) but with success could have meaningful impacts on location inventory and production in 2023 and beyond.

At US$75/bbl WTI and Cdn$78.50/bbl WCS, the Company has increased its forecasted 2022 adjusted funds flow from operations[1] from $207 million to $223 million, resulting in estimated 2022 exit adjusted working capital[1] of $171 million.

1 Adjusted funds flow from operations and adjusted working capital are Non-GAAP Measures. Further details on these measures are included under the heading "Non-GAAP Measures" in this press release. Forecasted exit adjusted 2022 working capital, which is a non-GAAP measure, is equivalent to forecasted working capital as determined under GAAP as the Company estimates the current impact of the financial derivative receivable/liability to be nil in 2022.

Facilities Update

Our oil processing facility was brought online on January 14, 2022. This facility has seen peak inflow days of greater than 12,000 bbls/d of oil and continues to operate seamlessly, resulting in an immediate $2.00/bbl reduction in transportation costs. Field commissioning work will be ongoing through February, with approximately 90% of Headwater's volumes expected to be pipeline connected by March 1, 2022, resulting in an additional $2.00/bbl reduction in transportation costs. Commissioning of the water injection facilities is expected to occur in March, with 6 additional injection wells placed on injection prior to April 1, 2022.

The Company continues to rapidly grow from a combination of its base assets and continued exploration success. The significant growth continues to occur while spending less than our cash flow. As the business strategy continues to evolve, there will be an increased focus on returning excess free cash flow to shareholders. While it is early, Headwater looks forward to providing clarity on these elements over the next 12 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 2022 guidance including expected 2022 capital expenditures, expected nominal increase to 2022 production, forecast 2022 cash flow from operating activities, forecast 2022 adjusted funds flow from operations and expected 2022 exit adjusted working capital; the expectation that success in the newly acquired exploration prospects could have meaningful impacts on location inventory and production in 2023 and beyond; the expectation that successful exploration wells have unlocked a significant resource in the Clearwater A and B resource in the Marten Hills West area; the expectation that a follow up exploration well is to be drilled in the Clearwater B late in the first quarter of 2022; the expectation that additional drilling including two stratigraphic tests and two follow up locations will occur in the first quarter of 2022; the expectation that Headwater will continue to drill exploration prospects with four additional distinct drilling prospects expected to be evaluated prior to the end of the first quarter in 2022; the expected timing of releasing certain additional exploration drilling results; the expectation that Headwater will drill five exploration wells evaluating four distinct prospects on the Company's newly acquired undeveloped land prior to the end of the fourth quarter in 2022; the expected timing of the commissioning of water injection facilities in March 2022 and the expectation that six additional injection wells will be placed on injection prior to April 1, 2022; the expectation that with the commissioning of Headwater's oil processing facility ongoing in February 2022, approximately 90% of Headwater volumes will be pipeline connected and off truck by March 1, 2022, resulting in an anticipated additional $2.00/bbl reduction in transportation costs; 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; access to supply of goods necessary for operations due to supply chain issues; 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, the impacts of inflation, 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 2022 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 2022 budget include: WTI US$75.00/bbl, WCS Cdn$78.50/bbl, AGT US$13.90/mmbtu and a foreign exchange rate of US$/Cdn$ of 0.79. 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.

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.

UNAUDITED FINANCIAL INFORMATION: Certain financial and operating results included in this press release, including production information, working capital and adjusted working capital, are based on unaudited estimated results. These estimated results are subject to change upon completion of the Company's audited financial statements for the year ended December 31, 2021, and changes could be material. Headwater anticipates filing its audited financial statements and related management's discussion and analysis for the year ended December 31, 2021, on March 10, 2022.

NON-GAAP MEASURES: This document contains the terms "free cash flow", "adjusted working capital" and "adjusted funds flow from operations" which do not have standardized meanings prescribed by Canadian generally accepted accounting principles and therefore may not be comparable with the calculation of similar measures by other companies. In this press release, cash flow is equivalent to adjusted funds flow from operations.

Free cash flow is defined as adjusted funds flow from operations after capital expenditures. Headwater believes that free cash flow is an indication of the amount of funds available for future capital allocation decisions.

Adjusted working capital is used by the Company to measure liquidity. Adjusted working capital is calculated as working capital excluding the effects of the Company's financial derivative receivable/payable and warrant liability. Forecasted exit adjusted 2022 working capital is equivalent to forecasted working capital as determined under GAAP as the Company estimates the current impact of the financial derivative receivable/liability to be nil in 2022. Reconciliation of adjusted working capital to working capital is as follows:

($ thousands)	*As at December 31, 2020*	*As at December 31, 2021 (unaudited)*	*2022 Revised Guidance As at December 31, 2022*
Working capital	*70,528*	*90,000*	*171,000*
Financial derivative receivable/liability	*(74)*	*3,000*	*-*
Warrant liability	*10,305*	*-*	*-*
Adjusted working capital	*80,759*	*93,000*	*171,000*

Adjusted funds flow from operations is used by the Company to analyze operating performance and the Company's ability to fund future capital expenditures. Adjusted funds flow from operations is calculated as cash flows from operating activities before changes in non-cash working capital and transaction costs, as follows:

($ thousands)	*Year ended December 31, 2020*	*2022 Revised Guidance Year ended December 31, 2022*
Cash flows provided by operating activities	*230*	*212,000*
Changes in non-cash working capital	*1,222*	*11,000*
Transaction costs	*7,330*	*-*
Adjusted funds flow from operations	*8,782*	*223,000*