December 7, 2023

HEADWATER EXPLORATION INC. ANNOUNCES 2024 BUDGET AND OPERATIONS UPDATE

CALGARY, ALBERTA – Headwater Exploration Inc. (the "**Company**" or "**Headwater**") **(TSX:HWX)** is pleased to announce its preliminary 2024 budget and operations update.

Following a thorough evaluation of our land acquisition strategy and exploration successes, the Board has granted approval for the 2024 preliminary budget as outlined below. The budget is designed to allow Headwater to be resilient to the current environment and opportunistic on expanding its prospects while achieving top-tier total returns for our shareholders.

- Capital expenditures (1) of $180 million
  - Maintenance and Growth Capital - $135 million
  - Waterflood Capital - $25 million
  - Exploration Capital - $20 million
- Quarterly dividend of $0.10/common share representing an approximate 6.2% yield
- Annual production of 20,000 boe/d representing 11% year over year production per share growth
- Adjusted funds flow from operations (2) of $275 million at US $70.00/bbl WTI

Our 2024 capital budget includes:

- 60 wells within our maintenance and growth capital program
- 12 multi-leg injection wells and associated facilities within our waterflood capital
- Approximately 10 exploration wells across our Clearwater assets and other lands

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable with the calculation of similar measures of other entities. Refer to “Non-GAAP and Other Financial Measures” within this press release.
(2) Capital management measure. Refer to “Non-GAAP and Other Financial Measures” within this press release.
(3) For assumptions utilized in the above guidance see “Guidance and Future Oriented Financial Information” within this press release.

Our 2024 budget contemplates delivering 11% production growth in addition to an approximate 6.2% dividend yield while maintaining an approximate $58 million positive exit adjusted working capital (1) balance. With recent volatility in WTI and visibility to expanded WCS egress, growth capital will be allocated to the second half of 2024 with Q4 rates expected to be in excess of 21,500 boe/d into an anticipated stronger commodity price environment.

(1) Capital management measure. Refer to “Non-GAAP and Other Financial Measures” within this press release.

Exploration Expenditures

The budget contemplates $20 million for new play exploration. The ten scheduled exploration wells will validate six new play concepts inclusive of two within the Clearwater fairway and four on the lands that have been acquired outside of the Clearwater fairway.

Enhanced Oil Recovery

By early 2025, we will have the entire nine section Marten Hills core area under secondary recovery. We are highly encouraged by the results to date having approximately 3,000 bbls/d of oil stabilized from the current six sections supported. The 2024 enhanced oil recovery capital program within the core is expected to grow our stabilized production to more than 4,000 bbls/d.

At Marten Hills West our two pilot waterfloods continue to provide encouraging results. To date the pilots have stabilized approximately 200 bbls/d of oil production. In 2024 we will implement the next phase of enhanced oil recovery by placing a full section under secondary recovery which is expected to stabilize an additional 300 bbls/d of oil production. As we look beyond 2024 this next phase of waterflood implementation will provide the technical learnings to roll out enhanced oil recovery across Marten Hills West.

OPERATIONS UPDATE

Marten Hills West

New pool exploration and step outs in the Clearwater A have continued in the fourth quarter as we further delineate our Marten Hills West asset base. A new Clearwater A test at 00/01-09-075-02W5 has achieved a 15-day initial production rate of 147 bbls/d which provides a one-mile extension to our southern pool boundaries. In addition, we recently drilled and turned to production a four-mile step out to the east at 00/03-15-075-01W5 which provided favorable indications while drilling.

Exploration tests in the untested Clearwater E, F and G pools are all drilled and at various stages of production. The Clearwater E test at 02/13-15-076-02W5 was placed on production November 28th and is currently producing back load fluid. The Clearwater F test at 00/14-19-076-02W5 achieved a 20-day initial production rate of 73 bbls/d with increasing water cuts post load recovery. This well exhibited strong fluid inflow setting up a future up-dip test of the Clearwater F pool. The Clearwater G test at 00/02-30-075-01W5 has achieved a 45-day initial production rate of 150 bbls/d.

Seal

Results from the Fahler B and Fahler D exploration tests continue to be above expectations setting up an expanded 2024 follow up program. The 03/13-06-083-15W5 Fahler B well has achieved a 60-day initial production rate of 130 bbls/d. The 00/07-07-083-15W5 Fahler D “StingWray” fan well has achieved a 30-day initial production rate of 130 bbls/d which is a 65% improvement over the original 8-leg multi-lateral discovery well at 00/13-06-083-15W5. Our 2024 program contemplates 5-10 delineation wells which will include further tests of our “StingWray” well design.

McCully

McCully was placed back on production December 1st to align with our aggressive hedging profile. Approximately 80% of our December 2023 to March 2024 volumes are hedged at Cdn $18.50/mcf which is expected to provide approximately $16 million of free cash flow (1) over the winter producing season (2).

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable with the calculation of similar measures of other entities. Refer to “Non-GAAP and Other Financial Measures” within this press release.
(2) McCully’s winter season is estimated to be December 2023 to April 2024.

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, 2024 guidance related to expected annual average production, expected capital expenditures and the breakdown thereof, expected adjusted funds flow from operations, expected dividends, and expected exit adjusted working capital; the expectation that growth capital will be allocated to the second half of 2024 with Q4 rates expected to be in excess of 21,500 boe/d into an anticipated stronger commodity price environment; the expectation the ten scheduled exploration wells will validate six new play concepts; the expectation that by early 2025 Headwater will have the entire nine section Marten Hills core area under secondary recovery and the expectation the 2024 enhanced oil recovery capital program within the core is expected to grow our stabilized production to more than 4,000 bbls/d; the expectation that in 2024 Headwater will place a full section under secondary recovery in Marten Hills West which is expected to stabilize an additional 300 bbls/d of oil production and the expectation beyond 2024 to roll out enhanced oil recovery across Marten Hills West; the expectation McCully will generate $16 million of free cash flow over the winter season; and the expectation to deliver 11% production growth and 11% production per share growth in 2024 and to achieve a 6.2% dividend yield. The forward-looking statements contained herein are based on certain key expectations and assumptions made by the Company, which, in addition to the assumptions identified herein, also include but are 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 approvals, 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, 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, the Russian-Ukrainian war, the Israeli-Hamas conflict and other international conflicts and the impacts on the global economy and commodity prices; the impacts of inflation and supply chain issues and steps taken by central banks to curb inflation; terrorist events, political upheavals and other similar events; events impacting the supply and demand for oil and gas including 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), 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 and risks associated with wildfires including safety of personnel, asset integrity and potential disruption of operations which could affect the Company's results, business, financial conditions or liquidity. Refer to Headwater's most recent Annual Information Form dated March 9, 2023, on SEDAR at www.sedarplus.ca, and the risk factors contained therein.

GUIDANCE AND 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 2024 have 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 2024 guidance include: annual average production of 20,000 boe/d, WTI of US$70.00/bbl, WCS of Cdn$73.30/bbl, AGT US$9.10/mmbtu, foreign exchange rate of US$/Cdn$ of 0.74, blending expense of WCS less $2.20, royalty rate of 17.8%, operating and transportation costs of $13.20/boe, G&A and interest income and other expense of $1.30/boe and cash taxes of $5.30/boe. The AGT price is the average price for the winter producing months in the McCully field which include January to April and November to December. 2024 annual production guidance comprised of: 18,650 bbls/d of oil, 50 bbls/d of natural gas liquids and 7.8 mmcf/d of natural gas.

DIVIDEND POLICY: The amount of future cash dividends paid by the Company, if any, will be subject to the discretion of the Board and may vary depending on a variety of factors and conditions existing from time to time, including, among other things, adjusted funds flow from operations, fluctuations in commodity prices, production levels, capital expenditure requirements, acquisitions, debt service requirements and debt levels, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of the Company, the Board will adjust the Company's dividend policy from time to time and, as a result, future cash dividends could be reduced or suspended entirely.

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 IP 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. All IP rates presented herein represent the results from wells after all "load" fluids (used in well completion stimulation) have been recovered. 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.

NON-GAAP AND OTHER FINANCIAL MEASURES

In this press release, we refer to certain financial measures which do not have any standardized meaning prescribed by IFRS. Our determinations of these measures may not be comparable with calculations of similar measures for other issuers. In addition, this press release contains the terms adjusted funds flow from operations and adjusted working capital, which are considered capital management measures. Non-GAAP and other financial measures within this press release may refer to forward-looking Non-GAAP and other financial measures and are calculated consistently with the three months and nine months ended September 30, 2023 reconciliations as outlined below.

Non-GAAP Financial Measures

Capital expenditures

Management utilizes capital expenditures to measure total cash capital expenditures incurred in the period. Capital expenditures represents capital expenditures – exploration and evaluation and capital expenditures – property, plant and equipment in the statement of cash flows in the Company's interim financial statements netted by the government grant.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	(thousands of dollars)		*(thousands of dollars)*	
Cash flows used in investing activities	62,030	54,062	188,998	170,099
Proceeds from government grant	-	1,208	-	1,208
Restricted cash	-	-	-	(5,000)
Change in non-cash working capital	8,178	15,731	14,798	20,102
Government grant	-	-	-	(2,591)
Capital expenditures	70,208	71,001	203,796	183,818

Free cash flow

Management utilizes free cash flow to assess the amount of funds available for future capital allocation decisions. It is calculated as adjusted funds flow from operations net of capital expenditures before dividends.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	(thousands of dollars)		*(thousands of dollars)*	
Adjusted funds flow from operations	80,887	58,441	206,279	207,899
Capital expenditures	(70,208)	(71,001)	(203,796)	(183,818)
Free cash flow	10,679	(12,560)	2,483	24,081

Capital Management Measures

Adjusted Funds Flow from Operations

Management considers adjusted funds flow from operations to be a key measure to assess the Company's management of capital. Adjusted funds flow from operations is an indicator as to whether adjustments are necessary to the level of capital expenditures. For example, in periods where adjusted funds flow from operations is negatively impacted by reduced commodity pricing, capital expenditures may need to be reduced or curtailed to preserve the Company's capital and dividend policy. Management believes that by excluding the impact of changes in non-cash working capital and adjusting for current income taxes in the period, adjusted funds flow from operations provides a useful measure of Headwater's ability to generate the funds necessary to manage the capital needs of the Company.

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
	(thousands of dollars)		*(thousands of dollars)*	
Cash flows provided by operating activities	85,568	72,060	212,626	217,477
Changes in non–cash working capital	5,618	(11,610)	(1,663)	3,740
Current income taxes	(14,647)	(2,009)	(29,322)	(13,318)
Current income taxes paid	4,348	-	24,638	-
Adjusted funds flow from operations	80,887	58,441	206,279	207,899

Adjusted Working Capital

Adjusted working capital is a capital management measure which management uses to assess the Company's liquidity. Financial derivative receivable/liability have been excluded as these contracts are subject to a high degree of volatility prior to settlement and relate to future production periods. Financial derivative receivable/liability are included in adjusted funds flow from operations when the contracts are ultimately realized. Management has included the effects of the contribution receivable and repayable contribution to provide a better indication of Headwater's net financing obligations.

	September 30, 2023	December 31, 2022
	(thousands of dollars)	
Working capital	43,496	109,433
Contribution receivable (long-term)	1,104	1,104
Repayable contribution	(7,082)	(6,720)
Financial derivative receivable	(1,794)	(419)
Financial derivative liability	197	1,520
Adjusted working capital	35,921	104,918

Non-GAAP Ratios

Per boe numbers

This press release represents various results on a per boe basis including Headwater average realized sales price, net of blending, financial derivatives gains (losses) per boe, royalty expense per boe, transportation expense per boe, production expense per boe, general and administrative expenses per boe, interest income and other expense per boe and current taxes per boe. These figures are calculated using sales volumes.

Dividend yield

Dividend yield (also referenced as yield) is a non-GAAP ratio used by management to quantify how much Headwater pays out in dividends each year relative to its share price. It is calculated as the annualized dividend divided by the current share price of the Company.