December 5th, 2024

HEADWATER EXPLORATION INC. ANNOUNCES DIVIDEND INCREASE, 2025 BUDGET AND OPERATIONS UPDATE

CALGARY, ALBERTA – Headwater Exploration Inc. (the "**Company**" or "**Headwater**") **(TSX:HWX)** is pleased to announce a 10% increase to the quarterly dividend beginning in 2025, preliminary 2025 budget and operations update.

DIVIDEND INCREASE AND PRELIMINARY 2025 BUDGET

Beginning in 2025, the quarterly dividend will increase to $0.11 per common share representing a 6.3% yield at a $7.00 common share price. Success in secondary recovery efforts along with positive exploration results provides confidence in Headwater's asset duration, continuously decreasing maintenance capital requirements and future growth plans.

Following up a successful year in 2024 of growth, secondary recovery results, exploration success and continued land acquisitions, the Board has approved a 2025 budget as outlined below.

- Capital expenditures (1) of $225 million
  - Maintenance and Growth Capital - $150 million
  - Secondary Recovery Capital - $50 million
  - Exploration Capital - $25 million
- Quarterly dividend of $0.11/common share representing an approximate 6.3% yield
- Annual production of 22,250 boe/d representing 10% year over year production per share growth
- Adjusted funds flow from operations (2) of $320 million at US$70.00/bbl WTI

(1) Non-GAAP financial measure. 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.

The 2025 budget is expected to generate 10% production per share growth at a 47% re-investment rate of adjusted funds flow from operations at US$70.00/bbl WTI while paying a $0.44/common share annual dividend and maintaining a positive 2025 exit adjusted working capital balance of approximately $37 million. The increase to the dividend is expected to be effective for the dividend anticipated to be paid on April 15, 2025 to shareholders of record at the close of business on March 31, 2025.

OPERATIONS UPDATE

Secondary Recovery

By year end 2024, Headwater will have 8 of 9 sections in the Marten Hills core area under secondary recovery. Recently drilled injection wells in the core are expected to grow stabilized production beyond current levels of 7,000 bbls/d.

With the drilling of 6 injectors in the fourth quarter, Headwater now has 2 full sections under secondary recovery in Marten Hills West in the sandstone formation and 2 pilots in the Clearwater E formation. With the newest full section flood at section 22-75-02W5, stabilized oil volumes in the Marten Hills West sandstone now exceed 500 bbls/d.

Based on highly encouraging results to date, Headwater intends to double its secondary recovery spending to $50 million in 2025. This will allow for the implementation of an additional 2-3 full sections of secondary recovery in the Clearwater sandstone and approximately 2 sections of secondary recovery in the Clearwater E formation.

It is anticipated that by year end 2025, approximately 50% of Headwater's oil production will be supported by secondary recovery.

Exploration Expenditures

In 2024 Headwater tested 10 new play concepts resulting in 9 successful new development prospects.

Exploration to expand our existing areas and develop new concepts continues to be a key value driver for Headwater. The 2025 exploration budget of $25 million contemplates drilling 5-7 currently untested play concepts. In addition, the exploration budget contemplates 8-10 wells that are expected to expand the boundaries of the plays discovered with the successful 2024 program.

Clay

Headwater is pleased to update that the 00/04-15-059-13W4 seven leg multi-lateral discovery well drilled in the McLaren formation has achieved a 60-day initial production rate of 201 bbls/d complementing the 30-day initial production rate of 205 bbls/d. Inflow remains extremely strong, setting up a highly anticipated follow-up program in the first half of 2025. Oil quality, reservoir and inflow characteristics make the 16-section prospect at Clay a candidate for secondary recovery, which will be evaluated as part of the 2025 program.

Little Horse / Greater Nipisi

The 12-leg multi-lateral discovery well targeting the Bluesky formation at 00/16-29-076-14W5 continues to perform beyond expectation achieving a 60-day initial production rate of 197 bbls/d compared to the 30-day initial production rate of 205 bbls/d. Headwater is very pleased with the result and is planning a follow-up test on the 20-section northern block in the first quarter of 2025. It is estimated the initial discovery well has validated a Bluesky pool 15-20 sections in size.

McCully

McCully was placed back on production December 1st to align with our aggressive hedging profile. We have hedged approximately 83% of McCully's estimated December 2024 to April 2025 production at a price of Cdn$11.58/mmbtu. The aggressive hedging profile used at McCully provides consistency in the free cashflow (1) which is expected to be approximately $12 million over this winter season (2).

(1) Non-GAAP financial measure. Refer to "Non-GAAP and Other Financial Measures" within this press release.
(2) McCully's winter season is estimated to be December 2024 to April 2025.

EXECUTIVE APPOINTMENTS

Headwater remains committed to long term succession and is pleased to announce the following executive changes effective January 1st, 2025.

Jeff Magee (current Engineering Manager) has been promoted to Vice President Engineering and Terry Danku (current Vice President Engineering) has been promoted to Executive Vice President.

Wade Hein (current Production Manager) has been promoted to Vice President Operations.

Jeff and Wade have been an instrumental part of Headwater's success, leading the company's day to day planning and execution. Both individuals display exceptional leadership and are an integral part of Headwater's long term business plan.

Terry's well deserved promotion to Executive Vice President will see his role expand to continue to lead the organization's exploitation efforts in addition to all business development.

Jon Grimwood (current Vice President New Ventures) will be stepping back from his executive position at Headwater but will remain full-time as a senior technical advisor. Jon is a founding member of

Headwater and has been instrumental to the success of the organization. More recently Jon has been focused on the Company's land expansion and exploration strategy which he will continue to do in his new role.

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

FOR FURTHER INFORMATION PLEASE CONTACT:

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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, 2025 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 success in secondary recovery efforts along with positive exploration results provides confidence in Headwater's decreasing maintenance capital requirements and future growth plans ; the expectation to generate 10% production per share growth at a 47% re-investment rate of adjusted funds flow from operations at US$70.00/bbl WTI while paying a $0.44/common share annual dividend and maintaining a positive exit adjusted working capital balance of $37 million; expectations regarding 2024 and 2025 secondary recovery capital expenditures and the associated supported oil volumes; expectations regarding 2025 exploration capital expenditures and the breakdown thereof; expectations regarding Clay and the potential for secondary recovery and the intention to evaluate in 2025; the intention to complete a follow-up test targeting the Bluesky formation in Little Horse/Greater Nipisi in Q1 2025; the estimated size of the Bluesky pool in Little Horse/Greater Nipisi; and the expected free cashflow generation from McCully over the upcoming winter season. 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-Hezbollah 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 7, 2024, 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 2025 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 2025 guidance include: annual average production of 22,250 boe/d, WTI of US$70.00/bbl, WCS of Cdn$79.40/bbl, AGT US$9.00/mmbtu, AECO of $2.20 CAD/GJ, foreign exchange rate of US$/Cdn$ of 0.72, blending expense of WCS less $1.90, royalty rate of 18.3%, operating and transportation costs of $13.95/boe, G&A and interest income and other expense of $1.30/boe and cash taxes of $4.70/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. 2025 annual production guidance comprised of: 20,050 bbls/d of heavy oil, 60 bbls/d of natural gas liquids and 12.9 mmcf/d of natural gas.

DIVIDEND POLICY: The amount of future cash dividends paid by the Company (including the dividend to be paid in April 2025), 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 initial production or "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, 2024 reconciliations as outlined below.

<u>Non-GAAP Financial Measures</u>

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.

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	(thousands of dollars)		*(thousands of dollars)*	
Cash flows used in investing activities	63,136	62,030	180,920	188,998
Proceeds from government grant	-	-	354	-
Change in non-cash working capital	(4,940)	8,178	(7,094)	14,798
Capital expenditures	58,196	70,208	174,180	203,796

Free cashflow

Management utilizes free cashflow 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,	
	2024	2023	2024	2023
	(thousands of dollars)		*(thousands of dollars)*	
Adjusted funds flow from operations	84,185	80,887	248,654	206,279
Capital expenditures	(58,196)	(70,208)	(174,180)	(203,796)
Free cashflow	25,989	10,679	74,474	2,483

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,		Nine months ended September 30,	
	2024	2023	2024	2023
	(thousands of dollars)		*(thousands of dollars)*	
Cash flows provided by operating activities	95,272	85,568	240,721	212,626
Changes in non–cash working capital	(9,092)	5,618	(2,678)	(1,663)
Current income taxes	(12,223)	(14,647)	(38,848)	(29,322)
Current income taxes paid	10,228	4,348	49,459	24,638
Adjusted funds flow from operations	84,185	80,887	248,654	206,279

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.

	As at September 30, 2024	As at December 31, 2023
	(thousands of dollars)	
Working capital	74,925	78,610
Repayable contribution	(10,713)	(11,405)
Financial derivative receivable	(921)	(3,758)
Financial derivative liability	1,120	79
Adjusted working capital	64,411	63,526

Non-GAAP Ratios

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.

Reinvestment Rate

Management believes the reinvestment rate is a useful measure to analyze the ratio of funds generated by the Company and used for reinvestment and is calculated as total maintenance and growth capital expenditures divided by adjusted funds flow from operations.