

August 5, 2020

HEADWATER EXPLORATION INC. ANNOUNCES SECOND QUARTER OPERATING AND FINANCIAL RESULTS AND OPERATIONS UPDATE

CALGARY, ALBERTA – Headwater Exploration Inc. (the "Company" or "Headwater") (TSX:HWX) announces its operating and financial results for the three and six months ended June 30, 2020. 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 June 30,		Percent Change	Six months ended June 30,		Percent Change
	2020	2019		2020	2019	
Financial <i>(thousands of dollars except share data)</i>						
Sales	565	1,014	(44)	2,873	7,023	(59)
Cash flow provided by operating activities	863	1,675	(48)	2,045	9,395	(78)
Per share - basic	0.01	0.02	(50)	0.02	0.11	(82)
- diluted	0.01	0.02	(50)	0.02	0.11	(82)
Adjusted funds flow (used in) from operations ⁽¹⁾	(610)	151	(504)	4,803	7,705	(38)
Per share - basic	0.00	0.00	-	0.04	0.09	(56)
- diluted	0.00	0.00	-	0.04	0.09	(56)
Net income (loss)	(1,679)	(274)	513	(8,489)	2,686	(416)
Per share - basic	(0.01)	(0.00)	100	(0.07)	0.03	(333)
- diluted	(0.01)	(0.00)	100	(0.07)	0.03	(333)
Capital expenditures	398	211	89	468	389	20
Working capital				113,718	63,744	78
Shareholders' equity				156,386	114,148	37
Weighted average shares <i>(thousands)</i>						
Basic	144,749	88,724	63	125,401	88,821	41
Diluted	144,749	88,724	63	125,401	89,104	41
Shares outstanding, end of period <i>(thousands)</i>						
Basic				145,044	88,301	64
Diluted ⁽⁴⁾				151,381	89,089	70
Operating <i>(6:1 boe conversion)</i>						
Average daily production						
Natural gas <i>(mmcf/d)</i>	2.4	2.4	-	5.6	5.7	(2)
Natural gas liquids <i>(bbl/d)</i>	-	3	(100)	3	6	(50)
Barrels of oil equivalent ⁽²⁾ <i>(boe/d)</i>	396	402	(1)	942	953	(1)
Netbacks <i>(\$/boe)</i>						
Operating						
Sales	15.67	27.75	(44)	16.76	40.74	(59)
Royalties	(0.39)	(0.53)	(26)	(0.42)	(1.03)	(59)
Production expenses	(14.79)	(16.64)	(11)	(6.89)	(7.86)	(12)
Field netback ⁽¹⁾	0.49	10.58	(95)	9.45	31.85	(70)
Realized gains on financial derivatives	-	1.43	(100)	22.97	16.81	37
Operating netback ⁽¹⁾	0.49	12.01	(96)	32.42	48.66	(33)
General and administrative expense	(23.33)	(15.89)	47	(8.90)	(6.86)	30
Interest income and other ⁽³⁾	6.00	8.46	(29)	4.50	2.96	52
Decommissioning liabilities settled	-	(0.44)	(100)	-	(0.07)	(100)
Adjusted funds flow netback ⁽¹⁾	(16.84)	4.14	(507)	28.02	44.69	(37)

(1) See "Non-IFRS" measures

(2) See "Barrels of Oil Equivalent."

(3) Excludes accretion on decommissioning liabilities.

(4) Includes in-the-money dilutive securities as at June 30, 2020.

SECOND QUARTER 2020 HIGHLIGHTS

- As at June 30, 2020, Headwater has cash and short-term investments (consisting of redeemable guaranteed investment certificates) of \$112.8 million, a working capital surplus of \$113.7 million and no outstanding debt.
- April 2020 natural gas production averaged 7.2 mmcf/d, consistent with April 2019, before the Company shut-in its natural gas production effective May 1, 2020 pursuant to its production optimization strategy.
- Locked into financial derivative contracts for a total of 5,000 mmbtu/d at NYMEX CAD\$4.05/mmbtu for the period from December 2020 to March 2021.
- Efficiently executed the integration of east coast operations with all corporate functions now being handled from the Company's head office in Calgary.

2020 GUIDANCE

Headwater is pleased to re-confirm its previously released guidance as follows:

- 2020 average production of 4.1 mmcf/d (approximately 99% natural gas and 1% natural gas liquids) (assumes shut-in from May 1 to November 1, 2020).
- Operating cash flow of \$6.8 million (inclusive of realized financial derivatives).
- 2020 adjusted funds flow from operations of \$5.5 million.
- 2020 exit working capital (assuming no other acquisitions or development) of \$115 million.

With the integration of the operations now complete, the Headwater team is actively optimizing future cash flow through operating costs and third-party processing revenue initiatives.

2020 OUTLOOK

Patience continues to be the overriding theme in our business plan. With a relative stabilizing of commodity prices in the last month, the acquisition market is beginning to show signs of activity. The Headwater team continues to pursue multiple opportunities that ultimately, if successful, are expected to provide significant returns to our shareholders. We appreciate the continued support and patience that the investment community continues to have with our business and look forward to reporting back to you as some of the opportunities come to fruition.

RESPONSE TO COVID-19

Headwater continues to prioritize the health and safety of the Company's employees, contractors, partners, service providers and the communities in which we operate. The Company remains committed to protecting the well-being of all stakeholders and following the guidance of public health officials, while maintaining safe operations and business continuity.

Additional corporate information can be found in our corporate presentation on our website at www.headwaterexp.com

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; 2020 guidance including average production, operating cash flow, adjusted funds flow from operations and exit working capital; Headwater's intent to evaluate the multiple unique opportunities that continue to evolve in the Canadian oil and gas sector; and the expectation that one or more opportunities will result in significant returns 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), 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 2020 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 "adjusted funds flow from operations", "operating cash flow", "field netback", "operating netback" and "adjusted funds flow netback", 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 and operating cash flow to analyze operating performance, leverage and liquidity. Adjusted funds flow from operations is calculated as cash flow provided by operating activities before changes in non-cash working capital and adding back transaction costs. Operating cash flow is calculated as sales received after royalties, production and realized gains (losses) on financial derivatives. Management believes "field netback", "operating netback" and "adjusted funds flow netback" are useful supplemental measures to consider the profitability of the Company's operations on a per unit basis and have been calculated in respect of field netback by taking the amount of sales received after royalties and production, in respect of operating netback by taking the amount of sales received after royalties, production and realized gains (losses) on financial derivatives, and in respect of adjusted funds flow netback by taking the amount of sales received after royalties, production, realized gains (losses) on financial derivatives, general and administrative costs, interest income and other (excluding accretion on decommissioning liabilities) and decommissioning liabilities settled. Additional information relating to certain of these non-IFRS measures, including the reconciliation between adjusted funds flow from operations and cash flow from operating activities, can be found in the MD&A.*

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.