



April 4, 2024

HEADWATER EXPLORATION INC. PROVIDES FIRST QUARTER OPERATIONS UPDATE

CALGARY, ALBERTA – Headwater Exploration Inc. (the "**Company**" or "**Headwater**") (**TSX:HWX**) is pleased to report first quarter average production volumes of approximately 19,500 BOE/d, which are in line with guidance and on trend to meet previously announced annualized production guidance of 20,000 BOE/d. With visibility to expansion of WCS egress, growth capital has been strategically allocated in the second half of 2024.

Marten Hills West

In Marten Hills West, Headwater drilled 14 wells in the first quarter inclusive of ten Clearwater A producers, three Clearwater A injectors and a Clearwater E exploration test.

The Clearwater E exploration test at 00/04-35-076-02W5 achieved a 15-day initial production rate of 155 bbls/d of 24 API oil before being shut in for break up. The team is extremely excited about this result as it validates a Clearwater E pool that covers approximately 15 sections of Headwater land. An all-weather access road will be constructed to access this well and additional drilling locations in this pool late in the third quarter of 2024.

Based on strong results from our initial Clearwater G discovery well at 00/02-30-075-01W5, three Clearwater G follow up tests are expected to be drilled early in the second quarter of 2024 extending north and south of this discovery well.

Implementation of our first full section waterflood in section 7-076-02W5 at Marten Hills West is complete. Initial water injection rates have been strong with offsetting producing wells showing immediate gas-to-oil ratio decreases. The pattern is expected to stabilize approximately 300 bbls/d of oil production. Continued successful results from this pattern will set up significant further waterflood development across the Clearwater A pool.

West Nipisi

Two multi-lateral exploration wells were drilled in the West Nipisi expansion area via winter access roads. Unfortunately, these wells had to be prematurely shut in for break up in mid-March due to unseasonal warm weather.

The first four-leg lateral well at 00/05-18-77-11W5, targeting the Clearwater F sand, achieved a five-day initial production rate of 90 bbls/d of 16.5 API oil. This highly encouraging result is expected to be followed by a second test of the Clearwater F sand in the first quarter of 2025 once winter access can be re-established.

A second four-leg lateral exploration well targeting the Clearwater G sand was drilled at 02/05-15-077-12W5. The well encountered natural fractures while drilling resulting in extremely strong fluid rates but also high water cuts in the later stages of load recovery. The geo technical shows while drilling this well were highly encouraging with strong porosity and oil staining throughout the laterals. A follow up test away from the natural fracturing in this pool will be drilled in the first quarter of 2025 when winter access can be re-established.

Heart River

Our exploration team identified an encouraging Falher prospect at Heart River where we have accumulated 23 sections of land since late 2023. Our first six-leg lateral well testing this geological concept was drilled at 00/06-36-076-16W5. This well has recently finished load fluid recovery and is currently producing 120 bbls/d. Results from the discovery well have the potential to set up a pool that

is estimated to cover approximately 12 sections. Further delineation tests of this pool are expected to be completed in the fourth quarter of 2024.

Seal

Headwater is excited to report drilling of the Company's first Bluesky test. The 04/13-06-083-15W5 well at Seal, a 12-leg Bluesky test was drilled in 11 days with approximately 17,000 meters of reservoir exposure. We are pleased with the execution of this well which is currently recovering load fluid at favorable rates. It is anticipated the well will finish recovering load fluid and enter its initial production phase in mid-April.

Headwater is in the midst of an active delineation drilling campaign at Seal targeting both the Falher B and D zones. This four well program, which includes three Stingray wells, is a follow-up to the Falher B discovery well at 03/13-06-083-15W5 and the initial Stingray test in the Falher D at 00/07-07-083-15W5.

The successes achieved to date in Seal are expected to establish the area as a multi-zone growth engine for Headwater over the next several years.

Handel

A stratigraphic test and one single-leg horizontal well have been recently drilled on the 56 section Manville prospect in Saskatchewan. The 1-30-035-18W3, a single lateral open hole well, was drilled in the Lloyd formation and placed on production in March. This well is currently being optimized to understand its deliverability potential. Pending success of this current test, additional multi-lateral tests are planned for later in 2024.

Exploration

The Headwater team continues its pursuit of organic growth opportunities in and beyond the boundaries of the Clearwater accumulating over 520 net sections in the Clearwater fairway and 175 net sections of non-Clearwater acreage in oily fairways across the basin.

Over the balance of 2024, the current budget contemplates testing an additional three to four exploration prospects.

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 production guidance; expected timing around future capital expenditures including exploration tests, road construction and waterflood development; the expectation that growth capital will be focused on the second half of 2024; the expectation the waterflood pattern in Marten Hills West is expected to stabilize 300 bbls/d; the expectation that recent drilling in the Clearwater E pool in Marten Hills West validates 15 sections of land; the expectation the discovery well at Heart River has the potential to setup a pool that is estimated to cover approximately 12 sections; and the expectation Seal will be a significant growth area for Headwater in the future following recent successes in the area. 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 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 and certain other guidance assumptions. For the purposes of the 2024 annual production guidance presented herein, the Company has assumed such production will be comprised of: 18,650 bbls/d of heavy oil, 50 bbls/d of natural gas liquids and 7.8 mmcf/d of natural gas. 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; the Russian-Ukrainian war and the Israel-Hamas war and the impact on the global economy and commodity prices; the impacts of inflation and supply chain issues and steps taken by central banks to curb inflation; pandemics and other major health events, war, 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. Refer to Headwater’s Annual Information Form dated March 7, 2024, on SEDAR+ at www.sedarplus.ca, and the risk factors contained therein.

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. 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.*