



May 1, 2025

HEADWATER EXPLORATION INC. ANNOUNCES TSX APPROVAL OF NCIB, FIRST QUARTER FINANCIAL RESULTS, OPERATIONS UPDATE AND DECLARES QUARTERLY DIVIDEND

CALGARY, ALBERTA – Headwater Exploration Inc. (the "**Company**" or "**Headwater**") (**TSX:HWX**) is pleased to announce its operating and financial results for the three months ended March 31, 2025, NCIB approval and declaration of quarterly dividend. Selected financial and operational information is outlined below and should be read in conjunction with the unaudited interim condensed financial statements and the related management's discussion and analysis ("**MD&A**"). These filings will be available at www.sedarplus.ca and the Company's website at www.headwaterexp.com.

Financial and Operating Highlights

	Three months ended March 31,		Percent Change
	2025	2024	
Financial (<i>thousands of dollars except share data</i>)			
Total sales, net of blending ^{(1) (4)}	163,188	127,366	28
Adjusted funds flow from operations ⁽²⁾	92,359	76,446	21
Per share - basic ⁽³⁾	0.39	0.32	22
- diluted ⁽³⁾	0.39	0.32	22
Cash flows provided by operating activities	69,935	55,047	27
Per share - basic	0.29	0.23	26
- diluted	0.29	0.23	26
Net income	50,004	37,619	33
Per share - basic	0.21	0.16	31
- diluted	0.21	0.16	31
Capital expenditures ⁽¹⁾	62,847	65,267	(4)
Adjusted working capital ⁽²⁾	63,616	48,841	30
Shareholders' equity	723,431	625,675	16
Dividends declared	26,155	23,729	10
Weighted average shares (<i>thousands</i>)			
Basic	237,772	235,742	1
Diluted	237,813	237,552	-
Shares outstanding, end of period (<i>thousands</i>)			
Basic	237,774	237,290	-
Diluted ⁽⁵⁾	237,904	241,356	(1)
Operating (<i>6:1 boe conversion</i>)			
Average daily production			
Heavy crude oil (<i>bbls/d</i>)	19,511	17,512	11
Natural gas (<i>mmcf/d</i>)	14.5	11.5	26
Natural gas liquids (<i>bbls/d</i>)	142	87	63
Barrels of oil equivalent ⁽⁹⁾ (<i>boe/d</i>)	22,066	19,517	13
Average daily sales ⁽⁶⁾ (<i>boe/d</i>)	22,019	19,459	13
Netbacks (<i>\$/boe</i>) ⁽⁷⁾			
Operating			
Sales, net of blending ⁽⁴⁾	82.35	71.93	14
Royalties	(14.47)	(12.34)	17
Transportation	(5.41)	(5.35)	1
Production expenses	(7.93)	(7.04)	13
Operating netback ⁽³⁾	54.54	47.20	16
Realized loss/gain on financial derivatives	(1.60)	3.45	(146)
Operating netback, including financial derivatives ⁽³⁾	52.94	50.65	5
General and administrative expense	(1.44)	(1.47)	(2)
Interest income and other expense ⁽⁸⁾	0.59	0.95	(38)
Current tax expense	(5.43)	(6.91)	(21)
Settlement of decommissioning liability	(0.05)	(0.05)	-
Adjusted funds flow netback ⁽³⁾	46.61	43.17	8

(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) Non-GAAP ratio. Refer to "Non-GAAP and Other Financial Measures" within this press release.
- (4) Heavy oil sales are netted with blending expense to compare the realized price to benchmark pricing while transportation expense is shown separately. In the interim financial statements blending expense is recorded within blending and transportation expense.
- (5) In-the-money dilutive instruments as at March 31, 2025, which include 0.1 million stock options with a weighted average exercise price of \$4.56. Restricted share units and performance share units have been excluded as the Company intends to cash settle these awards.
- (6) Includes sales of unblended heavy crude oil, natural gas and natural gas liquids. The Company's heavy crude oil sales volumes and production volumes differ due to changes in inventory. First quarter 2025 sales volumes comprised of 19,464 bbls/d of heavy oil, 14.5 mmcf/d of natural gas and 142 bbls/d of natural gas liquids. First quarter 2024 sales volumes comprised of 17,454 bbls/d of heavy oil, 11.5 mmcf/d of natural gas and 87 bbls/d of natural gas liquids.
- (7) Netbacks are calculated using average sales volumes.
- (8) Excludes unrealized foreign exchange gains/losses, accretion on decommissioning liabilities, interest on repayable contribution and interest on lease liability.
- (9) See "Barrels of Oil Equivalent."

FIRST QUARTER 2025 HIGHLIGHTS

- Achieved record production of 22,066 boe/d representing an increase of 13% from the first quarter of 2024.
- Realized record adjusted funds flow from operations ⁽¹⁾ of \$92.4 million (\$0.39 per share basic ⁽²⁾), cash flows from operations of \$69.9 million (\$0.29 per share basic) and free cash flow ⁽³⁾ of \$29.5 million.
- Achieved an operating netback inclusive of financial derivatives ⁽²⁾ of \$52.94/boe and an adjusted funds flow netback ⁽²⁾ of \$46.61/boe.
- Achieved net income of \$50.0 million (\$0.21 per share basic) equating to \$25.23/boe.
- Executed a \$62.8 million capital expenditure ⁽³⁾ program inclusive of development and exploration tests in the Marten Hills West, Greater Nipisi and Greater Peavine areas.
- Declared a cash dividend of \$26.2 million, or \$0.11 per common share. To date, Headwater has paid out a cumulative dividend of \$239.0 million to shareholders (\$1.01 per common share).
- As at March 31, 2025, Headwater had adjusted working capital ⁽¹⁾ of \$63.6 million, working capital of \$72.1 million, and no outstanding bank debt.

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

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NCIB APPROVAL

The Toronto Stock Exchange ("TSX") has granted approval for Headwater to commence a normal course issuer bid (the "NCIB").

Under the NCIB, Headwater may purchase for cancellation up to 19,020,755 common shares of Headwater, representing approximately 10% of its 237,774,464 issued and outstanding common shares as at April 30, 2025 less common shares held by directors, executive officers and principal securityholders (holders holding greater than 10% of the issued and outstanding common shares) of the Company. The total number of common shares that Headwater is permitted to purchase is subject to a daily purchase limit of 177,411 common shares, representing 25% of the average daily trading volume of 709,647 common shares on the TSX calculated for the six-month period ended April 30, 2025; however, Headwater may make one block purchase per calendar week which exceeds the daily repurchase restrictions.

The NCIB is expected to commence on May 6, 2025, and will terminate on the earlier of: (i) the date on which the issuer has acquired all common shares sought pursuant to the NCIB; or (ii) to May 5, 2026 unless earlier terminated at the option of the Company, upon prior notice being given to the TSX. The common shares will be purchased on behalf of Headwater by a registered broker through the facilities of

the TSX and through other alternative Canadian trading platforms at the prevailing market price at the time of such transaction.

The actual number of common shares purchased under the NCIB, the timing of purchases, and the price at which the common shares will be purchased, will depend on future market conditions.

Headwater believes that, from time to time, the market price of the common shares may not fully reflect the underlying value of the common shares and at such times the purchase of common shares would be in the best interests of the Company. As a result of such purchases, the number of issued common shares will be decreased and, consequently, the proportionate share interest of all remaining shareholders will be increased on a pro rata basis.

OPERATIONS UPDATE

Marten Hills West

In the first quarter of 2025 Headwater drilled 7 successful producing multi-lateral wells and 6 water injection wells across Marten Hills West, further delineating both the Clearwater sandstone and Clearwater E formations.

The south eastern pool boundaries in the Clearwater sandstone continue to deliver exceptional results with 02/12-16-075-01W5 achieving a 60-day initial production rate of 236 bbls/d and the 02/07-10-075-01W5 achieving a 30-day initial production rate of 267 bbls/d.

Stabilized volumes from secondary recovery implementation in the sandstone formation are now approaching 1,000 bbls/d from two sections. Results to date have been strong with water injection volumes exceeding 2,500 bbls/d and gas oil ratios continuing to fall. The balance of 2025 will see an additional 2-3 sections converted to secondary recovery, with an anticipated 2,000 bbls/d of oil production supported by year-end.

Headwater is excited to report commissioning our first Clearwater E full section secondary recovery pilot at Marten Hills West in sections 7 & 18 of 075-01W5. The full section pilot, configured as a lateral flood, is a follow-up to the positive results seen from the initial injection pilots at 02/16-07-075-01W5 and 00/13-07-075-01W5, where rates have now stabilized at more than 300 bbls/d from the two wells.

The 03/04-18-075-01W5 6-leg multi-lateral well, which achieved a 30-day initial production rate of 266 bbls/d and the 07/05-18-075-01W5M a 6-leg multi-lateral, which achieved a 30-day initial production rate of 188 bbls/d were both drilled in a lateral flood configuration and are part of the full section Clearwater E secondary recovery pilot mentioned above.

Marten Hills Core

With 8 of 9 sections under secondary recovery and 7,000 bbls/d of stabilized oil production, the core area remains our flagship commercial secondary recovery asset demonstrating the value proposition of lower declines and increasing recovery factors.

Greater Pelican

Headwater has finished drilling its first 8-leg multi-lateral exploration test in this area at 04/04-19-079-22W4, targeting the Wabiskaw formation. The geotechnical indications while drilling showed excellent reservoir with strong oil staining throughout. The well finished recovering load fluid April 25th and is currently producing 360 bbls/d oil. Headwater intends to evaluate results and compile technical data to better understand the opportunity for secondary recovery. A follow-up test will be planned for later in 2025.

Greater Nipisi

Two follow-up wells have been drilled and placed on production in our Little Horse South prospect. The first well at 09-29-076-14W5 achieved a 20-day initial producing rate of 150 bbls/d oil. The second new drill at 08-29-076-14W5 is still recovering load fluid.

Greater Peavine

Headwater recently finished the Seal area winter multi-well drilling campaign which included testing large diameter drilling technology. The 00/13-12-083-16W5 Falher B multi-lateral, drilled with large diameter hole has achieved a 20-day initial production rate of 350 bbls/d, which is a substantial improvement to historical results in the area. The last two wells in the program, a Bluesky large diameter multi-lateral and a Falher B large diameter multi-lateral drilled off the 12-05-083-15W5 pad, are currently recovering load fluid.

Handel Saskatchewan

Interpretation of the 3D seismic shoot was recently completed resulting in the identification of multiple Mannville targets. Headwater intends to drill up to 5 stratigraphic tests across the prospect in the third quarter of 2025, to further evaluate the viability of steam-assisted gravity drainage development from the Waseca formation. In addition, the 3D seismic has provided multiple other Mannville drilling opportunities targeting conventional heavy oil development.

McCully

McCully contributed \$9.9 million of free cash flow ⁽¹⁾ through the first quarter of 2025 and generated approximately \$16.2 million of free cash flow ⁽¹⁾ across the winter producing season ⁽²⁾. Headwater's structured hedging program for its McCully asset has provided consistent cash flow against highly volatile gas pricing experienced during the winter season. As of May 1, 2025, the McCully asset has been shut-in and is expected to resume production in the fourth quarter of 2025, upon realization of premium winter pricing.

(1) Non-GAAP financial measure. Refer to "Non-GAAP and Other Financial Measures" within this press release.

(2) Winter producing season is December 1, 2024 to April 30, 2025.

SECOND QUARTER DIVIDEND

The Board of Directors of Headwater has declared a quarterly cash dividend to shareholders of \$0.11 per common share payable on July 15, 2025, to shareholders of record at the close of business on June 30, 2025. This dividend is an eligible dividend for the purposes of the *Income Tax Act* (Canada).

OUTLOOK

Headwater's strong balance sheet and flexible capital budget allows for strategic optionality in capital allocation during times of market volatility.

We remain focused on total shareholder returns through a combination of organic expansion, enhanced oil recovery, dividends and strategic share buybacks.

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: statements with respect to the anticipated terms of the NCIB including the expected timing for termination of the NCIB; the anticipated advantages to shareholders of the NCIB; future waterflood expansion in Marten Hills West with the expectation that 2,000 bbls/d of oil production will be supported by year-end; Headwater's intent to evaluate results and compile technical data to better understand the opportunity for secondary recovery in Greater Pelican; Headwater's intent to drill a follow-up test in Greater Pelican; the intention to drill up to 5 stratigraphic tests in Handel in the third quarter of 2025; Headwater's expectation of Mannville drilling opportunities targeting conventional heavy oil development; the anticipated timing of when the Company's McCully asset will resume production; expectations that the Company will cash settle all of its restricted share units and performance share units; the anticipated terms of the Company's quarterly dividend, including its expectation that it will be designated as an "eligible dividend" and the Company's ability to focus on shareholder returns through a combination of organic expansion, dividends and strategic share buybacks. The forward-looking statements contained herein are based on certain key expectations and assumptions made by the Company, including but not limited to the risk that the anticipated benefits of the NCIB may not be achieved; the risk that the terms of the NCIB may change; 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; the impact of tariffs and other trade retaliatory measure imposed by the United States, Canada and other countries; disruptions to the Canadian and global economy resulting from major public health events, 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, 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; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the risk that Headwater's 2025 operating and financial results may not be consistent with its expectations; and the risk that the Company's McCully asset may not resume production when anticipated. In addition, the actual number of common shares that will be repurchased under the NCIB, and the timing of any such purchases, will be determined by the Company on management's discretion, subject to applicable securities laws. There cannot be any assurances as to how many common shares, if any, will ultimately be acquired by the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Refer to Headwater's Annual Information Form dated March 13, 2025, on SEDAR+ at www.sedarplus.ca, and the risk factors contained therein.

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 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.

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 use various non-GAAP and other financial measures to analyze operating performance and financial position. These non-GAAP and other financial measures do not have standardized meanings prescribed under IFRS and therefore may not be comparable to similar measures presented by other issuers. The term cash flow in this press release is equivalent to adjusted funds flow from operations.

Non-GAAP Financial Measures

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.

	Three months ended March 31,	
	2025	2024
	<i>(thousands of dollars)</i>	
Adjusted funds flow from operations	92,359	76,446
Capital expenditures	(62,847)	(65,267)
Free cash flow	29,512	11,179

Total sales, net of blending

Management utilizes total sales, net of blending expense to compare realized pricing to benchmark pricing. It is calculated by deducting the Company's blending expense from total sales. In the interim financial statements blending expense is recorded within blending and transportation expense.

	Three months ended March 31,	
	2025	2024
	<i>(thousands of dollars)</i>	
Total sales	170,155	134,034
Blending expense	(6,967)	(6,668)
Total sales, net of blending expense	163,188	127,366
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 March 31,	
	2025	2024
	<i>(thousands of dollars)</i>	
Cash flows used in investing activities	63,103	51,580
Proceeds from government grant	-	177
Change in non-cash working capital	(256)	13,510
Capital expenditures	62,847	65,267

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. In addition to being a capital management measure, adjusted funds flow from operations is used by management to assess the performance of the Company’s oil and gas properties. Adjusted funds flow from operations is an indicator of operating performance as it varies in response to production levels and management of production and transportation costs. Management believes that by eliminating changes in non-cash working capital and adjusting for current income taxes in the period, adjusted funds flow from operations is a useful measure of operating performance.

	Three months ended March 31,	
	2025	2024
	<i>(thousands of dollars)</i>	
Cash flows provided by operating activities	69,935	55,047
Changes in non–cash working capital	6,888	4,628
Current income taxes	(10,770)	(12,233)
Current income taxes paid	26,306	29,004
Adjusted funds flow from operations	92,359	76,446

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 repayable contribution to provide a better indication of Headwater’s net financing obligations.

	March 31,	December 31,
	2025	2024
	<i>(thousands of dollars)</i>	
Working capital	72,107	78,735
Repayable contribution	(11,118)	(10,916)
Financial derivative receivable	(149)	(3,088)
Financial derivative liability	2,776	2,847
Adjusted working capital	63,616	67,578

Non-GAAP Ratios

Adjusted funds flow netback, operating netback and operating netback, including financial derivatives

Adjusted funds flow netback, operating netback and operating netback, including financial derivatives are non-GAAP ratios and are used by management to better analyze the Company’s performance against prior periods on a more comparable basis.

Adjusted funds flow netback is defined as adjusted funds flow from operations divided by sales volumes in the period.

Operating netback is defined as sales less royalties, transportation and blending costs and production expense divided by sales volumes in the period. Sales volumes exclude the impact of purchased condensate and butane. Operating netback, including financial derivatives is defined as operating netback plus realized gains (losses) on financial derivatives.

Adjusted funds flow from operations per share

Adjusted funds flow from operations per share is a non-GAAP ratio and is used by management to better analyze the Company's performance against prior periods on a more comparable basis. Adjusted funds flow per share is calculated as adjusted funds flow from operations divided by weighted average shares outstanding on a basic or diluted basis.

Supplementary Financial Measures

Per boe numbers

This press release represents various results on a per boe basis including Headwater average realized sales price, net of blending, realized gains (losses) on financial derivatives 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, current taxes per boe and settlement of decommissioning liability expense per boe. These figures are calculated using sales volumes.