

MANAGEMENT INFORMATION CIRCULAR

DATED APRIL 1, 2022





THE CLEARWATER ADVANTAGE

Headwater Exploration Inc. is a Canadian publicly traded resource company engaged in the exploration for and development and production of petroleum and natural gas in Canada. Headwater currently has high quality oil production, reserves, and lands in the prolific Clearwater play in the Marten Hills area of Alberta as well as low decline natural gas production and reserves in the McCully Field near Sussex, New Brunswick. Headwater is focused on providing superior corporate level returns by focusing on sustainability, asset quality and balance sheet strength.

We are publicly traded on the Toronto Stock Exchange (TSX: HWX). Find out more on our website www.headwaterexp.com.

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PROXY SUMMARY

The following summary highlights some of the important information you will find in this Information Circular. We recommend you read the entire Information Circular before voting.

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NOTICE OF ANNUAL AND SPECIAL MEETING

TO THE HOLDERS OF COMMON SHARES:

NOTICE is hereby given that an annual and special meeting (the "**Meeting**") of the holders ("**Shareholders**") of common shares ("Common Shares") of Headwater Exploration Inc. ("**Headwater**" or the "**Corporation**") will be held in Rooms A & B, Eighth Avenue Place Conference Centre, 4th Floor, 525-8th Avenue S.W., Calgary, Alberta at 3:00 p.m. (Calgary time) on Thursday, May 12, 2022, for the following purposes:

1. to receive the financial statements of the Corporation for the year ended December 31, 2021 and the auditors' report thereon;
2. to consider and, if thought appropriate, elect directors of the Corporation;
3. to consider and, if thought appropriate, appoint the auditors of the Corporation, authorizing the directors to fix their remuneration as such;
4. to consider and, if thought advisable, approve a new performance and restricted award plan of the Corporation; and
5. to transact such further and other business as may properly come before the Meeting or any adjournment(s) thereof.

The nature of the business to be transacted at the Meeting and the specific details of the matters proposed to be put to the Meeting are described in further detail in the accompanying management information circular of the Corporation dated April 1, 2022 (the "**Information Circular**").

The record date for the determination of Shareholders entitled to receive notice of and to vote at the Meeting is March 28, 2022 (the "**Record Date**"). Shareholders whose names have been entered in the register of Shareholders at the close of business on that date will be entitled to receive notice of and vote at the Meeting, provided that, to the extent a Shareholder transfers the ownership of any of his or her Common Shares after such date and the transferee of those Common Shares establishes that he or she owns the Common Shares and requests, not later than 10 days before the Meeting, to be included in the list of Shareholders eligible to vote at the Meeting, such transferee will be entitled to vote those Common Shares at the Meeting.

Shareholders may attend the Meeting in person or may be represented by proxy. Shareholders who are unable to attend the Meeting or any adjournment thereof in person are requested to date, sign and return the accompanying form of proxy for use at the Meeting or any adjournment thereof. A proxy will not be valid unless it is deposited with Odyssey Trust Company, Trader's Bank Building, 702 67 Yonge Street, Toronto, ON M5E 1J8 (Attention: Proxy Department), by facsimile at (800) 517-4553 (if outside North America) or by internet at <https://login.odysseytrust.com/pxlogin> at least 48 hours (excluding Saturdays, Sundays and holidays) prior to the time set for the Meeting or any adjournment(s) thereof. All instructions are listed in the enclosed form of proxy. The instrument appointing a proxy shall be in writing and shall be executed by the Shareholder or his or her attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal by an officer or attorney thereof duly authorized.

The persons named in the enclosed form of proxy are our officers of the Corporation. **Each Shareholder has the right to appoint a proxyholder other than such persons, who need not be a Shareholder, to attend and to act for such Shareholder and on such Shareholder's behalf at the Meeting.** To exercise such right, the names of the nominees of management should be crossed out and the name of the Shareholder's appointee should be legibly printed in the blank space provided.



Headwater intends to hold the Meeting in person. However, Headwater may be required to take additional precautionary measures in relation to the Meeting in response to any further developments with the COVID-19 pandemic. In the event it is not possible or advisable to hold the Meeting in person, Headwater will announce alternative arrangements for the Meeting as promptly as practicable, which may include holding the Meeting entirely by electronic means, telephone or other communication facilities. Please monitor our website at www.headwaterexp.com for updated information.

DATED this 1st day of April, 2022.

BY ORDER OF THE BOARD OF DIRECTORS OF
HEADWATER EXPLORATION INC..

(signed) "Neil Roszell"
Chair and Chief Executive Officer



Management Information Circular dated April 1, 2022 for the Annual and Special Meeting of Shareholders of Headwater Exploration Inc. to be held on May 12, 2022.

VOTING MATTERS

Solicitation of Proxies

This management information circular (this "**Information Circular**") is furnished in connection with the solicitation of proxies by management of Headwater Exploration Inc. ("**Headwater**" or the "**Corporation**") for use at the annual and special meeting (the "**Meeting**") of the holders ("**Shareholders**") of common shares ("**Common Shares**") of the Corporation to be held in Rooms A & B, Eighth Avenue Place Conference Centre, 4th Floor, 525-8th Avenue S.W., Calgary, Alberta at 3:00 p.m. (Calgary time) on Thursday, May 12, 2022 and at any adjournment(s) thereof, for the purposes set forth in the Notice of Annual and Special Meeting.

A proxy will not be valid unless it is deposited with Odyssey Trust Company, 1Trader's Bank Building, 702 67 Yonge Street, Toronto, ON M5E 1J8 (Attention: Proxy Department), by facsimile at (800) 517-4553 (if outside North America) or by internet at <https://login.odysseytrust.com/pxlogin> at least 48 hours (excluding Saturdays, Sundays and holidays) prior to the time set for the Meeting or any adjournment(s) thereof. All instructions are listed in the enclosed form of proxy.

Non-registered or beneficial Shareholders who do not hold Common Shares in their own name but rather through a broker, financial institution, trustee, nominee or other intermediary must complete and return the voting instruction form provided to them or follow the telephone or internet-based voting procedures described therein in advance of the deadline set forth in the voting instruction form in order to have such Common Shares voted at the Meeting on their behalf.

Only Shareholders of record at the close of business on March 28, 2022 will be entitled to vote at the Meeting, unless that Shareholder has transferred any Common Shares subsequent to that date and the transferee Shareholder, not later than ten (10) days before the Meeting, establishes ownership of such Common Shares and demands that the transferee's name be included on the list of Shareholders entitled to vote at the Meeting.

The instrument appointing a proxy must be in writing and must be executed by you or your attorney authorized in writing or, if you are a company, by a duly authorized officer or attorney of the company.

Unless otherwise stated, information provided in this Information Circular is given as of April 1, 2022.

Headwater intends to hold the Meeting in person. However, Headwater may be required to take additional precautionary measures in relation to the Meeting in response to any further developments with the COVID-19 pandemic. In the event it is not possible or advisable to hold the Meeting in person, Headwater will announce alternative arrangements for the Meeting as promptly as practicable, which may include holding the Meeting entirely by electronic means, telephone or other communication facilities. Please monitor our website at www.headwaterexp.com for updated information.

The persons named in the enclosed form of proxy are our officers. **As a Shareholder, you have the right to appoint a person or company, who need not be a Shareholder, to represent you at the Meeting.** To exercise



this right you should insert the name of the desired representative in the blank space provided on the form of proxy.

Advice to Beneficial Holders of Common Shares

The information set forth in this section is of significant importance to you if you do not hold your Common Shares in your own name. Only proxies deposited by Shareholders whose names appear on the records of the Corporation as the registered holders of such Common Shares can be recognized and acted upon at the Meeting. If Common Shares are listed in your account statement provided by your broker, then in almost all cases those Common Shares will not be registered in your name on Headwater's records. Such Common Shares will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of shares are registered under the name of CDS & Co., the registration name for The Canadian Depository for Securities Limited ("**CDS**"), which acts as nominee for many Canadian brokerage firms. Common Shares held by your broker or their nominee can only be voted upon your instructions. Without specific instructions, your broker or their nominee is prohibited from voting your Common Shares. The Corporation does not know for whose benefit the Common Shares registered in the name of CDS & Co. are held. The majority of shares held in the United States are registered in the name of Cede & Co., the nominee for The Depository Trust Company, which is the United States equivalent of CDS.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the Meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your Common Shares are voted at the Meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered Shareholders. However, its purpose is limited to instructing the registered Shareholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Investor Communications, Canada, which mails a scannable voting instruction form in lieu of the form of proxy. You are asked to complete and return the voting instruction form to them by mail or facsimile. Alternatively, you can call their toll-free telephone number or access the internet to vote your Common Shares. They then tabulate the results of all instructions received and provide appropriate instructions respecting the voting of such Common Shares to be represented at the Meeting. If you receive a voting instruction form from Broadridge Investor Communications, Canada, it cannot be used as a proxy to vote Common Shares directly at the Meeting, as the proxy must be returned to them well in advance of the Meeting in order to have the Common Shares voted.

Although you may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of your broker, you may attend the Meeting as a proxyholder for the registered holder and vote your Common Shares in that capacity. If you wish to attend the Meeting and vote your Common Shares, you must do so as proxyholder for the registered holder. To do this, you should enter your own name in the blank space on the form of proxy or voting instruction form provided to you and return the document to your broker or the agent of such broker in accordance with the instructions provided by such broker well in advance of the Meeting.

Notice-and-Access

Headwater has elected to use the "notice-and-access" provisions under National Instrument 54-101 – *Communications with Beneficial Owners of Securities of a Reporting Issuer* (the "**Notice-and-Access Provisions**") for the Meeting in respect of mailings to beneficial Shareholders but not in respect of mailings to registered Shareholders. The Notice-and-Access Provisions are a set of rules developed by the Canadian Securities



Administrators that reduce the volume of materials which are mailed to shareholders by allowing a reporting issuer to post an information circular in respect of a meeting of its shareholders and related materials online.

Headwater has also elected to use procedures known as 'stratification' in relation to the use of the Notice-and-Access Provisions. Stratification occurs when a reporting issuer using the Notice-and-Access Provisions provides a paper copy of an information circular and, if applicable, a paper copy of financial statements and related management's discussion and analysis ("**Financial Information**"), to some shareholders together with a notice of a meeting of its shareholders. In relation to the Meeting, registered Shareholders will receive a paper copy of the Notice of Annual and Special Meeting, this Information Circular and a form of proxy whereas beneficial Shareholders will receive a notice containing information prescribed by the Notice-and-Access Provisions and a voting instruction form. Furthermore, a paper copy of the Financial Information in respect of Headwater's most recently completed financial year was mailed to all registered Shareholders and those beneficial Shareholders who previously requested to receive such information.

Revocability of Proxy

A Shareholder who has submitted a proxy may revoke it at any time prior to the exercise thereof. If a person who has given a proxy attends the Meeting at which such proxy is to be voted, voting at the Meeting will revoke such person's previous proxy. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the Shareholder or the Shareholder's attorney authorized in writing deposited either at the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting or any adjournment(s) thereof or in any other manner permitted by law, including pursuant to the provisions of the *Business Corporations Act* (Alberta) (the "**ABCA**").

Persons Making the Solicitation

The solicitation is made on behalf of management of the Corporation. The costs incurred in the preparation and mailing of the enclosed form of proxy, Notice of Annual and Special Meeting and this Information Circular will be borne by the Corporation. In addition to solicitation by mail, proxies may be solicited by personal interviews, telephone or other means of communication and by directors, officers and employees of the Corporation, who will not be specifically remunerated therefore.

Exercise of Discretion by Proxy

The Common Shares represented by proxy in favour of management nominees shall be voted on each item of business at the Meeting and, where the Shareholder specifies a choice with respect to any matter to be acted upon, the Common Shares shall be voted for or against/withheld from voting on each item of business in accordance with the specification so made.

In the absence of such specification, the Common Shares will be voted in favour of the matters to be acted upon. The persons appointed under the form of proxy furnished by the Corporation are conferred with discretionary authority with respect to amendments or variations of those matters specified in the enclosed form of proxy, the Notice of Annual and Special Meeting and this Information Circular. At the time of printing this Information Circular, management of the Corporation knows of no such amendment, variation or other matter.



Voting Securities and Principal Holders Thereof

As at the Record Date, 223,727,180 Common Shares were issued and outstanding, with each Common Share carrying the right to one (1) vote on a ballot at the Meeting. A quorum for the transaction of business at the Meeting will be present if not less than two (2) Shareholders representing not less than 25% of the Common Shares are present or represented by proxy at the Meeting.

The Record Date as of which Shareholders are entitled to vote at the Meeting has been fixed by the Corporation as March 28, 2022.

To the knowledge of the directors and senior officers of the Corporation, as at the date hereof, no person or company beneficially owned, or controlled or directed, directly or indirectly, voting securities of the Corporation carrying more than 10% of the voting rights attached to any class of voting securities of the Corporation.

Quorum for Meeting

At the Meeting, a quorum shall consist of two or more persons present and holding or representing by proxy not less than 25% of the outstanding Common Shares. If a quorum is not present at the opening of the Meeting, the Shareholders present may adjourn the Meeting to a fixed time and place but may not transact any other business.



BUSINESS OF THE MEETING

Recommendation of the Board of Directors

The Board unanimously recommends that the Shareholders vote FOR the election of each of the directors, appointment of auditors and approval of the Award Plan Resolution (as defined herein) as set forth in this Information Circular. Unless instructed otherwise, the person named on the proxy will vote FOR each of such matters to be acted upon at the Meeting.

Financial Statements and Auditors' Report

Pursuant to the ABCA, the board of directors of the Corporation (the "**Board**") will place before the Shareholders at the Meeting the audited financial statements of the Corporation for the year ended December 31, 2021 and the auditors' report thereon, which accompany this Information Circular. Shareholder approval is not required in relation to the audited financial statements.

Election of Directors

There are presently eight (8) Board members. In addition to the current directors of the Corporation, the Board is also proposing that Elena Dumitrascu be elected as a director at the Meeting. As such, the Board has determined that the number of directors to be elected at the Meeting be fixed at nine (9) and Shareholders will be asked to elect nine (9) directors to hold office until the next annual meeting or until their successors are elected or appointed.

Unless otherwise directed, it is the intention of management to vote proxies in the accompanying form in favour of the election as directors of the nine (9) nominees hereinafter set forth:

Elena Dumitrascu	Chandra Henry	Jason Jaskela	Phillip R. Knoll
Stephen Larke	Kevin Olson	David Pearce	Neil Roszell
Kam Sandhar			

The directors will be elected on an individual basis and the voting for or withhold on one director will be mutually exclusive to the voting for or withhold on any other director.

The term of office of each director nominee will be from the date of the Meeting until the next annual meeting of Shareholders or until his or her successor is elected or appointed. At the annual and special meeting of Shareholders held on May 13, 2021 (the "**2021 AGM**"), the resolution appointing the foregoing directors, except with respect to Elena Dumitrascu who is a new proposed nominee to the Board, was approved with Common Shares voted in favour of such directors ranging from 93.45% to 99.99%.

See "*Director Nominees*" for additional information on the nominees for election as directors at the Meeting.

Majority Voting for Directors

The Board has adopted a policy (the "**Majority Voting Policy**") stipulating that if the number of Common Shares voted in favour of the election of a particular director nominee at a Shareholders' meeting is less than the number



of Common Shares withheld from voting for that nominee, the nominee will immediately submit his or her resignation to the Board, with the resignation to take effect when and if such resignation is accepted by the Board. The Corporate Governance and Sustainability Committee ("**CG&S Committee**") will consider the director nominee's offer to resign and will make a recommendation to the Board as to whether or not to accept the resignation. The CG&S Committee will be expected to recommend acceptance of the resignation, except in exceptional circumstances.

The Board will consider the CG&S Committee's recommendation and make a decision as to whether to accept the director's offer to resign within 90 days of the date of the meeting. The decision of the Board will be announced by way of a press release, which, if the Board has decided to reject such resignation, will include the reasons for rejecting the resignation. No director who is required to tender his or her resignation shall participate in the deliberations or recommendations of the CG&S Committee or the Board. The Board shall accept the resignation absent any exceptional circumstances.

If a director's offer of resignation is accepted, at the Board's discretion, it may fill the vacancy through the appointment of a new director whom the Board considers appropriate in accordance with the Corporation's by-laws and articles and applicable laws. The Majority Voting Policy does not apply in circumstances involving contested director elections.

A copy of the Majority Voting Policy is available on Headwater's website at www.headwaterexp.com.

Advance Notice By-law

The Corporation's by-laws contain advance notice provisions regarding advance notice of nominations of directors of the Corporation (the "**Advance Notice Provisions**"). The Advance Notice Provisions provide that advance notice to the Corporation must be made in circumstances where nominations of persons for election to the Board are made by Shareholders other than pursuant to: (i) a "proposal" made in accordance with the ABCA; or (ii) a requisition of a meeting made pursuant to the ABCA.

The Advance Notice Provisions fix a deadline by which Shareholders must submit director nominations to the Chief Financial Officer of the Corporation prior to any annual or special meeting of Shareholders and outlines the specific information that a nominating Shareholder must include in the written notice to the Chief Financial Officer of the Corporation for an effective nomination to occur. No person nominated by a Shareholder will be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of the Advance Notice Provisions.

In the case of an annual meeting of Shareholders, notice to the Chief Financial Officer of the Corporation must be made not less than 30 days prior to the date of the annual meeting; provided, however, that in the event that the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the 10th day following such public announcement. In the case of a special meeting of Shareholders (which is not also an annual meeting), notice to the Corporation must be made not later than the close of business on the 15th day following the day on which the first public announcement of the date of the special meeting was made.



If Notice-and-Access Provisions are used for delivery of proxy-related materials in respect of a meeting described above and the notice date in respect of the meeting is not less than 50 days before the date of the applicable meeting, the notice must be received not later than the close of business on the 40th day before the date of the applicable meeting.

In the event of an adjournment or postponement of an annual meeting or special meeting of Shareholders or any announcement thereof, a new time period shall commence for the giving of timely notice.

The Board may, in its sole discretion, waive any requirement of the Advance Notice Provisions of the Corporation's by-laws.

Appointment of Auditors

Unless otherwise directed, it is management's intention to vote the proxies in favour of appointing the firm of KPMG LLP, Chartered Professional Accountants, of Calgary, Alberta ("**KPMG LLP**") to serve as auditors of the Corporation until the next annual meeting of the Shareholders and to authorize the directors to fix their remuneration as such. KPMG LLP has been the Corporation's auditors since March 25, 2020. At the 2021 AGM, this resolution was passed with 154,425,180 Common Shares voted in favour (99.96% of Common Shares voted at the meeting).

Fees paid to KPMG LLP, for audit and non-audit services in the last two fiscal years are outlined in the following table:

Nature of Services	Fees Paid for Period Ended December 31, 2021	Fees Paid for Period Ended December 31, 2020
Audit Fees ⁽¹⁾	\$220,752	\$64,200
Audit-Related Fees ⁽²⁾	\$84,263	\$nil
Tax Fees ⁽³⁾	\$4,458	\$3,567
All Other Fees ⁽⁴⁾	\$nil	\$nil
Total	\$309,473	\$67,767

- (1) "Audit Fees" include fees necessary to perform the annual audit and quarterly reviews of the Corporation's financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.
- (2) "Audit-Related Fees" include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation. In 2021, this work related to work performed in connection with a short form prospectus filed by the Corporation pursuant to the Secondary Offering (as defined below). These costs were subsequently reimbursed by Cenovus (as defined below).
- (3) "Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees charged solely for tax compliance. No fees were charged by KPMG LLP to the Corporation for tax planning or tax advice in 2021 or 2020. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.
- (4) "All Other Fees" include all other non-audit services.

For additional information relating to the fees paid to KPMG LLP and PricewaterhouseCoopers LLP, Chartered Professional Accountants, the former auditors of the Corporation, for the two most recently completed financial years of the Corporation see the information set out under the heading "*Audit Committee Information*" in the



Corporation's annual information form dated March 10, 2022 for the year ended December 31, 2021 (the "**2021 AIF**"), which is available on SEDAR at www.sedar.com.

Approval of Performance and Restricted Award Plan

On March 10, 2022, the Board approved the adoption by the Corporation of the performance and restricted share award plan dated effective March 10, 2022 (the "**Award Plan**"). As the Award Plan is a security based compensation arrangement (as defined in the TSX Company Manual), the Shareholders must ratify the adoption of the Award Plan at the Meeting. If Shareholder approval of the Award Plan is not obtained at the Meeting, Headwater will not be able to issue Common Shares upon vesting of performance share awards ("**Performance Awards**") and restricted share awards ("**Restricted Awards**") and together with Performance Awards, the "**Awards**") under the Award Plan and will only be entitled to settle Awards by payment in cash or in Common Shares acquired on the Toronto Stock Exchange (the "**TSX**").

A copy of the Award Plan will be filed on the Corporation's SEDAR profile at www.sedar.com under the heading "Other" on April 12, 2022. The following description of the Award Plan is qualified, in its entirety, by the terms of the Award Plan. Capitalized terms used in this section of the Information Circular and not otherwise defined herein are defined in the Award Plan.

The purpose of the Award Plan is to promote a proprietary interest in the Corporation and greater alignment of interests between officers, employees and consultants of the Corporation and the Shareholders, provide a compensation system for such officers, employees and consultants that is reflective of their responsibility and to assist the Corporation in attracting and retaining experienced individuals. The Award Plan is administered by the Board (which may delegate its authority to the CG&S Committee or other committee), which has authority to interpret the Award Plan, including any questions in respect of any Awards granted thereunder. The Awards granted thereunder are not assignable.

Under the Award Plan, Awards may be granted in respect of Common Shares provided that the aggregate number of Common Shares reserved for issuance under the Award Plan does not exceed the lesser of: (i) 6.0% of the aggregate number of issued and outstanding Common Shares less the aggregate number of Common Shares reserved for issuance under outstanding options ("**Options**") to purchase Common Shares under the Option Plans (as defined herein); and (ii) 4.5% of the aggregate number of issued and outstanding Common Shares (collectively, the "**Award Limits**"). Provided Shareholder approval is received for the Award Plan, the Corporation does not intend to grant any further Options under the Option Plans.

Notwithstanding any other provision in the Award Plan, Awards may be granted to officers, employees and consultants of the Corporation (each, an "**Award Grantee**") provided: (i) the number of Common Shares issuable to Insiders at any time, under all Security Based Compensation Arrangements, including the Award Plan, shall not exceed 10% of the issued and outstanding Common Shares; and (ii) the number of Common Shares issued to Insiders within any one year period, under all Security Based Compensation Arrangements, including the Award Plan, shall not exceed 10% of the issued and outstanding Common Shares. Directors who are not employees of the Corporation or any subsidiary of the Corporation are not eligible to receive Awards under the Award Plan.

Awards initially have a notional value equivalent to the value of a Common Share.

Performance Awards

Performance Awards vest on the later of the completion of the Performance Period applicable to such Performance Award and the third anniversary of the date of grant of such Performance Award and are paid out on the vesting date, unless otherwise determined by the Board at the time of grant and subject to certain other events described below. No payment may be made upon settlement of the Performance Awards on a date following the Expiry Date. At the time of payout, the Board will apply a "**Payout Multiplier**" to the Performance Award grant which may increase or decrease the number of Common Shares underlying such Performance Award. The Payout Multiplier may range from zero to 2.0 and will be based on Headwater's performance during the Performance Period. For details on how the Payout Multiplier is calculated see *Executive Compensation – 2022 Compensation Program – 2022 Long Term Incentive Program*. The Board's intention is that the executive officers will only receive Performance Awards under the Award Plan and the Performance Awards may also be granted to employees and consultants of the Corporation in combination with Restricted Awards.

Upon vesting, at the election of the Board each Performance Award will be paid out in cash, by the issuance of Common Shares from treasury or by Common Shares purchased through the facilities of the TSX (or a combination thereof). If paid out in cash, each Performance Award will have a value equal to the volume weighted average trading price of the Common Shares on the TSX for five trading days immediately prior to the payment date multiplied by the number of Common Shares underlying the Award, as adjusted for the Payout Multiplier and dividends paid on the Common Shares while such Performance Award was outstanding. If the Board elects to pay out the Performance Awards in Common Shares, Headwater will issue the number of fully paid and non-assessable Common Shares underlying such Performance Awards as adjusted for the Payout Multiplier and dividends paid on the Common Shares while such Performance Award was outstanding.

Restricted Awards

Restricted Awards vest on the first, second and third anniversaries of the date of grant, and are paid out on the vesting date, unless otherwise determined by the Board at the time of grant, and subject to certain other events described below. No payment may be made upon settlement of the Restricted Awards on a date following December 10 of the third calendar year following the year in which the Restricted Awards were granted (the "**Expiry Date**"). The Board's intention is that Restricted Awards will only be granted to employees and consultants and not executive officers of the Corporation.

Upon vesting, at the election of the Board each Restricted Award will be paid out in cash, by the issuance of Common Shares from treasury or by Common Shares purchased through the facilities of the TSX (or a combination thereof). If paid out in cash, each Restricted Award will have a value equal to the volume weighted average trading price of the Common Shares on the TSX for five trading days immediately prior to the payment date multiplied by the number of Common Shares underlying the Restricted Award, as adjusted for dividends paid on the Common Shares while such Restricted Award was outstanding. If the Board elects to pay out the Restricted Awards in Common Shares, Headwater will issue the number of fully paid and non-assessable Common Shares underlying such Restricted Award as adjusted for dividends on the Common Shares while such Restricted Award was outstanding.



Termination and Cessation of Award Grantee

Under the Award Plan, in case of an Award Grantee's death, Headwater will make a cash payment or issue Common Shares to such Award Grantee's legal representatives in respect of any Awards held by the Award Grantee regardless of whether such Awards have vested or not as of the date of death of the Award Grantee and the Payout Multiplier applicable to any Performance Award held by the Award Grantee at the time of death shall be determined by the Board in its sole discretion. In addition, if an Award Grantee ceases to be an officer, employee or consultant of Headwater for any reason other than death of the Award Grantee, all Awards granted to such Award Grantee under the Award Plan which have not otherwise vested will be terminated and all rights to receive payments thereunder will be forfeited by the Award Grantee as at the date such Award Grantee ceased to be an officer, employee or consultant (the "**Termination Date**") of the Corporation. These provisions are subject to any alternative arrangements that may be contained in a separate Award agreement or employment agreement between the Corporation and a particular Award Grantee.

Change of Control

The Award Plan contains a "double trigger" in the event of a Change of Control. If a Change of Control occurs prior to the date on which the Corporation pays cash or issues Common Shares to the Award Grantee in respect of an outstanding Award and the Award Grantee is terminated without cause in connection with such Change of Control or within six (6) months following such Change of Control, the Payment Date for all such Awards held by the Award Grantee (regardless of whether the vesting date has occurred) shall be the Termination Date and the Payout Multiplier shall be determined by the Board acting reasonably. Alternatively, if within six (6) months following a Change of Control, the Award Grantee voluntarily resigns for an event or events that constitute Good Reason (Good Reason includes any event that might constitute constructive dismissal), the Payment Date for all such Awards held by the Award Grantee (regardless of whether the vesting date has occurred) shall be the Termination Date and the Payout Multiplier shall be determined by the Board acting reasonably.

If the Corporation completes a transaction or a series of transactions whereby the Corporation, substantially all of the Common Shares or substantially all of the Corporation's property or assets become the property or assets of another person (the "**Continuing Entity**") the Corporation and the Continuing Entity shall take all necessary steps prior to or contemporaneously with the consummation of such transaction(s) to ensure all Awards remain outstanding following the completion of the transactions and the Continuing Entity will assume all covenants and obligations of the Corporation under the Award Plan, the outstanding Awards and the Award agreements in a manner that preserves and does not impair the rights of the recipients in any material respect, and the Continuing Entity may exercise every right and power of the Corporation under the Award Plan, and Headwater shall be relieved of its obligations thereunder.

Amendments to Award Plan

Pursuant to the terms of the Award Plan, the Board may, at any time, without the approval of the Shareholders suspend, discontinue or amend the Award Plan or an Award made thereunder provided that unless a holder of Awards otherwise agrees, the Board may not suspend, discontinue or amend the Award Plan or amend any outstanding Award in a manner that would adversely alter or impair any Award previously granted to such holder. Further, the Board may not, without the consent of the Shareholders amend the Award Plan or Award to: (i) increase the percentage of issued and outstanding Common Shares that are available to be issued pursuant to granted and outstanding Awards; (ii) increase the Common Shares that may be issued to Insiders of the



Corporation under the Award Plan; (iii) permit non-management directors to be eligible recipients under the Award Plan or in any other way permit non-management directors to become eligible to receive Awards under the Award Plan; (iv) extend the Expiry Date of any Award granted under the Award Plan; (v) permit the transfer or assignment of Awards; or (vi) amend the amendment provisions of the Award Plan.

Award Limits

As at March 31, 2022, the Corporation had an aggregate 9,366,669 Options to acquire 9,366,669 Common Shares (representing approximately 4% of the outstanding Common Shares) outstanding under the Option Plans leaving up to 4,056,962 Common Shares (representing approximately 2% of the outstanding Common Shares) available for future grants under the Award Plan, based on the number of outstanding Common Shares as at that date. As of the date hereof, no Awards have been granted under the Award Plan. There is no limit in the Award Plan as to the number of Awards any individual Award Grantee may receive (subject to the other limits in the Award Plan).

The Award Limits have been designed such that initially the number of Awards will be limited by the number of Common Shares that may be issuable pursuant to outstanding Options while still leaving enough availability for the Corporation to grant Awards to continue to retain and attract the necessary management and staff to manage the growth of the Corporation. The Options that remain outstanding under the Option Plans were primarily issued at a time when the share price and the market capitalization of the Corporation were significantly lower than Headwater's current share price and market capitalization. The outstanding Options under the Option Plans also reflect the fact that such Options were granted at a time when the total cash compensation received by officers of Headwater was very low relative to the total cash compensation received by officers of the Corporation's peers and the level of Options granted was higher to compensate for the low cash consideration. The rapid growth of Headwater over the last two years has resulted in the CG&S Committee and the Board having to rapidly adjust the compensation programs of the Corporation so that they are more suited for a company of Headwater's current size.

It is the intention of the Corporation that no further Options will be granted under the Option Plans and therefore upon the exercise, cancellation, expiry or other termination of Options, the maximum number of Common Shares issuable pursuant to outstanding Options and Awards will decrease over time. After all Options under the Option Plans have expired or are exercised, a maximum of 4.5% of the issued and outstanding Common Shares will be issuable pursuant to Awards.

Except for 30,000 Options granted under the 2008 Option Plan prior to the Recapitalization Transaction (as defined below) that are set to expire in 2023, all Options presently outstanding were granted in 2020 and 2021 and as a result are set to expire in 2024 and 2025, respectively. The following table shows the number of Options set to expire under the Option Plans and the resultant aggregate Common Shares that will be available to be issued pursuant to the Award Plan following such expiry.

Year	Options Expiring under Option Plans ⁽¹⁾	Options Remaining Outstanding under Option Plans ⁽²⁾	Aggregate Maximum Number of Awards and Options that may be Outstanding Pursuant to the Award Plan and Option Plans ⁽³⁾	Aggregate Maximum Number of Awards that may be Outstanding Pursuant to the Award Plan ⁽⁴⁾
2022	Nil	9,366,669 Options (4.2% of issued and outstanding Common Shares)	13,423,631 Awards and Options (6.0% of issued and outstanding Common Shares)	4,056,962 Awards (1.8% of issued and outstanding Common Shares)
2023	30,000 Options (<0.01% of issued and outstanding Common Shares)	9,336,669 Options (4.2% of issued and outstanding Common Shares)	13,425,431 Awards and Options (6.0% of issued and outstanding Common Shares)	4,088,762 Awards (1.8% of issued and outstanding Common Shares)
2024	5,961,669 Options (2.7% of issued and outstanding Common Shares)	3,375,000 Options (1.5% of issued and outstanding Common Shares)	13,783,131 Awards and Options (6.0% of issued and outstanding Common Shares)	10,408,131 Awards (4.5% of issued and outstanding Common Shares)
2025	3,375,000 Options (1.5% of issued and outstanding Common Shares)	nil Options (0% of issued and outstanding Common Shares)	10,489,223 Awards (and nil Options) (4.5% of issued and outstanding Common Shares)	10,489,223 Awards (4.5% of issued and outstanding Common Shares)

- (1) Except as noted below, represents Options set to expire under the Option Plans during the applicable calendar year.
- (2) Represents Options outstanding under the Option Plans as at December 31 of such year assuming none of such Options (other than the Options set to expire during such year) are exercised, cancelled or otherwise terminated under the Option Plans during such year.
- (3) Represents maximum number of Options and Awards that may be outstanding under the Option Plans and Award Plan as at December 31 of such year based on the Award Limits (assuming none of such Options (other than the Options set to expire during such year) are exercised, cancelled or otherwise terminated under the Option Plans during such year and a Payout Multiplier of 1.0 with respect to any Performance Awards that may be outstanding).
- (4) Represents maximum number of Awards that may be outstanding under the Award Plan as at December 31 of such year based on the Award Limits (assuming a Payout Multiplier of 1.0 with respect to any Performance Awards that may be outstanding).
- (5) In 2022, the percentage of issued and outstanding Common Shares is based on 223,727,180 Common Shares that are issued and outstanding as at March 31, 2022. In 2023 to 2025 the percentage of issued and outstanding Common Shares is based on 223,727,180 Common Shares plus the Options set to expire during such year, as it is assumed the Options will be exercised prior to expiry.

In determining the Award Limits applicable to grants under the Award Plan, the CG&S Committee and the Board recognized that the outstanding Options under the Option Plans are a sunk, expensed cost that reflect the long-term positive share performance of the Common Shares, long vesting periods for grants, and participant confidence in future share performance. Therefore, the CG&S Committee and the Board believed it was imperative to set appropriate limits under the Award Plan that would allow for reasonable future dilution while still leaving enough flexibility to allow the Corporation to provide equity compensation to effectively align the interests of management and employees with the Shareholders and motivate such management and employees to work towards the long-term success of the Corporation. If the Award Plan is not approved at the Meeting, the Board will not be able to grant any equity compensation to executive officers and employees of the Corporation under the Award Plan and the Corporation will be required to provide other forms of compensation including potentially cash-based awards (or cash payments on the settlement of Awards) that may not be as effective in attracting,



motivating and retaining management and employees that are aligned with Shareholders and key to the future success of the Corporation.

At the meeting, Shareholders will be asked to consider and, if thought fit, approve an ordinary resolution (the "**Award Plan Resolution**") in the following form:

"BE IT RESOLVED, as an ordinary resolution of the shareholders of Headwater Exploration Inc. (the "**Corporation**") that:

1. the restricted and performance award plan (the "**Award Plan**"), as described under the heading "*Business of the Meeting – Approval of Restricted and Performance Award Plan*" in the management information circular of the Corporation dated April 1, 2022 is hereby ratified, approved and confirmed;
2. all unallocated performance share awards and restricted share awards issuable under the Award Plan are approved and authorized until May 12, 2025;
3. any one director or officer of the Corporation be and is hereby authorized and directed to do all things and to execute and deliver all documents and instruments as may be necessary or desirable to carry out the terms of this resolution; and
4. notwithstanding that this resolution has been passed by the shareholders of the Corporation, the directors of the Corporation are hereby authorized and empowered to revoke this resolution, without any further approval of the shareholders of the Corporation, at any time if such revocation is considered necessary or desirable by the directors."

In order for the Award Plan Resolution to be passed, it must be approved by a simple majority of the votes cast by Shareholders who vote in person or by proxy at the Meeting.

DIRECTOR NOMINEES

The following profiles give information about each nominated director, including their background and experience, the period served as director, meeting attendance, security ownership and other public company boards on which they serve.

Neil Roszell

Chair and Chief Executive Officer
 Director since: March 4, 2020
 Alberta, Canada
 Age: 54
 Votes for at 2021 AGM: 146,594,381 (98.82%)

Key Skills and Experience

Executive Leadership
 Strategic Planning/Business Development
 Oil and Gas Operations

Chair and Chief Executive Officer ("**CEO**") of the Corporation since March 4, 2020. Prior thereto, Chair and CEO of 2143289 Alberta Ltd. (formerly Headwater Exploration Inc.) from December 2019 to March 4, 2020; prior thereto, Chair of Baytex Energy Corp. ("**Baytex**") from August 22, 2018 until December 2019; prior thereto, various roles with Raging River Exploration Inc. ("**Raging River**"), including Executive Chair and CEO and President and CEO from 2011 until August 2018. Mr. Roszell received a Bachelor of Applied Science degree in Engineering from the University of Regina in 1991.

Board and committee membership and attendance since January 1, 2021

Other public company boards

Board Member	7/7	N/A
Overall attendance	100%	

Common Shares held⁽¹⁾

Common Shares	Total Value ⁽²⁾	Total Annual Base Salary ⁽³⁾	Required Value of Share Ownership	Meets Share Ownership Guidelines ⁽⁴⁾
1,586,956	\$10,521,518	\$150,000	\$450,000	Yes



Jason Jaskela

President and Chief Operating Officer
 Director since: March 4, 2020
 Alberta, Canada
 Age: 45
 Votes for at 2021 AGM: 146,810,655 (98.97%)

Key Skills and Experience

Oil and Gas Operations
 Health and Safety
 Government Relations

President and Chief Operating Officer ("COO") of the Corporation since March 4, 2020. Prior thereto, President and COO of 2143289 Alberta Ltd. (formerly Headwater Exploration Inc.) from December 2019 to March 4, 2020; prior thereto, Executive Vice President and COO of Baytex from August 2018 until September 2019; prior thereto, COO and Vice President, Production of Raging River from March 2012 until August 2018. Mr. Jaskela graduated with a Bachelor of Science degree in Engineering in 2000.

Board and committee membership and attendance since January 1, 2021

Other public company boards

Board Member	7/7
Overall attendance	100%

N/A

Common Shares held⁽¹⁾

Common Shares	Total Value ⁽²⁾	Total Annual Base Salary ⁽³⁾	Required Value of Share Ownership	Meets Share Ownership Guidelines ⁽⁴⁾
1,796,152	\$11,908,488	\$260,000	\$260,000	Yes

Elena Dumitrascu

New director nominee
Alberta, Canada
Age: 44

Key Skills and Experience

Information Technology
Health and Safety
Enterprise Risk Management

Co-Founder and Chief Technology Officer at TerraHub Technologies Inc. ("**Terrahub**") since 2018. TerraHub developed Credivera a technology platform that provides proof of certifications and work experience using blockchain to maintain real-time, auditable records. Since 2019 Ms. Dumitrascu, has served as Blockchain Instructor at the University of Calgary. Ms. Dumitrascu has over 20 years of entrepreneurial experience in the technology industry playing a pivotal role in founding companies or helping companies grow and achieve success, including as Vice-President Strategic Partnerships at Cortex Business Solutions from 2015 through 2018 and as Founder and Chief Executive Officer of Caledonia Solutions Inc. from 2009 through 2015. Ms. Dumitrascu is recognized as a leader in identity management, blockchain and cybersecurity in North America. Ms. Dumitrascu has a Bachelor of Sciences degree in Computer Science from the University of Windsor.

Board and committee membership and attendance since January 1, 2021

Other public company boards

Board Member N/A
Overall attendance N/A

N/A

Common Shares held⁽¹⁾

Common Shares	Total Value ⁽²⁾	Total Annual Cash Retainer ⁽⁵⁾	Required Value of Share Ownership	Meets Share Ownership Guidelines ⁽⁴⁾
Nil	Nil	\$50,000	N/A ⁽⁶⁾	N/A ⁽⁶⁾

Chandra Henry

Director since: March 4, 2020
 Alberta, Canada
 Age: 46
 Votes for at 2021 AGM: 148,334,408 (99.99%)

Key Skills and Experience

Financial Literacy
 Enterprise Risk Management
 Human Resources

Chief Financial Officer and Chief Compliance Officer of Longbow Capital Inc. ("**Longbow**"), a private equity investment management company based in Calgary, Alberta that invests predominantly in the North American energy markets, since June 2019. Prior thereto, various senior finance positions including Chief Financial Officer of WestBlock Inc. from 2018 to 2019, Director of Finance for GMP Securities L.P. from 2016 to 2017 and Chief Financial Officer of FirstEnergy Capital Corp. from 2001 to 2016. Ms. Henry has a Bachelor of Commerce degree from the University of Calgary and has earned the Chartered Professional Accountant (CPA, CA), Chartered Financial Analyst (CFA) and Institute of Corporate Directors (ICD.D) designations. In addition, Ms. Henry is a Fundamentals of Sustainability Accounting (FSA) level 2 candidate.

Board and committee membership and attendance since January 1, 2021			Other public company boards	
Board Member	7/7		N/A	
Chair – Audit Committee	5/5			
Member – CG&S Committee	2/2 ⁽⁷⁾			
Overall attendance	100%			
Common Shares held ⁽¹⁾				
Common Shares	Total Value ⁽²⁾	Total Annual Cash Retainer ⁽⁵⁾⁽⁸⁾	Required Value of Share Ownership	Meets Share Ownership Guidelines ⁽⁴⁾
271,739	\$1,801,630	\$64,000	\$320,000	Yes

Phillip R. Knoll

Director since: September 21, 2010
 Alberta, Canada
 Age: 67
 Votes for at 2021 AGM: 148,336,857 (99.99%)

Key Skills and Experience

Executive Leadership
 Strategic Planning/Business Development
 Health and Safety

President of Knoll Energy Inc., a private energy consulting company, since 2006. Mr. Knoll served as interim Co-CEO of AltaGas Ltd. from July to December 2018. Mr. Knoll was the CEO of the Corporation from 2010 to 2014. Mr. Knoll formerly served on the boards of directors of Rally Energy Corp. and Bankers Petroleum Ltd. Mr. Knoll holds a Bachelor of Applied Science from the Technical University of Nova Scotia in Chemical Engineering. He is a Professional Engineer and a member of the Institute of Corporate Directors.

Board and committee membership and attendance since January 1, 2021		Other public company boards		
Board Member	7/7	AltaGas Ltd. (TSX)		
Member – Reserves and Safety Committee	2/2			
Overall attendance	100%			
Common Shares held ⁽¹⁾				
Common Shares	Total Value ⁽²⁾	Total Annual Cash Retainer ⁽⁵⁾	Required Value of Share Ownership	Meets Share Ownership Guidelines ⁽⁴⁾
469,313	\$3,111,545	\$50,000	\$250,000	Yes

Stephen Larke

Director since: March 4, 2020
 Alberta, Canada
 Age: 50
 Votes for at 2021 AGM: 146,698,944 (98.89%)

Key Skills and Experience

Corporate Governance
 Sustainability
 Human Resources

Independent businessman since 2017. Prior thereto, an Operating Partner and Advisory Board member with Azimuth Capital Management Inc. ("**Azimuth**"), an energy-focused private equity fund, from 2015 to 2017; prior thereto, a Managing Director and Executive Committee member with Calgary-based Peters & Co. Limited, a private investment firm, from 2005 to 2015. Mr. Larke has a Bachelor of Commerce degree (Distinction) from the University of Calgary and has earned the Chartered Financial Analyst (CFA) and Institute of Corporate Directors (ICD.D) designations. In addition, Mr. Larke is a Fundamentals of Sustainability Accounting (FSA) Credential Holder.

Board and committee membership and attendance since January 1, 2021

Board Member	6/6 ⁽⁹⁾
Chair – CG&S Committee	3/3
Overall attendance	100%

Other public company boards

Topaz Energy Corp. (TSX)
 Vermilion Energy Inc. (TSX)

Common Shares held⁽¹⁾

Common Shares	Total Value ⁽²⁾	Total Annual Cash Retainer ⁽⁵⁾⁽¹⁰⁾	Required Value of Share Ownership	Meets Share Ownership Guidelines ⁽⁴⁾
815,217	\$5,404,889	\$62,000	\$310,000	Yes

Kevin Olson

Lead Independent Director
 Director since: March 4, 2020
 Alberta, Canada
 Age: 53
 Votes for at 2021 AGM: 148,335,857 (99.99%)

Key Skills and Experience

Financial Literacy
 Strategic Planning/Business Development
 Corporate Governance

Mr. Olson is an independent businessman. Prior thereto, President of Camber Capital Corp., a private equity fund, since March 2019 and President of Kyklopes Capital Management Ltd., a private equity fund, from 2011 to February 2019. Mr. Olson has over 25 years of industry experience. Mr. Olson has managed four early stage energy funds and served as a director of a variety of exploration and production companies and petroleum services companies. Formerly, Mr. Olson was Vice-President, Corporate Finance at FirstEnergy Capital Corp. and Vice-President, Corporate Development for Northrock Resources Ltd. Mr. Olson holds a Bachelor of Commerce degree (Distinction) majoring in finance and accounting from the University of Calgary.

Board and committee membership and attendance since January 1, 2021

Other public company boards

Lead Independent Director	7/7
Member – Audit Committee	5/5
Member – Reserves and Safety Committee	2/2
Overall attendance	100%

N/A

Common Shares held⁽¹⁾

Common Shares	Total Value ⁽²⁾	Total Annual Cash Retainer ⁽⁵⁾⁽¹¹⁾	Required Value of Share Ownership	Meets Share Ownership Guidelines ⁽⁴⁾
2,473,913	\$16,402,043	\$75,000	\$375,000	Yes

David Pearce

Director since: March 4, 2020
 Alberta, Canada
 Age: 68
 Votes for at 2021 AGM: 148,223,397 (99.92%)

Key Skills and Experience

Health and Safety
 Reserves Evaluation
 Oil and Gas Operations

Deputy Managing Partner at Azimuth, an energy-focused private equity fund, since July 2014. Mr. Pearce was an Operating Partner with the Azimuth predecessor KERN Partners from November 2008 to July 2014. Mr. Pearce currently serves on the Board of Baytex (since 2018) and was formerly a director of Raging River from March 2012 to August 2018. He was with Northrock Resources Ltd. from June 1999 to January 2008 where he held several senior officer positions, including President and CEO. Prior thereto, Mr. Pearce worked in various management roles at Fletcher Challenge Canada, Amoco Canada and Dome Petroleum. Mr. Pearce holds a Bachelor of Science degree in Mechanical Engineering (Honors) from the University of Manitoba.

Board and committee membership and attendance since January 1, 2021

Board Member	6/6 ⁽⁹⁾
Chair – Reserves and Safety Committee	2/2
Member – CG&S Committee	3/3
Overall attendance	100%

Other public company boards

Baytex Energy Corp. (TSX)

Common Shares held⁽¹⁾

Common Shares	Total Value ⁽²⁾	Total Annual Cash Retainer ⁽⁵⁾⁽¹²⁾	Required Value of Share Ownership	Meets Share Ownership Guidelines ⁽⁴⁾
596,449	\$3,954,457	\$58,500	\$292,500	Yes

Kam Sandhar

Director since: December 2, 2020
 Alberta, Canada
 Age: 45
 Votes for at 2021 AGM: 138,625,705 (93.45%)

Key Skills and Experience

Financial Literacy
 Strategic Planning/Business Development
 Oil and Gas Operations

Mr. Sandhar is currently the Executive Vice President, Strategy & Corporate Development of Cenovus Energy Inc. ("Cenovus") and has served in a variety of senior management and executive roles at Cenovus since 2013. Mr. Sandhar has over 20 years of experience in the oil and gas industry and has extensive expertise in capital markets, strategy, business development, finance and investor relations. Prior to joining Cenovus in 2013, Mr. Sandhar spent 9 years at Peters & Co. Limited where he served as a Principal and oil and gas analyst, covering a wide array of Canadian, U.S. and international oil and gas companies. Mr. Sandhar is a Chartered Professional Accountant and a member of the Chartered Professional Accountants of Alberta. He holds a Bachelor of Commerce degree from the University of Calgary.

Board and committee membership and attendance since January 1, 2021

Other public company boards

Board Member	6/6 ⁽⁹⁾
Member – Audit Committee	5/5
Overall attendance	100%

N/A

Common Shares held⁽¹⁾

Common Shares	Total Value ⁽²⁾	Total Annual Cash Retainer ⁽⁵⁾	Required Value of Share Ownership	Meets Share Ownership Guidelines ⁽⁴⁾
Nil	\$Nil	\$50,000	\$250,000 ⁽¹³⁾	N/A ⁽¹³⁾

- (1) The information as to securities of the Corporation beneficially owned, directly or indirectly, is based upon information furnished to Headwater by the nominees and is as of March 31, 2022.
- (2) Total value is based on the number of Common Shares held by each nominee multiplied by the closing price of the Common Shares on the TSX of \$6.63 on March 31, 2022.
- (3) Annual base salaries for Neil Roszell and Jason Jaskela are effective January 1, 2022.
- (4) Pursuant to the Corporation's share ownership guidelines (the "**Share Ownership Guidelines**"), non-executive directors are required to hold Common Shares and DSUs (as defined below) of the Corporation with a value of not less than five times the annual cash retainer paid to each such director. Pursuant to the share ownership guidelines, the CEO is required to hold Common Shares with a value of not less than three times the annual base salary paid to the CEO. Pursuant to the Share Ownership Guidelines, the COO is required to hold Common Shares with a value of not less than one times the annual base salary paid to the COO. The Share Ownership Guidelines value the Common Shares as at December 31, 2021 whereas the above table shows the value of the Common Shares as at March 31, 2022. See "*Director Nominees – Director Share Ownership Guidelines*" and "*Executive Compensation – Compensation Discussion and Analysis – Compensation Risk Mitigation – Officer Share Ownership Guidelines*" for more information.
- (5) An annual cash retainer in the amount of \$50,000 is payable to each non-management director of the Corporation.
- (6) Ms. Dumitrascu is not currently a director. Assuming Ms. Dumitrascu is elected at the Meeting, she will have three years from the date of her election to the Board to achieve the required share ownership under the Share Ownership Guidelines for non-executive directors.
- (7) Ms. Henry replaced Sarah Walters on the CG&S Committee after Ms. Walters resigned from the Board on October 14, 2021. As such, the meeting attendance records for Ms. Henry with respect to the CG&S Committee covers the period from October 14, 2021 to the date hereof.
- (8) Ms. Henry receives an additional annual cash retainer in the amount of \$14,000 in respect of her position as Chair of the Audit Committee.
- (9) Certain directors recused themselves for portions of meetings or entire meetings if the subject matter under discussion for such meetings presented a conflict of interest for such directors. Such directors have not been considered to have missed a meeting in such circumstances.
- (10) Mr. Larke receives an additional annual cash retainer in the amount of \$12,000 in respect of his position as Chair of the CG&S Committee.
- (11) Mr. Olson receives an additional annual cash retainer in the amount of \$25,000 in respect of his position as Lead Independent Director.
- (12) Mr. Pearce receives an additional annual cash retainer in the amount of \$8,500 in respect of his position as Chair of the Reserves and Safety Committee.
- (13) Mr. Sandhar was appointed to the Board on December 2, 2020 and has three years from the date of his appointment to the Board to achieve the required share ownership under the Share Ownership Guidelines for non-executive directors.

Director Share Ownership Guidelines

On December 10, 2021, the Board amended its Share Ownership Guidelines for non-executive directors. Pursuant to the amended Share Ownership Guidelines for non-executive directors, non-executive directors are required to hold Common Shares and deferred share units ("**DSUs**") with a value of not less than five times the annual cash retainer paid to each such director. The value of the Common Shares will be based on the closing price of the Common Shares as at December 31 in the year prior to such determination. The value of the DSUs will be based on the number of Common Shares underlying such DSUs multiplied by the closing price of the Common Shares as at December 31 in the year prior to such determination. Any new directors will be required to achieve this level within three years of their election or appointment to the Board. Any director that does not meet the guidelines will be required to receive DSUs in lieu of any cash retainers until such director has met these guidelines. As Messrs. Roszell and Jaskela are also officers of the Corporation they are subject to the Share Ownership Guidelines applicable to the executive officers of the Corporation and not the Share Ownership Guidelines for non-executive directors.

The following table sets out the value of the equity holdings of each of Headwater's non-executive directors based on the closing price of the Common Shares on the TSX on the last trading day of December 31, 2021 being \$5.15 per Common Share:

Name	Common Shares (#)	Value of Common Shares ⁽¹⁾ (\$)	DSUs ⁽²⁾ (#)	Value of DSUs ⁽¹⁾ (\$)	Total Value of Common Shares and DSUs Owned ⁽¹⁾ (\$)	Total Value of Share Ownership Required ⁽³⁾ (\$)	Meets Share Ownership Requirements ⁽⁴⁾
Chandra Henry	271,739	1,399,456	Nil	Nil	1,399,456	320,000	Yes
Phillip Knoll	469,313	2,416,962	37,951	195,448	2,612,410	250,000	Yes
Stephen Larke	815,217	4,198,368	Nil	Nil	4,198,368	310,000	Yes
Kevin Olson	2,473,913	12,740,652	Nil	Nil	12,740,652	375,000	Yes
David Pearce	596,449	3,071,712	Nil	Nil	3,071,712	292,500	Yes
Kam Sandhar	Nil	Nil	Nil	Nil	Nil	Nil	In progress ⁽⁵⁾

- (1) Value has been determined by multiplying the number of Common Shares and the number of Common Shares underlying DSUs, as applicable, by the closing price of the Common Shares on the TSX on December 31, 2021 of \$5.15.
- (2) All DSUs vest immediately upon grant but cannot be redeemed until the director ceases to be a director of the Corporation.
- (3) Non-executive directors are required to hold Common Shares and DSUs with a value of not less than five times the annual cash retainer paid to each such director.
- (4) Directors have three years from their appointment to meet the targets established by the Share Ownership Guidelines.
- (5) Mr. Sandhar was appointed to the Board on December 2, 2020 and therefore has until December 2, 2023 to meet the targets established by the Share Ownership Guidelines.

Director Vote Results at 2021 AGM

The following table sets out the votes "for" and "withhold" received for each director (other than Sarah Walters who resigned from the Board on October 14, 2021) at the 2021 AGM.

Name	Votes For (#)	Votes For (%)	Votes Withhold (#)	Votes Withhold (%)
Neil Roszell	146,594,381	98.8	1,745,277	1.2
Jason Jaskela	146,810,655	99.0	1,529,003	1.0
Chandra Henry	148,334,408	99.9<	5,250	<0.1
Phillip Knoll	148,336,857	99.9<	2,801	<0.1
Stephen Larke	146,698,944	98.9	1,640,714	1.1
Kevin Olson	148,335,857	99.9<	3,801	<0.1
David Pearce	148,223,397	99.9<	116,261	<0.1
Kam Sandhar	138,625,705	93.5	9,713,953	6.5

Corporate Cease Trade Orders or Bankruptcies

Except as set out below, no proposed director is as at the date hereof, or has been, within 10 years of the date hereof, a director or chief executive officer or chief financial officer (or any executive officer, for the purpose of subsection (iii) below) of any company, including the Corporation, that: (i) while that person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days (an "**order**"); (ii) after that person ceased to act in that capacity, was the subject of an order that resulted from an event that occurred while that person was acting in the capacity as a director, chief executive officer or chief financial officer; or (iii) is or has, within 10 years before the date of this Information Circular become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or became subject to or instituted any proceedings, arrangement



or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets, while that person was acting in that capacity.

Mr. Pearce is a director of Kaisen Energy Corp. ("**Kaisen**"). On December 8, 2021, Kaisen commenced proceedings under the *Companies' Creditors Arrangement Act* ("**CCAA**") and obtained protection from its creditors. Pursuant to the CCAA proceedings, Kaisen implemented a plan of compromise and arrangement and the CCAA proceedings were completed on March 16, 2022.

No proposed director has, within the ten (10) years prior to the date of this Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

Penalties or Sanctions

No proposed director has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.



DIRECTORS' COMPENSATION

Discussion of Director Compensation

In 2020 and 2021, given the Corporation's initially limited operations and early stages of development, the CG&S Committee recommended and the Board approved a compensation program for non-executive directors consisting of grants of Options as the only form of compensation. The intent of this approach was to maintain general and administrative ("G&A") expenses at a relatively low level to preserve the Corporation's balance sheet strength for development of its assets and acquisition opportunities and to align the interests of the non-executive directors with Shareholders' interests in increasing the value of the Common Shares over the long-term.

On December 2, 2021, the CG&S Committee met to review and consider the compensation programs in relation to the non-executive directors given the Corporation's significant growth throughout 2021. As a result, the CG&S Committee recommended (and the Board later approved) that the Corporation move away from Options as the only form of compensation to non-executive directors to a program consisting of annual cash retainers plus an annual grant of DSUs under a new Deferred Share Unit Plan (the "**DSU Plan**"). As further described below, the DSU Plan provides that a non-executive director will have the right to receive a cash payment equal to the number of DSUs (adjusted for dividends paid while such DSUs were outstanding) held by the director on the date the director ceases to be a director, multiplied by the volume weighted average trading price of the Common Shares on the TSX for the five trading days immediately prior to the Maturity Date (as defined below). In addition to providing for the grant of DSUs to non-executive directors, non-executive directors also have the option to elect to receive DSUs in lieu of receiving their annual cash retainers.

As a result of the recommendations of CG&S Committee, the Board approved that annual cash retainers would be paid to the non-executive directors commencing effective as of January 1, 2022 and each non-executive director would receive an annual grant of DSUs. The following table shows the annual cash retainers and the value of the annual grant of DSUs to the non-executive directors approved for 2022.

Type of Compensation	Amount (\$)
Annual cash retainer for each non-executive director	50,000
Additional cash retainer for Lead Independent Director	25,000
Additional cash retainer for Audit Committee Chair	14,000
Additional cash retainer for CG&S Committee chair	12,000
Additional cash retainer for Reserves and Safety Committee Chair	8,500
Value of annual grant of DSUs for each non-executive director (other than Lead Independent Director)	70,000
Value of annual grant of DSUs for Lead Independent Director	80,000

The 2022 annual grant of DSUs has not yet occurred.

Directors' Summary Compensation Table

The following table sets forth, for the year ended December 31, 2021, information concerning the compensation paid to the Corporation's directors during the year ended December 31, 2021, other than directors who were also Named Executive Officers (as defined below).

Name	Salary/Fees earned (\$)	Share-based awards (\$)	Option-based awards ⁽¹⁾ (\$)	Non-equity incentive plan compensation plans (\$)	All other compensation (\$)	Total compensation (\$)
Kevin Olson	Nil	Nil	98,648	Nil	Nil	98,648
Chandra Henry	Nil	Nil	98,648	Nil	Nil	98,648
Phillip R. Knoll	Nil	Nil	98,648	Nil	Nil	98,648
Stephen Larke	Nil	Nil	98,648	Nil	Nil	98,648
Dave Pearce	Nil	Nil	98,648	Nil	Nil	98,648
Kam Sandhar	Nil	Nil	Nil ⁽²⁾	Nil	Nil	Nil
Sarah Walters ⁽³⁾	Nil	Nil	Nil	Nil	Nil	Nil

- (1) The grant date fair value for compensation purposes is calculated using the Black-Scholes option pricing methodology with the following assumptions: risk-free interest rate of 0.4%, dividend yield of 0%, expected volatility of 60% and an expected life of 2.5 years resulting in an Option value of \$1.70.
- (2) Mr. Sandhar was scheduled to receive a grant of Options in December 2021 but such grant was deferred as a result of the Board's decision to not grant any further Options under the Option Plans.
- (3) Sarah Walters resigned as a director of the Corporation effective October 14, 2021.

Directors' Incentive Plans

Option Plans

As noted above, in 2020 and 2021, the Corporation's compensation program for non-executive directors consisted solely of grants of Options under the Option Plans. In March 2020, the initial grant of Options to non-executive directors (following the Recapitalization Transaction) were granted under the Corporation's amended and restated stock option plan dated effective March 27, 2008 (the "**2008 Option Plan**"). All subsequent grants of Options to non-executive directors were granted under the share option plan approved by the Shareholders at the annual and special meeting of Shareholders held on June 15, 2020 (the "**2020 Option Plan**" and together with the 2008 Option Plan, the "**Option Plans**"). The Corporation will not grant any further Options under either Option Plan. For a description of the 2020 Option Plan and the 2008 Option Plan, see Schedule A and Schedule B, respectively.

Deferred Share Unit Plan

As a result of the recommendation of the CG&S Committee, on March 10, 2022, the Board approved the new DSU Plan, which provides for the grant of DSUs to non-executive directors. As further described below, the DSU Plan provides that a non-executive director will have the right to receive a cash payment based on the value of the Common Shares underlying the DSUs (after adjustment for dividends paid while such DSUs were outstanding) held by such director following the date the director ceases to be a director. In addition to providing for the grant of DSUs to non-executive directors, non-executive directors also have the option to elect to receive DSUs in lieu of receiving their annual cash retainers. The DSU Plan is not a security based compensation plan as all DSUs will be settled in cash.

The purpose of the DSU Plan is to (i) promote a proprietary interest in the Corporation and a greater alignment between directors of the Corporation and Shareholders, (ii) provide a compensation system for directors that is reflective of the responsibilities, commitments and risks accompanying the role of a director, and (iii) to assist the Corporation in attracting experienced individuals to serve as directors of the Corporation. The Board has the authority to amend or terminate the DSU Plan at any time, in whole or in part, subject to certain exceptions. The DSUs granted thereunder are not transferable or assignable.



Upon the Board granting DSUs, the DSUs will be fully vested but a director will not be entitled to payment for the DSUs until the director ceases to be a director of Headwater. The directors may also elect to receive all of their annual cash compensation in the form of DSUs provided that such election must be made on December 1st of the preceding calendar year (or within certain prescribed time frame if an individual becomes a director after the commencement of a calendar year or in the first year after implementation of the DSU Plan) and after such date the election will be irrevocable for such year. When and if dividends are paid on the Common Shares, the number of Common Shares notionally represented by the DSU shall be adjusted based on a formula set out in the DSU Plan.

Pursuant to the terms of the DSU Plan, a director will have the right to receive a cash payment or, at the election of the Board and provided all necessary approvals have been obtained (including TSX and Shareholder approvals), Common Shares, in respect of the DSUs held at the date the director ceases to be a director of the Corporation (after adjustment for dividends paid while such DSUs were outstanding). The director will receive the payment in respect of his or her DSUs no later than December 1 (the "**Maturity Date**") of the calendar year following the calendar year in which he or she ceases to be a director of the Corporation, unless the director elects to receive such payment prior to such date (provided that the director may not elect to receive payment prior to the date the director ceased to be a director). The cash payment to be received will be equal to the number of DSUs held by the director on the date the director ceased to be a director of the Corporation, after giving effect to adjustments for dividends, multiplied by the volume weighted average trading price of the Common Shares on the TSX for the five trading days immediately prior to the Maturity Date, net of any applicable withholdings.

In the event of death of a non-executive director or in the event of death after such director has ceased to be a member of the Board but before the Maturity Date, the Corporation shall within 90 days from the date of such director's death, redeem all DSUs held by such director, after giving effect to adjustments for dividends, for a cash payment equal to the number of DSUs held by the director as of the date of death multiplied by the volume weighted average trading price of the Common Shares on the TSX for the five trading days immediately prior to the date of death, net of any applicable withholdings. Where the Corporation elects to make a payment on redemption of DSUs in Common Shares, the Corporation shall either: (i) issue to the director the number of Common Shares from treasury equal to the number of DSUs held by the director on the date the director ceased to be a director after giving effect to adjustments for dividends, provided the Corporation has received TSX and Shareholder approval for such issuance; or (ii) purchase such number of Common Shares on the TSX equal to the number of DSUs held by the director on the date the director ceased to be a director after giving effect to adjustments for dividends and deliver such Common Shares to the director.

If the Corporation completes a transaction or a series of transactions whereby the Corporation, substantially all of the Common Shares or substantially all of the Corporation's property or assets become the property or assets of another person (the "**Continuing Entity**") the Corporation and the Continuing Entity shall take all necessary steps prior to or contemporaneously with the consummation of such transactions to ensure all DSUs remain outstanding following the completion of the transactions and the Continuing Entity will assume all covenants and obligations of the Corporation under the DSU Plan and all outstanding DSUs in a manner that preserves and does not impair the rights of the recipients in any material respect, and the Continuing Entity may exercise every right and power of the Corporation under the DSU Plan, and Headwater shall be relieved of its obligations thereunder.

Pursuant to the terms of the DSU Plan, the Board may, at any time, without the approval of the Shareholders suspend, discontinue or amend the DSU Plan or DSUs granted thereunder provided that unless a holder of DSUs



otherwise agrees, the Board may not suspend, discontinue or amend the DSU Plan or amend any outstanding DSUs in a manner that would adversely alter or impair any DSUs previously granted to such holder.

Directors' Outstanding Option-Based Awards and Share-Based Awards

The following table sets forth, for each of the Corporation's directors, other than directors who were also Named Executive Officers, information regarding all option-based and share-based awards held by each director as at December 31, 2021.

Name	Option-based Awards ⁽¹⁾				Share-based Awards ⁽²⁾		
	Common Shares underlying unexercised Options (#)	Exercise prices of Options (\$)	Option expiration dates	Value of unexercised in-the-money Options (\$) ⁽³⁾	Number of DSUs that have not vested (#)	Market or payout value of DSUs that have not vested (\$)	Market or payout value of vested DSUs not paid out or distributed (\$) ⁽⁴⁾
Kevin Olson	200,000	1.06	March 27, 2024	818,000	Nil	Nil	Nil
	58,000	4.66	March 12, 2025	28,420			
Chandra Henry	200,000	1.06	March 27, 2024	818,000	Nil	Nil	Nil
	58,000	4.66	March 12, 2025	28,420			
Phillip R. Knoll	200,000	1.06	March 27, 2024	818,000	Nil	Nil	195,448
	58,000	4.66	March 12, 2025	28,420			
Stephen Larke	200,000	1.06	March 27, 2024	818,000	Nil	Nil	Nil
	58,000	4.66	March 12, 2025	28,420			
Dave Pearce	133,334	1.06	March 27, 2024	545,336	Nil	Nil	Nil
	58,000	4.66	March 12, 2025	28,420			
Kam Sandhar ⁽⁵⁾	120,000	2.39	December 15, 2024	331,200	Nil	Nil	Nil

- (1) All Options granted in 2020 to non-executive directors (other than Mr. Sandhar) were granted under the 2008 Option Plan. The Options granted to Mr. Sandhar in 2020 and all Options granted in 2021 to the non-executive directors were granted under the 2020 Option Plan.
- (2) On March 25, 2020, the Board determined to cease grants of DSUs under the old deferred share unit plan (the "Old DSU Plan") of the Corporation adopted by the Board on May 12, 2014. As the DSUs currently held by Mr. Knoll were granted prior to March 25, 2020 such DSUs remain outstanding and continue to be subject to the terms of the Old DSU Plan until such DSUs are redeemed in accordance with the Old DSU Plan.
- (3) Calculated based on the closing market price of the Common Shares on December 31, 2021 on the TSX of \$5.15 and the exercise price of the Options.
- (4) In accordance with the Old DSU Plan, DSUs do not entitle holders thereof to any Common Shares upon redemption, but rather cash payment. The value of DSUs was calculated using the closing market price of the Common Shares on the TSX on December 31, 2021 of \$5.15.
- (5) Mr. Sandhar was scheduled to receive a grant of Options in December 2021 but such grant was deferred as a result of the Board's decision to not grant any further Options under the Option Plans.

Directors' Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth, for each of the Corporation's directors, other than directors who are also Named Executive Officers, the value of option-based awards and share-based awards which vested during the year ended December 31, 2021.

Name	Option-based awards – Value vested during the year⁽¹⁾ (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Kevin Olson	190,665	Nil	Nil
Chandra Henry	190,665	Nil	Nil
Phillip R. Knoll	190,665	Nil	Nil
Stephen Larke	190,665	Nil	Nil
Dave Pearce	190,665	Nil	Nil
Kam Sandhar	99,600	Nil	Nil
Sarah Walters ⁽²⁾	90,000	Nil	Nil

- (1) Calculated based on the difference between the closing price of the Common Shares on the TSX on the vesting date and the exercise price of the Options multiplied by the Options vested during the year.
- (2) Sarah Walters resigned as a director of the Corporation effective October 14, 2021. 40,000 Options held by Ms. Walters at the date of her resignation were set to vest in December 2021 and upon her resignation the Board accelerated the vesting of such Options. All other Options held by Ms. Walters were terminated at the date of her resignation.

CORPORATE GOVERNANCE

National Instrument 58-101 - *Disclosure of Corporate Governance Practices* ("**NI 58-101**") requires that if management of an issuer solicits proxies from its securityholders for the purpose of electing directors that certain prescribed disclosure respecting corporate governance matters be included in its management information circular. The following information outlines our corporate governance practices within the context of NI 58-101. Information relating to our Audit Committee as required by National Instrument 52-110 – *Audit Committees* can be found in the 2021 AIF on our SEDAR profile (www.sedar.com).

Board of Directors

Under NI 58-101, an independent director is a director who has no material relationship with Headwater which could, in the view of the Board, be reasonably expected to interfere with the exercise of such director's independent judgement. The Board, on the recommendation of the CG&S Committee, has determined that seven (7) of the nine (9) proposed nominees (78%) are independent for purposes of NI 58-101.

The seven (7) proposed independent directors are: Kevin Olson (Lead Independent Director), Chandra Henry, Phillip R. Knoll, Stephen Larke, David Pearce, Kam Sandhar and Elena Dumitrascu.

Neil Roszell and Jason Jaskela are not independent as they are the Chair and CEO and President and COO, respectively.

Board Mandate

The Mandate of the Board is attached to this circular as Schedule "C".

Lead Independent Director

The Board does not have an independent Chair; however, Kevin Olson, an independent director, serves as Lead Independent Director. The Lead Independent Director's primary role is to act as liaison between management of the Corporation and the independent directors of the Corporation to ensure the Board is organized properly, functions effectively and meets its obligations and responsibilities, including those matters set forth in the mandate of the Board. In addition, the Lead Independent Director has the following responsibilities: (A) to chair the "in-camera" portions of Board meetings held without management being present; (B) endeavour to ensure that Board leadership responsibilities are conducted in a manner that will allow it to function independently of management; (C) liaise with directors, officers, employees, shareholders and other stakeholders of the Corporation to address any areas of concerns raised by such stakeholders; (D) provide input, as determined appropriate by the Lead Independent Director, on preparation of agendas for meetings of the Board; (E) meet periodically with each director to obtain insight as to where they believe the Board and its committees could be operating more effectively; (F) ensure that reasonable procedures are in place for directors to engage outside advisors at Headwater's expense in appropriate circumstances; and (G) perform such other duties and responsibilities as may be delegated to the Lead Independent Director by the Board from time to time. In addition, the Lead Independent Director will have the right to convene meetings of the Board and approve any meeting materials for such meetings.



Meetings of Independent Directors

At the end of or during each meeting of the Board or any committee of the Board, the independent directors are given the opportunity to meet in camera without the members of management (including the CEO and COO) of the Corporation present. In addition, other meetings of the independent directors may be held from time to time, if required. Since the beginning of the Corporation's most recently completed financial year, seven in camera sessions were held with all independent members of the Board present without members of management (including the CEO and COO) of the Corporation present.

Attendance

The following is the attendance record of each director for all Board meetings and meetings of our standing committees held since January 1, 2021.

	Board	Audit	CG&S	Reserves and Safety ⁽¹⁾	Total	Attendance Rating %
Neil Roszell	7/7	-	-	-	7/7	100
Jason Jaskela	7/7	-	-	-	7/7	100
Chandra Henry	7/7	5/5	2/2 ⁽²⁾	-	14/14	100
Phillip R. Knoll	7/7	-	-	2/2	9/9	100
Stephen Larke	6/6 ⁽³⁾	-	3/3	-	9/9	100
Kevin Olson	7/7	5/5	-	2/2	14/14	100
David Pearce	6/6 ⁽³⁾	-	3/3	2/2	11/11	100
Kam Sandhar	6/6 ⁽³⁾	5/5	-	-	11/11	100
Sarah Walters ⁽⁴⁾	4/4	-	1/1	-	5/5	100

(1) The Reserves Committee was reconstituted as the Reserves and Safety Committee in March 2022.

(2) On October 14, 2021, following the resignation of Ms. Walters as a director of the Corporation, Ms. Henry replaced Ms. Walters on the CG&S Committee. As such, the meeting attendance records for Ms. Henry with respect to the CG&S Committee covers the period from October 14, 2021 to the date hereof.

(3) Certain directors recused themselves for portions of meetings or entire meetings if the subject matter under discussion for such meetings presented a conflict of interest or potential conflict of interest for such directors. Such directors have not been considered to have missed a meeting in such circumstances.

(4) Ms. Walters resigned as a director of the Corporation effective October 14, 2021. As such, the meeting attendance records for Ms. Walters covers the period from January 1, 2021 to October 14, 2021.

Position Descriptions

The Board has developed written position descriptions for our Chair and CEO, our Lead Independent Director and for the Chairs of each of the committees of the Board. The position descriptions are available under Corporate Responsibility/Corporate Governance on our website at www.headwaterexp.com.

Orientation and Continuing Education

While the Board does not currently have a formal orientation and educational program for new recruits to the Board, such orientation and education is provided on an informal basis for any new appointees. Headwater's management team will provide new members of the Board with corporate policies, historical information about Headwater and information on our performance and strategic plan. In addition, new members of the Board will be provided with an outline of the general duties and responsibilities entailed in carrying out their duties. The Board believes that these procedures are and will prove to be a practical and effective approach in light of our



particular circumstances, including the size of the Corporation, the limited turnover of our directors and the experience and expertise of the members of the Board.

Headwater's management team also provides directors with regular opportunities to increase their knowledge and understanding of our business. Pre-meeting reading materials are provided in quarterly Board packages sent to directors in advance of regularly scheduled Board meetings. Briefings on strategic issues are conducted at most Board meetings and typically include reviews of the competitive environment the Corporation operates in and the Corporation's performance relative to its peers. From time to time, Headwater's management team brings in industry experts to brief our directors on activity and trends in the oil and gas sector, including mergers and acquisitions, financings, market activity, cyber security and insurance coverage and risks to assist the Board in making strategic decisions and assessing risks facing the Corporation. Information on any other developments that could materially affect the business is provided as developments occur. In addition, the Board is briefed regularly on governance developments and emerging best practices in governance.

All of the directors of the Corporation regularly engage in a variety of continuing education activities, including industry conferences and seminars. In 2021 directors participated in a wide variety of education activities and independent study on a broad range of topics including, but not limited to environmental, social and governance ("ESG") and executive compensation. Two directors, namely Ms. Henry and Mr. Larke have completed the ICD Directors Education Program and each holds the ICD.D designation. In addition to external educational activities, the Chair of the Board works with the Board and senior management to raise continuing education topics for discussion. The following table lists education topics provided by Headwater to its directors in 2021.

Educational Topic	Date	Presenter	Attendees
Field Operations and Health and Safety (site visit to Headwater's Marten Hills properties)	October 19 and 20, 2021	Management and Field Staff	All directors (other than Mr. Sandhar)
Directors' and Officers' Liability Presentation	May 12, 2021	AON Risk Solutions	All directors

Ethical Business Conduct

The Board has adopted a Code of Business Conduct and Ethics (the "**Code**") applicable to our directors, officers and employees. A copy of the Code is available for review on our SEDAR profile (www.sedar.com). All employees and consultants are provided with a copy of the Code on commencement of service and are required to confirm in writing that they have read and understand the Code and acknowledge his or her agreement to abide by the Code. Annual reminders that compliance with the Code is required are provided.

There have been no material change reports filed since the beginning of our most recently completed financial year that pertains to any conduct of a director or executive officer of the Corporation that constitutes a departure from the Code.

In accordance with the ABCA, directors who are a party to, or are a director or an officer of a person which is a party to, a material contract or material transaction or a proposed material contract or proposed material transaction with the Corporation are required to disclose the nature and extent of their interest and not to vote on any resolution to approve such contract or transaction. In addition, in certain cases, an independent committee of the Board may be formed to deliberate on such matters in the absence of the interested party.



In addition to the Code, the Board has also adopted a "Whistleblower Policy" wherein our employees are provided with the mechanics by which they may raise concerns in a confidential, anonymous process. The Chair of our Audit Committee provides the Board with a report at every regularly scheduled Board meeting detailing the nature of any concerns raised through the hotline.

Nomination of Directors

The CG&S Committee, which is responsible for nominating directors, is comprised entirely of independent directors. The members of the CG&S Committee are Stephen Larke (Chair), Chandra Henry and David Pearce, each of which have been determined to be independent.

Pursuant to its mandate, the CG&S Committee, in conjunction with the Chair of the Board, is responsible for recommending suitable candidates as nominees for election or appointment as director of the Corporation, and, in consultation with the Board, in recommending the criteria governing the overall composition of the Board and governing the desirable characteristics for directors. In making such recommendations, the CG&S Committee, in consultation with the Board, is to consider: (i) the competence and skills that the Board considers to be necessary for the Board, as a whole, to possess; (ii) the competence and skills that the Board considers each existing director to possess; (iii) the competencies and skills that each new nominee will bring to the Board; and (iv) whether or not each new nominee can devote sufficient time and resources to his or her duties as a member of the Board. In addition, the CG&S Committee also considers the diversity of the Board and considers whether there are any nominees that are women or representatives of other under-represented groups that have the skills and experience that are complementary to the skills and experience of the existing Board members.

The CG&S Committee is also to review on a periodic basis the composition of the Board to ensure that an appropriate number of independent directors sit on the Board and analyze the needs of the Board and recommend nominees who meet such needs.

Compensation

The CG&S Committee is responsible for formulating and making recommendations to the Board in respect of human resources and compensation issues relating to the directors, officers and employees of the Corporation. As noted above, the CG&S Committee is comprised entirely of independent directors. See "*Executive Compensation – Compensation Discussion and Analysis – Compensation Governance*" for additional details relating to the CG&S Committee's responsibilities relating to compensation matters.

Other Board Committees

In addition to the Audit Committee and the CG&S Committee, the Board also has a Reserves and Safety Committee. The members of the Reserves and Safety Committee are David Pearce (Chair), Phillip Knoll and Kevin Olson, all of whom are independent directors in accordance with NI 58-101 and National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**"). The Reserves and Safety Committee is responsible for overseeing the evaluation of the Corporation's petroleum and natural gas reserves, including the retention of one or more independent "qualified reserves evaluators or auditors" (as defined in NI 51-101), to report to the Reserves and Safety Committee (or, if requested, the Board) on Headwater's "reserves data" (as defined in NI 51-101).



In addition to the responsibilities of the CG&S Committee relating to nominations and compensation, the CG&S Committee has a number of responsibilities relating to corporate governance and sustainability matters. The responsibilities of the Reserves and Safety Committee and the corporate governance and sustainability responsibilities of the CG&S Committee are described below.

Mandates of the Audit Committee, CG&S Committee and Reserves and Safety Committee are available under Corporate Responsibility/Corporate Governance on our website at www.headwaterexp.com.

Reserves and Safety Committee Responsibilities

The Reserves and Safety Committee's general responsibilities include:

Reserves Matters

- reviewing the Corporation's procedures relating to the disclosure of information with respect to oil and gas activities, including reviewing its procedures for complying with disclosure requirements and restrictions set forth under applicable securities law requirements;
- reviewing the appointment of the Corporation's independent evaluator and, in the case of any proposed change to such independent evaluator, determining the reason therefor and whether there have been any disputes with management;
- reviewing the Corporation's procedures for providing information to the independent evaluator for the purposes of NI 51-101;
- meeting, as considered necessary, with management and the independent evaluator of the Corporation to determine whether any restrictions placed by management affect the ability of the evaluator to report without reservation on the Corporation's reserves information and data (the "**Reserves Data**") and to review the Reserves Data and the report of the independent evaluator thereon (if such report is provided);
 - providing a recommendation to the Board as to whether to approve the content or filing of the statement of the Reserves Data and other information that may be prescribed by applicable securities law requirements including any reports of the independent engineer and of management in connection therewith;
 - reviewing the Corporation's procedures for reporting other information associated with oil and gas producing activities; and
 - generally reviewing all matters relating to the preparation and public disclosure of estimates of the Corporation's reserves;

Environmental, Health and Safety Matters

- reviewing the Corporation's fundamental policies and procedures pertaining to environment, health and safety and ensuring policies and procedures are in place to minimize environmental, occupational health and safety and other risks to asset value and mitigate damage to or deterioration of asset value;
- reviewing management reports on safety performance, mitigation actions taken by management relative to reported incidents, persistent trends and high-risk observations from periodic management system assurance activities and remedial action taken to manage identified environment, health and safety risks;

- reviewing the Corporation's performance with applicable laws and regulations with respect to environment, health and safety;
- reviewing the findings of any significant report by regulatory agencies, external environment, health and safety consultants or auditors concerning the Corporation's performance in environment, health and safety matters and corrective measures taken to address same;
- reviewing emerging trends, issues and regulations related to environment, health and safety that are relevant to the Corporation; and
- providing reports and recommendations to the Board as determined necessary on environment, health and safety that are relevant to the Corporation.

CG&S Committee Corporate Governance and Sustainability Responsibilities

The CG&S Committee responsibilities relating to corporate governance and sustainability include:

Corporate Governance Matters

- annually reviewing the mandates of the Board and its committees and recommending to the Board such amendments to those mandates as the Committee believes are necessary or desirable;
- considering and, if thought fit, approving requests from directors or committees of directors of the engagement of special advisors from time to time;
- preparing and recommending to the Board annually a statement of corporate governance practices to be included in the Corporation's annual report or information circular;
- reviewing on a periodic basis the composition of the Board and ensuring that an appropriate number of independent directors sit on the Board, analyzing the needs of the Board and recommending nominees who meet such needs;
- assessing, at least annually, the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors, including considering the appropriate size of the Board;
- with the assistance or recommendations of outside consultants where appropriate, identifying individuals qualified to become Board members, consistent with criteria set out below and any other criteria that may be approved by the Board, and maintaining a list of potential candidates for Board membership and where appropriate, interviewing potential candidates for Board membership;
- in addition to other criteria established by the Board for potential candidates for Board membership, in making its recommendations to the Board for potential candidates, the Committee should consider:
 - the competencies and skills that the Board considers to be necessary for the Board, as a whole, to possess;
 - the competencies and skills that the Board considers each existing director to possess;
 - the competencies and skills each new nominee will bring to the boardroom; and
 - whether or not each potential candidate can devote sufficient time and resources to his or her duties as a Board member;
- selecting, or recommending that the Board select, the director nominees for the next annual meeting of Shareholders;

- developing and recommending to the Board a set of corporate governance guidelines applicable to the Corporation;
- overseeing the evaluation of the Board and management;
- implementation of an orientation and education program for new recruits to the Board;
- with the assistance or recommendations of management or outside consultants where appropriate, make recommendations to the Board regarding appointments of corporate officers and senior management;
- conducting an annual performance evaluation of the CG&S Committee in the Corporation's annual information circular in accordance with applicable rules and regulations;
- reviewing and recommending to the Board the succession plan for senior executives and matters in respect of executive capacity;

Sustainability

- oversee the Corporation's policies, procedures, practices and strategies relating to environmental, social and climate related issues and other sustainability matters to ensure due consideration of risks, opportunities and potential performance improvement relating thereto;
- review and report to the Board with respect to the consideration and integration of environmental, social and climate related and sustainability risks and opportunities in the development of the Corporation's business strategy and financial planning;
- consider and review:
 - third party reports on the Corporation's sustainability performance and peer sustainability performance;
 - material regulatory or legislative change relating to environmental, social and climate related issues or other sustainability matters which could require modification of the Corporation's business practices;
 - ongoing or threatened litigation relating to environmental, social and climate related issues or other sustainability matters; and
 - insurable risks on environmental, social and climate related issues or other sustainability matters with evaluation of costs relative to benefit, taking into account, as determined necessary, Audit Committee consultation and recommendations on insurance matters;
- review the Corporation's enterprise risk management program relating to identifying, assessing and managing climate related risks and opportunities, whether physical or transitional, in view of plausible future scenarios, and other risks related to environment, social and sustainability, and report to the Audit Committee and/or the Board;
- review the Corporation's disclosure, reporting and external communication practices pertaining to environmental, social, climate and sustainability issues, including but not limited to assessments of materiality, development and publication of environmental, social and governance reports and/or sustainability reports and approach to analogous disclosure, media and social media campaigns and other written communication with stakeholders; and
- review shareholder proposals relating to environmental, social, climate or other sustainability issues and provide a report to the Board.

The CG&S Committee is authorized to engage outside advisors to assist the CG&S Committee in compensation and corporate governance matters and has the authority to approve such advisors' fees and other retention terms.



Assessments

The CG&S Committee is responsible for evaluating the effectiveness of the Board, its committees and individual directors. Annually, including in March 2022, each of our directors completed an evaluation of their own skills and contributions to the Corporation as well as a peer review of the skills and contributions of the other members of the Board. The directors also provided feedback on their views of the effectiveness of the Board and each of its committees. The CG&S Committee used these evaluations to review the skills and experience of our directors to assess whether the Board's skills and experience needed to be strengthened in any area. The CG&S Committee also assessed the knowledge and character of all directors and other factors such as independence of the directors to ensure that the Board is operating effectively and independently of management. As a result of the evaluations conducted, the CG&S Committee determined that, although the Board as a whole has the necessary skills and experience for a company of the size of the Corporation operating in the oil and gas industry, the Board could be strengthened by adding members with skills and experience where other members of the Board were weakest including skills and experience relating to information technology, among others. As a result, the CG&S Committee conducted an informal search for additional Board members. As a result of this search, the CG&S Committee recommended and the Board approved, that Ms. Dumitrascu be nominated for election at the Meeting.

In addition, although the CG&S Committee came to a view that the Board and each of its committees is operating effectively and the size and composition of each committee is appropriate, as noted below, the CG&S Committee and the Board recognized that the Board could benefit from a diversity of views and as a result, the CG&S Committee commenced a search for female Board candidates with skills and experience that would complement the skills and experience of our current Board members. This initial search did result in the decision to nominate Ms. Dumitrascu for election at the Meeting. As noted below, the CG&S Committee and the Board also intend to conduct a thorough search for an additional female candidate to add to the Board prior to the annual meeting of Shareholders to be held in 2023. As a result, the Board has set a target of achieving and maintaining a Board composition in which at least 30% of its directors are women by no later than the date of the annual meeting of Shareholders in 2023.

Succession Planning

The CG&S Committee also has the responsibility to review and recommend a succession plan with respect to our senior officers. Specific discussions of succession plans are periodically scheduled at least annually at CG&S Committee or Board meetings as agenda items to ensure that the matter receives the necessary time for consideration and review by the CG&S Committee and Board. Prior to discussions of succession matters senior officers of the Corporation are canvassed to determine any potential retirement plans or other plans that may impact their term of service with Headwater. In addition, the skills and experience of the senior officers and other officers and employees of the Corporation are reviewed to determine whether personnel within the organization have the necessary skills and experience to fulfill the role of a senior officer in the event of the retirement or other loss of a senior officer. The CG&S Committee and the Board have determined that there are successor candidates within the organization for each of the CEO, Chief Financial Officer ("CFO") and COO as well as many of the other executive officers. Management and the Board have committed to ensuring that successor candidates continue to develop their skills and experience to ensure that they are in position to step into more senior roles should the need arise.

In addition to the succession planning for senior officers, the CG&S Committee also considers and reviews succession planning for Board members as part of its annual evaluation of the Board and its members. As part of



this review, the Chair of the CG&S Committee canvasses each member of the Board to determine their expectations as to length of service and whether they have any imminent retirement plans. The CG&S Committee uses this information to determine whether the Board has any need, or may have a need in the near future, to replace or complement the skills and experience of the existing members of the Board with any new nominees.

Director Term Limits and Other Mechanisms for Board Renewal

Seven (7) of the eight (8) current directors of the Corporation have a tenure on the Board of just over two years or less. The average tenure of the directors of the Corporation is just over three years. As such, the Corporation has not adopted fixed term limits, mandatory retirement ages or other mechanisms for Board renewal.

In addition, the Board does not believe that fixed term limits or mandatory retirement ages are in the best interest of the Corporation. While term limits and mandatory retirement ages ensure fresh viewpoints on a board of directors, they also cause a company to lose the valuable contributions of those directors who best understand the business of such company and the challenges it faces.

However, when considering nominees for the Board on an annual basis, the CG&S Committee reviews the skills and experience of the current directors of the Corporation to assess whether the Board's skills and experience need to be strengthened in any area. In addition to considering the skills and experience of the Board, the CG&S Committee also assesses the knowledge and character of all nominees to the Board and other factors such as independence of the directors to ensure that the Board is operating effectively and independently of management. The CG&S Committee considers both the term of service and age of individual directors, the average term of the Board as a whole and turnover of directors over the prior years when proposing nominees for election of the directors of the Corporation.

As the tenure of the directors increase, the CG&S Committee acknowledges that the benefits of Board renewal may begin to outweigh some of the benefits of the institutional knowledge of the Board members. As such, the CG&S Committee anticipates taking a proactive approach in future years to ensure that the Board undertakes a deliberate and planned renewal process if it determines it is in the best interests of the Corporation to do so.

As indicated above, the CG&S Committee annually reviews the skills and experience of the current directors of Headwater to assess whether the Board's skills and experience need to be strengthened in any area. In conducting its annual review, the CG&S Committee evaluates the skills and experience of the individual Board members and the Board as a whole.

The director skills matrix below provides a listing of skills and competencies that the Board has determined are important to Headwater's continuing success and which of those skills and competencies each of the proposed nominees for election as directors at the Meeting possess.

Name	Competencies											
	Executive Leadership	Oil and Gas Operations	Financial Literacy	Corporate Governance	Strategic Planning/ Business Development	Human Resources	Sustainability	Health & Safety	Information Technology	Enterprise Risk Management	Government Relations	Reserves Evaluation
Neil Roszell	✓	✓	✓	✓	✓	✓		✓		✓	✓	✓
Jason Jaskela	✓	✓	✓	✓	✓	✓	✓	✓			✓	✓
Elena Dumitrascu	✓					✓			✓	✓		
Chandra Henry	✓		✓	✓	✓	✓	✓			✓		
Phillip R. Knoll	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
Stephen Larke	✓		✓	✓	✓	✓	✓			✓		
Kevin Olson	✓	✓	✓	✓	✓	✓						✓
David Pearce	✓	✓		✓	✓	✓	✓	✓		✓		✓
Kam Sandhar	✓	✓	✓	✓	✓	✓	✓	✓		✓		✓

Definitions of competencies:

- (1) **Executive Leadership:** Leading an organization or major business segment of an organization.
- (2) **Oil and Gas Operations:** Executive or management experience in aspects of oil and gas operations, including development, exploration, production and marketing.
- (3) **Financial Literacy:** Ability to assess and analyze financial statements, executive experience in financial reporting, accounting and corporate finance.
- (4) **Corporate Governance:** Experience as a senior executive or Board member of public and/or private organizations.
- (5) **Strategic Planning/Business Development:** Executive or management expertise in strategic planning/execution including growth via organic methods or mergers and acquisitions.
- (6) **Human Resources:** Executive or management expertise in creating a strong corporate culture, talent management, succession and compensation.
- (7) **Sustainability:** Executive or management experience/knowledge of environmental risks/opportunities (climate change, emission reduction, renewable energy) and social (community initiatives, stakeholder engagement and human rights).
- (8) **Health & Safety:** Experience in workplace health and safety and regulation of oil and gas activity.
- (9) **Information Technology:** Experience or familiarity with cyber-security and use of artificial intelligence/machine learning in oil and gas operations.
- (10) **Enterprise Risk Management:** Executive or management experience in evaluating organizational risk/opportunity.
- (11) **Government Relations:** Broad exposure to legal/regulatory, political and public policy at local, provincial and national levels.
- (12) **Reserves Evaluation:** General experience with or executive responsibility for oil and gas reserve evaluations.

In addition to considering the skills and experience of the Board, the CG&S Committee also assesses the knowledge and character of all members of the Board and other factors such as independence of our directors to ensure that the Board is operating effectively and independently of management.

Representation by Women and other Underrepresented Groups on the Board

On April 1, 2022, the Board adopted a diversity policy (the "**Diversity Policy**") on the recommendation of the CG&S Committee. Under the Diversity Policy, the Board recognizes that diversity among its directors will support balanced decision and debate which, in turn, will enhance decision making by the Board by utilizing the difference in perspective of the members of the Board. The CG&S Committee mandate includes recommending director candidates for election to the Board and annually evaluating the overall performance of the Board. In reviewing the composition of the Board, in accordance with the Diversity Policy, the CG&S Committee will consider the



benefits of diversity in order to maintain an optimum mix of skills, knowledge and experience on the Board. The selection of candidates for appointment to the Board will be based on merit. Within that overriding emphasis on merit, the CG&S Committee shall seek to fill Board vacancies by considering candidates that bring a diversity of background and industry or related expertise and experience to the Board. The CG&S Committee's considerations shall include achieving an appropriate level of diversity having regard to factors such as skills, business and other experience, education, gender, age, ethnicity and geographic location. Women candidates for director will be included in the evergreen list of potential Board nominees.

In support of the objectives described in the Diversity Policy, the Board has a target of achieving and maintaining at least 30% representation by women on the Board by no later than the date of the annual meeting of the Shareholders in 2023.

Under the Diversity Policy, the CG&S Committee has the responsibility of monitoring compliance with the Diversity Policy and for reviewing and assessing the effectiveness of the Diversity Policy in promoting diversity to the Board on an annual basis. To measure the effectiveness of this policy, the CG&S Committee will, among other things:

- review the number of women considered or brought forward for both Board and executive officer positions;
- take into account the skills, knowledge, experience and character of any such women candidates; and
- ensure that women candidates are being fairly considered relative to other candidates.

On an annual basis, the CG&S Committee will measure the diversity on the Board and report to the Board with respect to the Corporation's annual and cumulative progress in achieving the objectives of the Diversity Policy.

Two (2) of the proposed nominees for election as directors at the Meeting are women, representing 22% of the proposed nominees.

One (1) of the proposed nominees for election as directors at the Meeting is a member of a visible minority group, representing 11% of the proposed nominees.

Women Representation in Executive Officer Positions

In accordance with the Diversity Policy, the Board and the Corporation are committed to ensuring a diverse and inclusive culture across the organization, in particular at the executive level, by promoting equality of opportunity. The Board will encourage and support the Corporation in its efforts, including seeking external independent advisory services as appropriate, to foster a collaborative and innovative workforce and to ensure that a diverse group of individuals are considered for executive and managerial roles.

As of the date hereof, one (1) woman currently serves in an executive officer position with the Corporation, representing 14% of the current executive officer positions and 20% of the Named Executive Officers. As of the date hereof, no member of any visible minority group serves in an executive officer position with the Corporation.

The Corporation does not presently have a target for representation by women in executive officer positions.



Shareholder Engagement with Board

Headwater carries out its Shareholder engagement activities through a variety of methods. In addition to its annual Shareholder meeting, Headwater participates in numerous investor conferences and one-on-one meetings. To the extent that Shareholders wish to have direct engagement with the Board, they are invited to engage with the Board by mail to Suite 1200, 500-4th Ave SW, Calgary, Alberta, T2P 2V6, Attn: Board of Directors or by email to boardofdirectors@headwaterexp.com.

The CG&S Committee also considers that say-on-pay votes, where shareholders are given an opportunity to provide non-binding approval of a company's executive compensation programs, are a useful tool in engaging with Shareholders in order to receive feedback on the Corporation's compensation programs. However, given the stage of the Corporation's development and the rapid evolution of the Corporation's compensation programs in the last several years, the CG&S Committee does not believe it is an appropriate time to implement a say-on-pay vote. The CG&S Committee intends to continue to monitor and refine the Corporation's compensations programs and once the CG&S Committee is confident that the compensation programs are functioning as intended, the Corporation plans to implement a say-on-pay advisory vote at future annual meetings of Shareholders.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis provides a description of the compensation practices and policies of the Corporation.

Compensation Governance

The current members of the CG&S Committee are Stephen Larke (Chair), Chandra Henry and Dave Pearce, each of whom are highly experienced executives, directors and/or businesspeople who have dealt with compensation issues in the course of his or her respective leadership roles and each of whom is independent. The skills and experience that enable the members of the CG&S Committee to make decisions on the suitability of the Corporation's compensation policies and practices is as follows:

Stephen Larke - Mr. Larke has over 20 years of experience in energy capital markets, including research, sales, trading and equity finance, and currently serves on the boards of Vermilion Energy Inc. (since 2017) and Topaz Energy Corp. (since 2019). He is formerly an Operating Partner and Advisory Board member with Azimuth, an energy-focused private equity fund based in Calgary, Alberta. Prior to joining Azimuth, Mr. Larke was Managing Director and an Executive Committee member with Calgary-based Peters & Co. Limited, from 2005 to 2015, and prior thereto, was Vice-President and Director with TD Newcrest from 1997 to 2005. Both at Peters & Co. Limited and TD Newcrest, Mr. Larke received leading rankings in the Brendan Wood International survey of institutional investors. Mr. Larke has a Bachelor of Commerce degree (with distinction) from the University of Calgary and holds the Chartered Financial Analyst designation. Mr. Larke also holds the ICD.D designation from the Institute of Corporate Directors and is a Fundamentals of Sustainability Accounting (FSA) Credential holder.

David Pearce - Mr. Pearce has been working with Azimuth since July 2014 as Deputy Managing Partner. He was an Operating Partner with Azimuth's predecessor KERN Partners from November 2008 to July 2014. Mr. Pearce currently serves on the board of directors of Baytex (since 2018) and was formerly a director of Raging River from March 2012 to August 2018. He was with Northrock Resources Ltd. from June 1999 to January 2008 where he held several senior officer positions, including President and CEO. Prior thereto, Mr. Pearce worked in various management roles at Fletcher Challenge Canada, Amoco Canada and Dome Petroleum. Mr. Pearce holds a Bachelor of Science degree in Mechanical Engineering (Honors) from the University of Manitoba.

Chandra Henry - Ms. Henry has more than 20 years of progressive experience in finance, treasury, risk, taxation and operations within the financial services industry crossing multiple geographic and business segments. She is currently the Chief Financial Officer and Chief Compliance Officer of Longbow, a private equity investment management company based in Calgary, Alberta that invests predominantly in the North American energy markets, since June 2019. Prior to Longbow, Ms. Henry held various senior finance positions including Chief Financial Officer of WestBlock Inc. (2018-19), Director of Finance for GMP Securities L.P. (2016-17) and Chief Financial Officer for FirstEnergy Capital Corp. (2001-16). Ms. Henry has a Bachelor of Commerce degree from the University of Calgary and has earned the Chartered Professional Accountant (CPA, CA), Chartered Financial Analyst (CFA) and Institute of Corporate Directors (ICD.D) designations. In addition, Ms. Henry is a Fundamentals of Sustainability Accounting (FSA) level 2 candidate. Ms. Henry has also served on the board of directors (2018-20) and Chair of the Audit and



Risk Committee (2019-20) of Pengrowth Energy Corporation and as Director, Treasurer and Chair of the Audit Committee of the Alberta Ballet Company (2012-18).

Under the mandate of the CG&S Committee, the CG&S Committee is responsible for the following in respect of compensation matters:

- reviewing and reporting to the Board concerning the overall compensation program and philosophy and alignment with salient stakeholders;
- reviewing and recommending to the Board the compensation program, remuneration levels and incentive plans and any changes therein for senior management, including the CEO;
- reviewing and approving corporate goals and objectives relevant to the compensation of the CEO, evaluating the CEO's performance in light of those goals and objectives, and either, as a committee or together with the independent directors (as determined by the Board) determining and approving the CEO's compensation based on this evaluation;
- making recommendations to the Board with respect to compensation of executive officers (other than the CEO), including grants and awards under incentive compensation and equity based plans that are subject to Board approval;
- reviewing the adequacy and form of compensation to the directors ensuring it realistically reflects their responsibilities and risk and making recommendations to the Board as to such compensation matters;
- reviewing annually and recommending for approval to the Board the executive compensation disclosure and "Compensation Discussion and Analysis" disclosure of the Corporation in its information circular for the Corporation's annual meeting of Shareholders;
- reviewing annually the mandate of the CG&S Committee;
- administering any incentive plans implemented by the Corporation, in accordance with their respective terms; and
- reporting on executive officer compensation on an annual basis.

At no time in the two most recently completed financial years has the Corporation retained a compensation consultant or advisor to assist the Board or the CG&S Committee (or its predecessor) in determining the compensation of the directors or executive officers of the Corporation.

Named Executive Officers

The officers who are the focus of the Compensation Discussion and Analysis and who appear in the compensation tables herein are:

- Neil Roszell, Chair and CEO;
- Jason Jaskela, President and COO;
- Ali Horvath, Vice President, Finance and CFO;
- Terry Danku, Vice President, Engineering; and
- Jon Grimwood, Vice President, Exploration,

(each a "**Named Executive Officer**" or "**NEO**" and collectively, the "**Named Executive Officers**" or "**NEOs**").

Compensation Risk Mitigation

As part of its review of the Corporation's compensation program, the CG&S Committee considers whether the Corporation's compensation program provides Headwater's executive officers with adequate incentives to achieve both short and long term objectives without motivating them to take inappropriate or excessive risk. As at the date hereof, the CG&S Committee has concluded that the compensation program and policies of the Corporation do not encourage its current executive officers to take inappropriate or excessive risks. This assessment is based on a number of considerations including, without limitation, the following: (a) the terms of Options granted provide that Options vest over a period of three years and expire four years from the date of grant, which encourages executive officers to continue to develop favorable results over a longer period of time and reduces the risk of actions that may have short term advantages; (b) Restricted Awards to be granted under the proposed Award Plan will vest over a period of three years and Performance Awards will cliff vest after three years, which encourages executive officers to continue to develop favorable results over a longer period of time and reduces the risk of actions that may have short term advantages; (c) the Corporation's compensation program for executive officers is not structured significantly differently from the compensation program for other employees within the Corporation; (d) the overall compensation program is aligned with the Corporation's business plan and long-term strategies; (e) the Share Ownership Guidelines for executive officers help to ensure that such executive officers maintain a significant equity interest in the Corporation, which encourages executive officers to continue to develop favorable results over a longer period of time and reduces the risk of actions that may have short term advantages (see "*Officer Share Ownership Guidelines*" below); (e) the Clawback Policy (as defined below) gives the Board the ability to clawback any incentive compensation to the extent that an executive officer has undertaken inappropriate behaviour (see "*Clawback Policy*" below); (f) the ability of the Board to use its discretion to alter the bonus amounts awarded from the amounts determined in accordance with the STIP scorecard to protect against unintended consequences; and (g) establishing robust restrictions on the ability of executives to participate in transactions that are designed to hedge or offset a decrease in market value of securities of the Corporation as discussed below under the heading "*Prohibition on Hedging*".

Prohibition on Hedging

The Corporation's Disclosure, Confidentiality and Trading Policy contains anti-hedging provisions. Directors, officers and employees of the Corporation shall not knowingly sell, directly or indirectly, a security of the Corporation if such person selling such security does not own or has not fully paid for the security to be sold. Directors, officers and employees of the Corporation shall not, directly or indirectly, engage in any of the following transactions: (i) buying or selling a call or put in respect of a security of the Corporation; (ii) selling the Corporation's securities short; or (iii) purchasing any other financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, that are designed to hedge or offset a decrease in market value of securities of the Corporation.

Clawback Policy

The Corporation's Clawback Policy (the "**Clawback Policy**") provides for the reimbursement of incentive compensation in certain circumstances. The Clawback Policy defines incentive compensation to include, without limitation, cash bonuses paid under any short-term incentive plans, any awards under any long-term incentive plans and any payments (or other compensation) made upon vesting or settlement of any awards under any long-term incentive plans. Where the Board determines it is in the best interests of Headwater, it may demand repayment of all or a portion of, or effect the cancellation of unvested awards under long-term incentive plans,

any incentive compensation granted to executive officers in cases where: (i) the amount of the incentive compensation was calculated based upon, or contingent on, the achievement of certain financial results or other performance goals that were subsequently the subject of or affected by a substantial restatement of all or a portion of the financial statements of Headwater; (ii) an executive officer engaged in negligence, intentional misconduct or fraud that caused or substantially caused the need for the substantial restatement of the financial statements of Headwater; or (iii) the amount of the incentive compensation that would have been awarded to the executive officer had Headwater's financial results been properly reported would have been lower than the amount actually awarded or received.

In addition, under the Clawback Policy, in the event that any executive officer is found to have engaged in intentional misconduct, fraud, theft or embezzlement, the Board may in its discretion, to the full extent permitted by applicable laws and to the extent it determines that it is in best interests of Headwater to do so, require the reimbursement of some or all of the after-tax amount of any incentive compensation already paid or awarded to such executive officer in the previous 24 months or the forfeiture of any vested or unvested incentive compensation awards regardless of whether or not a restatement of the financial statements of Headwater has occurred or is required. The Clawback Policy applies to any employee or consultant of Headwater who is serving or who served as a vice president or senior officer of the Corporation.

Officer Share Ownership Guidelines

Pursuant to the Share Ownership Guidelines of the Corporation, Mr. Neil Roszell, the CEO, is required to hold Common Shares with a value of not less than three times his annual base salary. All other executive officers are required to hold Common Shares with a value of not less than one times such executive officer's annual base salary. In determining whether an executive officer has met the Share Ownership Guidelines, the value of the Common Shares will be based on the closing price of the Common Shares on the TSX as at December 31 in the year prior to such determination. Any new executive officer will be required to achieve this level within three years of such executive officer's appointment as an executive officer of the Corporation.

The following tables set out the value of the equity holdings of each of Headwater's executive officers based on the closing price of the Common Shares on the TSX on December 31, 2021 being \$5.15 per Common Share:

Name	Share Ownership Guideline			Common Shares (#)	Value of Common Shares ⁽²⁾ (\$)	Holdings as a Multiple of Annual Base Salary	Meets Share Ownership Requirements
	Multiple of Annual Compensation	Annual Base Salary ⁽¹⁾ (\$)	Total Value of Share Ownership Required (\$)				
Neil Roszell	3x	150,000	450,000	1,586,956	8,172,823	54x	Yes
Jason Jaskela	1x	260,000	260,000	1,796,152	9,250,183	36x	Yes
Ali Horvath	1x	260,000	260,000	543,950	2,801,343	11x	Yes
Terry Danku	1x	235,000	235,000	1,277,210	6,577,632	28x	Yes
Jonathan Grimwood	1x	235,000	235,000	778,472	4,009,131	17x	Yes
Brad Christman	1x	235,000	235,000	897,118	4,620,158	20x	Yes
Scott Rideout	1x	235,000	235,000	343,477	1,768,907	8x	Yes

(1) Annual base salaries effective January 1, 2022.

(2) Value has been determined by multiplying the number of Common Shares by the closing price of the Common Shares on the TSX on December 31, 2021 of \$5.15.

Compensation Philosophy and Program

Headwater's approach to compensation for the executive officers over the last several years has had to adjust rapidly as a result of the significant growth and development of the business. In March 2020 upon completion of the recapitalization of the Corporation and concurrent reconstitution of the Board and management of the Corporation (collectively, the "**Recapitalization Transaction**"), the Corporation had minimal production and intended to focus on making strategic acquisitions in the Western Canadian Sedimentary Basin. As a result, the compensation structure at that time was focused on maintaining G&A expenses at a relatively low level to preserve the Corporation's balance sheet strength for acquisition opportunities in the short-term and to align the interests of Headwater's executive officers with the Shareholders' interests in increasing the value of the Common Shares over the long-term. To accomplish these goals, the elements of the Corporation's compensation program in 2020 consisted primarily of base salaries, which were well below what such executive officers would have been paid at comparable companies, and grants of Options. In determining the number of Options to be granted, the CG&S Committee took into account the low base salaries paid to the executive officers and the intended heavy weighting of compensation to equity compensation rather than any form of cash payment. The CG&S Committee and the Board did not initially implement any type of short-term incentive or cash bonus program as it was determined that any grant of cash bonuses or other type of short term incentive to the executive officers was expected to be based on an assessment by the CG&S Committee and the Board of the performance of the management team in achieving the strategic goals of the Corporation of making strategic acquisitions in the Western Canadian Sedimentary Basin combined with organic development.

As a result of the significant developments in the Corporation's business following the Recapitalization Transaction, which included the completion of the Cenovus Transaction (as defined below) and the development of the Corporation's Marten Hills assets in Alberta, the Corporation's average production has grown from 586 barrels of oil equivalent ("**BOE**") per day ("**BOE/d**") in the fourth quarter of 2019 prior to completion of the Recapitalization Transaction, to 1,646 BOE/d in the fourth quarter of 2020 and to 10,449 BOE/d in the fourth quarter of 2021. As discussed further below, this rapid development in the Corporation's business has required the CG&S Committee and the Board to continue to evolve the compensation programs of the Corporation to ensure such programs are appropriate for the retention, and attraction of highly motivated and capable management and staff in order to achieve the business objectives of the Corporation. Throughout the evolution of the compensation programs, the Corporation's compensation philosophy has remained the same of paying for performance in an affordable and sustainable manner and to align the interests of executive officers and staff with the interests of the Shareholders. For additional information on the evolution of the Corporation's compensation programs and the different elements of the compensation program in 2021 and going forward in 2022 and beyond, see "*2021 Compensation Program*" and "*2022 Compensation Program*" below.

2021 Compensation Program

On December 2, 2020, the Corporation acquired 100% of Cenovus' assets in the Marten Hills area of Alberta (the "**Cenovus Transaction**"). The assets acquired pursuant to the Cenovus Transaction included a 100% working interest in approximately 2,800 BOE/d of heavy oil production and 270 net sections of Clearwater rights. Prior to the completion of the Cenovus Transaction, the Corporation had minimal operations related to its natural gas production from the McCully Field in New Brunswick. The compensation program prior to the Cenovus Transaction, reflected the minimal operations of the Corporation with low base salaries, no formal short-term cash bonus plan and a heavy weighting towards Options granted under the 2020 Option Plan.

Following completion of the Cenovus Transaction, in consultation with the CEO, the CG&S Committee made a number of recommendations to the Board on adjustments to the compensation program of the Corporation for 2021 to reflect the significant change to the business and operations of the Corporation. Although the compensation program continued to include base salaries and Options under the 2020 Option Plan, and other typical benefits and perquisites, adjustments were made to the base salaries of the executive officers to reflect the significant operations expected to be undertaken by the Corporation in 2021 and a short-term incentive cash bonus plan was put in place. Despite the adjustments in the compensation structure, the compensation program in 2021 remained focused on maintaining G&A expenses at a relatively low level to preserve the Corporation's balance sheet strength for acquisition opportunities in the short-term and to align the interests of Headwater's executive officers with the Shareholders' interests in increasing the value of the Common Shares over the long-term. As a result, the Corporation's compensation program remained heavily weighted towards Options.

2021 Base Salaries

Mr. Roszell, Chair and CEO, specifically requested that his base salary not be increased and as a result it was maintained at the \$150,000 level for 2021. Based on the recommendations of the Chair and CEO, the base salary in respect of Jason Jaskela, President and COO was increased from \$150,000 to \$225,000, and the base salaries for each other executive officer increased from \$150,000 to \$200,000 for 2021. The change in base salaries recognized the change in the operations of the Corporation while still maintaining relatively low salary levels relative to peers to maintain the Corporation's ability to increase the salaries as determined appropriate for executive officers with the growth of the Corporation's business.

2021 Short-term Incentive Cash Bonus Plan

In late 2020, the CG&S Committee, with the input from the CEO, began designing a short-term incentive plan ("STIP") scorecard to be used for determining cash bonus amounts to be paid to the Corporation's executive officers and Headwater's staff. In designing the STIP scorecard, the CG&S Committee focused on aligning the interests of executive officers and staff with the interests of Shareholders, while rewarding executive officers and staff for operational excellence and meeting ESG objectives. In March 2021, the CG&S Committee recommended, and the Board approved, the STIP scorecard to be used to determine 2021 cash bonus amounts. The following sets out the principal elements of the STIP scorecard and the weightings of each element used to determine 2021 cash bonus amounts:

- **Shareholder Return** – weighting 50% – Shareholder return was measured based on both absolute total return and total return relative to other companies in the Corporation's peer group.
- **Financial and Operational Performance** – weighting 30% – This was based on Headwater's results in 2021 as compared to targets in the STIP scorecard on certain metrics including proved developed producing ("PDP") recycle ratio (based on trailing netback divided by finding and development costs on a BOE basis), fourth quarter average production, G&A expense on a per BOE basis and operating and transportation expense on a per BOE basis.
- **ESG Objectives** – weighting 20% – This was based on management meeting certain defined strategic, non-siloed ESG objectives including measurement, reporting and target-setting. Specific objectives under this category included establishing greenhouse gas and water usage baselines, setting and achieving targets related to spills and successful technology identification implementation and innovation. Also included were preparations for the Corporation's inaugural ESG report which included 3-year targets on various ESG matters.



- **Health, Safety and Environmental ("HSE") Performance** – The Board also retained the discretion to adjust bonus amounts downwards if HSE performance did not meet specific targets as determined in accordance with the STIP scorecard.

Under the cash bonus program, the STIP scorecard is used by the CG&S Committee to benchmark actual corporate performance compared to expectations to determine the applicable corporate payout amount; however, the CG&S Committee and the Board may consider other factors relating to corporate performance to make upwards or downwards adjustment to the corporate payout multiple. The CG&S and Board believe that having some discretion to alter the payout from the results achieved under the STIP scorecard protects against unintended consequences and allows the Corporation to adjust its short-term strategies in response to operating in a rapidly changing environment.

The following table shows the annual base bonus amounts as a percentage of salary, the corporate performance weighting and the personal performance weighting for each Named Executive Officer:

Named Executive Officer	Base Bonus (% of Salary)	Corporate Performance Weighting (%)	Personal Performance Weighting (%)
Neil Roszell, Chair and CEO	80%	100%	0%
Jason Jaskela, President and COO	80%	80%	20%
Ali Horvath, Vice-President, Finance and CFO	70%	80%	20%
Jonathan Grimwood, Vice President, Exploration	60%	70%	30%
Terry Danku, Vice President, Engineering	60%	70%	30%

The corporate performance is measured based on the STIP scorecard with the payout ranging from zero to 2.0. For instance, for the CEO a score of zero would result in no bonus paid, a score of 1.0 would result in bonus paid equal to 80% of the CEO's base salary and a score of 2.0 resulting in a payout of 160% of the CEO's base salary.

In December 2021, the CG&S Committee met to discuss a number of matters including the determination of bonus amounts for the executive officers and staff of the Corporation. In determining bonus amounts, the CG&S received the recommendations of the CEO as to the bonus amounts to be paid to executive officers and staff. The Committee compared actual performance relative to the objectives in the Corporation's STIP scorecard established for 2021. The CG&S Committee noted that the Corporation met or exceeded all the objectives established in the 2021 STIP Scorecard.



2021 Actual Performance

Element of STIP Scorecard	2021 Actual Performance	Result
Shareholder Returns <i>Weighting 50%</i>	From December 31, 2020 to December 31, 2021 there was an approximate 123% absolute total return based on the closing price of the Common Shares on such dates.	Perform
Financial and Operational Performance <i>Weighting 30%</i>	In 2021, the Corporation achieved the following results: <ul style="list-style-type: none"> • PDP Recycle Ratio - 2.4 • Fourth Quarter Average Production - 10,449 BOE/d • G&A per BOE – \$1.48 per BOE • Operating and transportation expense per BOE - \$12.19 per BOE 	Outperform
ESG Objectives <i>Weighting 20%</i>	In 2021, Headwater achieved all of its objectives in regards to ESG matters including setting the framework for its inaugural ESG report, which is expected in 2022.	Perform
HSE Performance <i>No weighting – failure to meet HSE targets results in downward revision to score</i>	Headwater met or exceeded all of its targets in regards to HSE matters.	Perform

The CG&S Committee also considered a number of other factors relevant to corporate performance in 2021 including the extensive capital expenditure program undertaken in 2021 and the low salaries paid to the Corporation's executive officers in 2021 relative to executive officers at companies in the Corporation's peer group. As a result of the Corporation's 2021 corporate performance while taking into account previous low compensation relative to median alongside outstanding strategic execution, the CG&S Committee recommended that the Board use its discretion to increase the STIP payout score from 1.24 times to 1.5 times, which resulted in an incremental aggregate amount of \$380,000 (equivalent to approximately \$0.14/BOE based on 2021 average production) paid to all the employees (including the Named Executive Officers) of the Corporation pursuant to the STIP.

The following table summarizes annual bonuses paid to the Named Executive Officers for 2021 performance as well as such bonuses as a percentage of the salaries for such Named Executive Officer in each year:



Named Executive Officer	2021 Bonus (\$)	Percentage of Base 2021 Salary
Neil Roszell, Chair and CEO	180,000	120%
Jason Jaskela, President and COO	250,000	111%
Ali Horvath, Vice-President, Finance and CFO	230,000	115%
Jonathan Grimwood, Vice President, Exploration	200,000	100%
Terry Danku, Vice-President, Engineering	200,000	100%

Half of the 2021 bonus amounts were paid out in December 2021 with the remaining half paid out in March 2022 upon the finalization of the Corporation's 2021 results.

2021 Peer Group

In March 2021, the CG&S Committee established a peer group of companies for Headwater to benchmark corporate performance against. The CG&S Committee used this peer group to evaluate relative total shareholder return for the purposes of the STIP scorecard in 2021 as well as for potential other benchmarking purposes. The CG&S Committee selected the peer group based on companies that the Corporation would be competing against both for capital and talent. The following companies were included in the 2021 peer group:

Advantage Energy Ltd.	Birchcliff Energy Ltd.
Cardinal Energy Ltd.	Enerplus Corp.
Kelt Exploration Ltd.	NuVista Energy Ltd.
Obsidian Energy Ltd.	Paramount Resources Ltd.
Peyto Exploration and Development Corp.	Pipestone Energy Corp.
Storm Resources Ltd.	Surge Energy Inc.
Tamarack Valley Energy Ltd.	

2021 Long-Term Incentive Program

For 2021, the CG&S Committee and Board adopted an "evergreen" approach to the grant of Options. As Options vested and were exercisable, new Options were granted in equal number. One-third of Options vest on each of the first, second and third anniversaries of the grant date such that, in March 2021, each executive officer (other than Mr. Jaskela and Ms. Horvath) was granted approximately one-third of the number of Options granted in March 2020. Each of Mr. Jaskela and Ms. Horvath received a slightly higher grant of Options in March 2021 than they would have otherwise received under the evergreen approach due to their increasing responsibilities with the growth of the Corporation's operations. As noted above, the 2020 and 2021 compensation programs were heavily weighted to Option grants relative to cash compensation to maintain G&A expenses at a relatively low level to preserve the Corporation's balance sheet strength for acquisition opportunities in the short-term and to align the interests of Headwater's executive officers with the Shareholders' interests in increasing the value of the Common Shares over the long-term. As discussed below, provided that the Award Plan is approved by the Shareholders, it is the intent that Options will not be granted in 2022 or future years.

2022 Compensation Program

The compensation program for 2022 established by the CG&S Committee continues to include base salaries and cash bonuses utilizing the STIP scorecard; however, the CG&S Committee recommended and the Board approved that the Corporation change the form of long-term incentive compensation from grants of Options under the

2020 Option Plan to grants of Restricted Awards and Performance Awards under the Award Plan. In addition, adjustments were made to the base salaries of executive officers to reflect the significant expansion of the Corporation's operations. Despite the adjustments in the compensation structure, the compensation program for 2022 remains focused on maintaining fixed G&A expenses at a relatively low level and paying for performance in an affordable and sustainable manner, in order to align the interests of Headwater's executive officers and staff with the interests of the Shareholders. The intent of the CG&S Committee and the Board is to ensure that the total compensation paid to its executive officers is equivalent to the median total compensation paid by companies in the Corporation's peer group.

2022 Base Salaries

At the December 2021 meeting of the CG&S Committee, the CEO presented recommendations for salaries for executive officers and staff. Although Mr. Roszell, as Chair and CEO, specifically requested that his base salary not be increased, he did recommend that the base salaries for all other executive officers be increased as a result of the significant increase in the size and the operations of the Corporation that occurred in 2021. At Mr. Roszell's recommendation, the CG&S Committee recommended, and the Board approved, that Mr. Roszell's salary be maintained at the \$150,000 level for 2022 and increases to the base salaries of all other executive officers. The base salary in respect of Jason Jaskela, President and COO was increased from \$225,000 to \$260,000, the base salary for Ali Horvath, Vice President, Finance and CFO increased from \$200,000 to \$260,000 and the base salaries for each other executive officer increased from \$200,000 to \$235,000. In line with the Corporation's compensation philosophy, the change in base salaries recognized the change in the operations of the Corporation while still maintaining salaries at the lower end of salaries paid to executive officers at companies in the Corporation's peer group.

2022 Short-term Incentive Cash Bonus Plan

In December 2021, the CG&S Committee recommended, and the Board approved the STIP scorecard to be used to determine 2022 cash bonus amounts. All the principal elements of the STIP scorecard for 2022 remained substantially the same as the 2021 STIP scorecard with updated annual operational and financial targets. In addition, the 2022 STIP scorecard included refined ESG objectives relating to Scope 1 and Scope 2 emissions intensity targets and water usage and additional factors relating to indigenous relations and land use and reclamation.

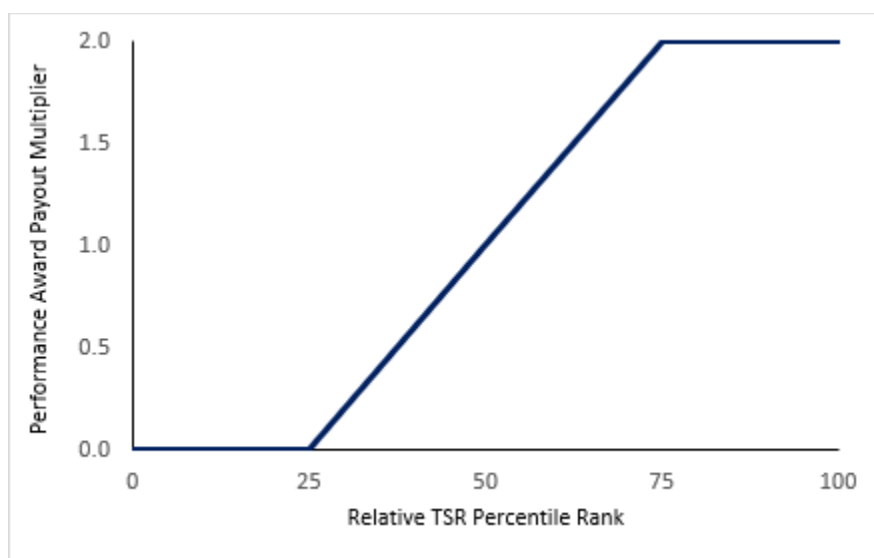
2022 Long-Term Incentive Program

At the CG&S Committee meeting held in December 2021 the CG&S Committee also considered the long-term incentive compensation programs of the Corporation and whether grants of Options were the most appropriate form of compensation given the Corporation's stage of development. The CG&S Committee considered that a long-term incentive program that put more at risk and focused on performance for executive officers would be more suitable for the Corporation going forward. As a result of the discussion, the CG&S Committee recommended that the Corporation move to grants of Performance Awards and Restricted Awards under a new Award Plan rather than any further grants of Options under the Option Plans. The Board approved the new Award Plan in March 2022.

If the Award Plan is approved by the Shareholders at the meeting, the Board intends for all future long-term incentive compensation to be in the form of Awards and that no further Options will be granted. The aggregate

number of Awards to be granted to each executive officer or employee of the Corporation will be based on a multiple of the annual base salary of each of such executive officer or employee after consideration is given to a number of factors including the practices of other members of the Corporation's benchmarking group, total compensation of such executive officers and employees, and other forms of compensation previously received by such executive officers and employees and the potential costs to the Corporation. For executive officers, the Awards granted would consist 100% of Performance Awards with the executive officers receiving no Restricted Awards. With respect to staff, the more senior the position of the employee receiving a grant of Awards, the more heavily the weighting towards Performance Awards with junior employees receiving primarily Restricted Awards. In all cases, the compensation received by the recipients of Performance Awards and Restricted Awards is directly tied to Headwater's share price performance. The Award Plan allows executives to participate in the success of the Corporation and creates a strong alignment to Shareholder interests as the value of Awards tracks Headwater's share price performance (in the case of both Restricted Awards and Performance Awards) and Headwater's relative and absolute total shareholder return (in the case of Performance Awards).

The value of payouts for Awards is calculated as follows:



The Payout Multiplier in respect of Performance Award grants is calculated based on Headwater's three-year total shareholder return percentile rank relative to the members of the Corporation's benchmarking peer group(s) specified by the Board at the time of grant. Under the Award Plan, performance below the 25th percentile results in the Payout Multiplier equal to zero. In addition, Performance Awards will incorporate a second performance metric, as the Payout Multiplier will be capped at 1.0x if Headwater's absolute total shareholder return over the vesting period is negative.

The Award Plan provides that no Performance Awards will vest prior to the date that is three years after the grant date of such Performance Awards, unless otherwise determined by the Board at the time of grant. Restricted Awards will vest as to one third of the Restricted Awards granted on each of the first, second and third anniversaries of the date of grant, unless otherwise determined by the Board at the time of grant.

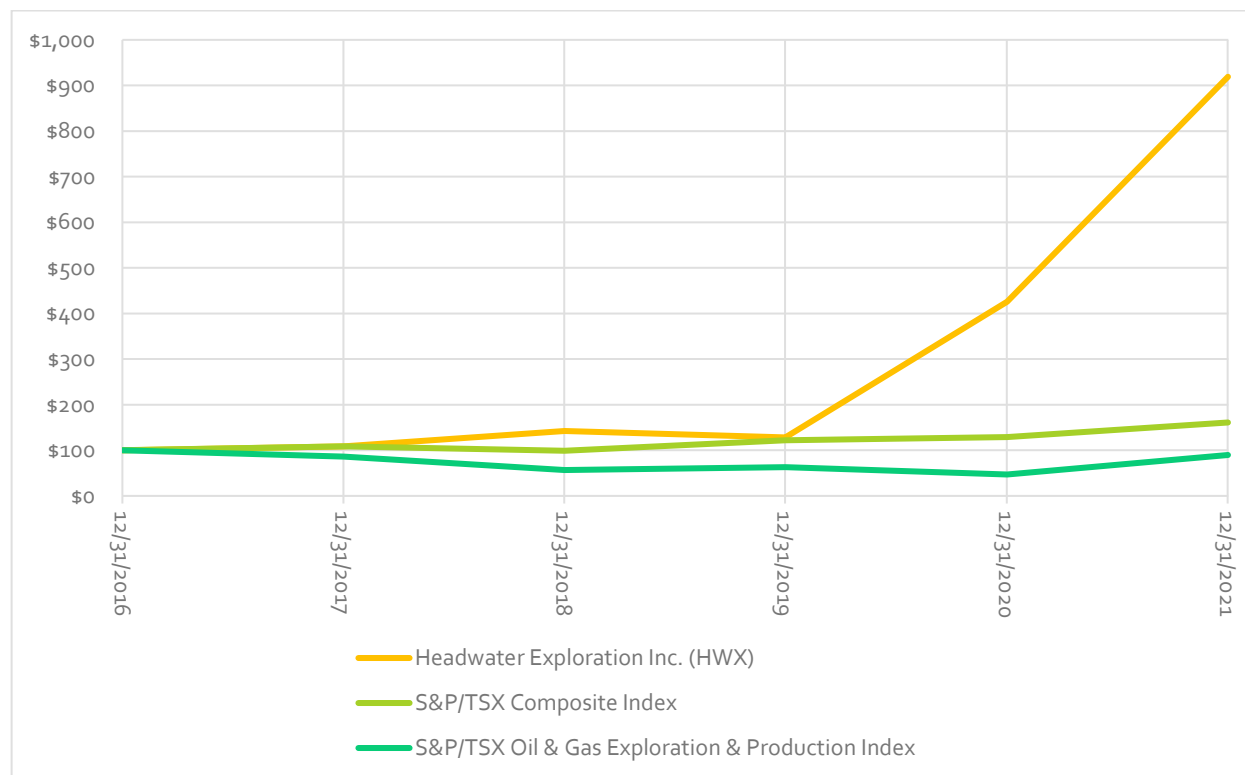
As discussed under "*Business of the Meeting – Approval of Restricted and Performance Award Plan*", the limits for grants of Awards under the Award Plan have been designed such that initially the number of Awards will be limited

by the number of Common Shares that may be issuable pursuant to outstanding Options while still leaving enough availability for the Corporation to grant Awards to continue to retain and attract the necessary management and staff to manage the growth of the Corporation. The Options that remain outstanding under the Option Plans were primarily issued at a time when the share price and market capitalization of the Corporation were significantly lower than Headwater's current share price and market capitalization. The outstanding Options under the Option Plans also reflect the fact that such Options were granted at a time when the total cash compensation received by officers of Headwater was very low relative to the total cash compensation received by officers of the Corporation's peers and the level of Options granted was higher to compensate for the low cash consideration. The rapid growth of Headwater over the last two years has resulted in the CG&S Committee and the Board having to rapidly adjust the compensation programs of the Corporation so that they are more suited for a company of Headwater's current size.

It is the intention of the Corporation that no further Options will be granted under the Option Plans and therefore upon the exercise, cancellation, expiry or other termination of Options, the maximum number of Common Shares issuable pursuant to outstanding Options and Awards will decrease over time. After all Options under the Option Plans have expired or are exercised, a maximum of 4.5% of the issued and outstanding Common Shares will be issuable pursuant to Awards.

Performance Graph

The following graph compares the change in the cumulative total Shareholder return for the five most recently completed financial years, of a \$100 investment in the Common Shares, with the cumulative total return of the S&P/TSX Composite Index and the S&P/TSX Oil & Gas Exploration & Production Index for the period commencing December 31, 2016 and ending December 31, 2021.



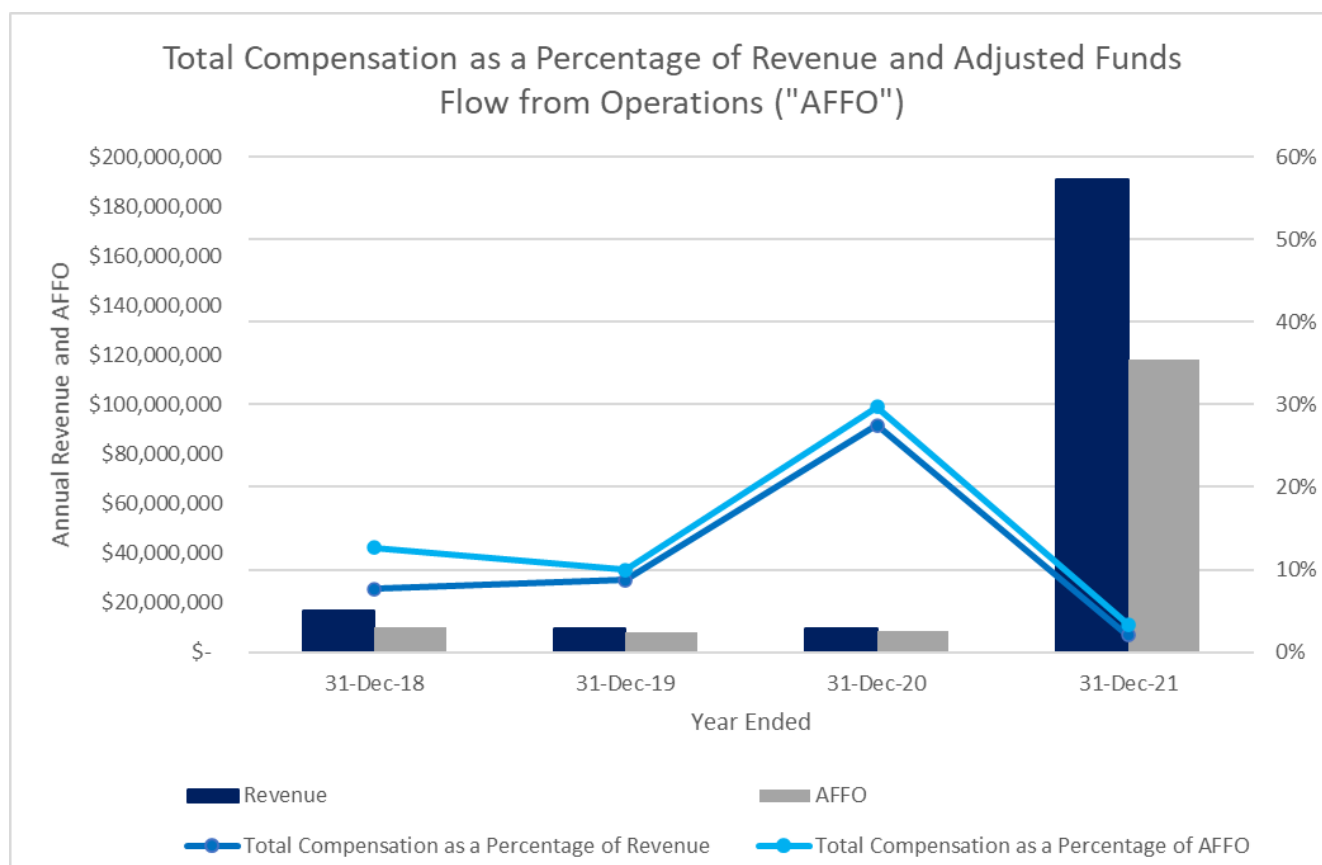


	2016/12/31	2017/12/31	2018/12/31	2019/12/31	2020/12/31	2021/12/31
Headwater Exploration Inc.	\$100	\$109	\$142	\$128	\$426	\$919
S&P/TSX Composite Index	\$100	\$109	\$99	\$122	\$129	\$161
S&P/TSX Oil & Gas Exploration & Production Index	\$100	\$86	\$57	\$63	\$47	\$90

From 2016 through 2019, the Corporation had minimal operations and a small executive team with only four Named Executive Officers in most years and only three Named Executive Officers in 2019, and as a result the total compensation paid to all of Named Executive Officers during those years was relatively low. From 2016 through 2019, although the total Shareholder return on the Common Shares increased from December 31, 2016 through December 31, 2019, the total Shareholder return was relatively flat. On January 13, 2020, the Corporation announced the entering into of the investment agreement to implement the Recapitalization Transaction and on March 4, 2020, the Recapitalization Transaction was completed. Pursuant to the Recapitalization Transaction, the management team of the Corporation was reconstituted and significantly expanded. As a result, the total compensation paid to the Named Executive Officers in 2020 was significantly higher than the total compensation paid to the Named Executive Officers in 2019; however, as discussed under "*Executive Compensation – Compensation Discussion and Analysis*", the executive compensation in 2020 was maintained at a relatively low level relative to the Corporation's peer group due to the minimal operations of the Corporation immediately following the Recapitalization Transaction. Throughout 2020, the new management team of the Corporation focused on pursuing acquisitions of oil and gas assets in the Western Canadian Sedimentary Basin, which resulted in the completion of the Cenovus Transaction in December 2020. As a result of completion of the Recapitalization Transaction and the Cenovus Transaction, as demonstrated in the above chart, the total Shareholder return of the Common Shares substantially increased during 2020.

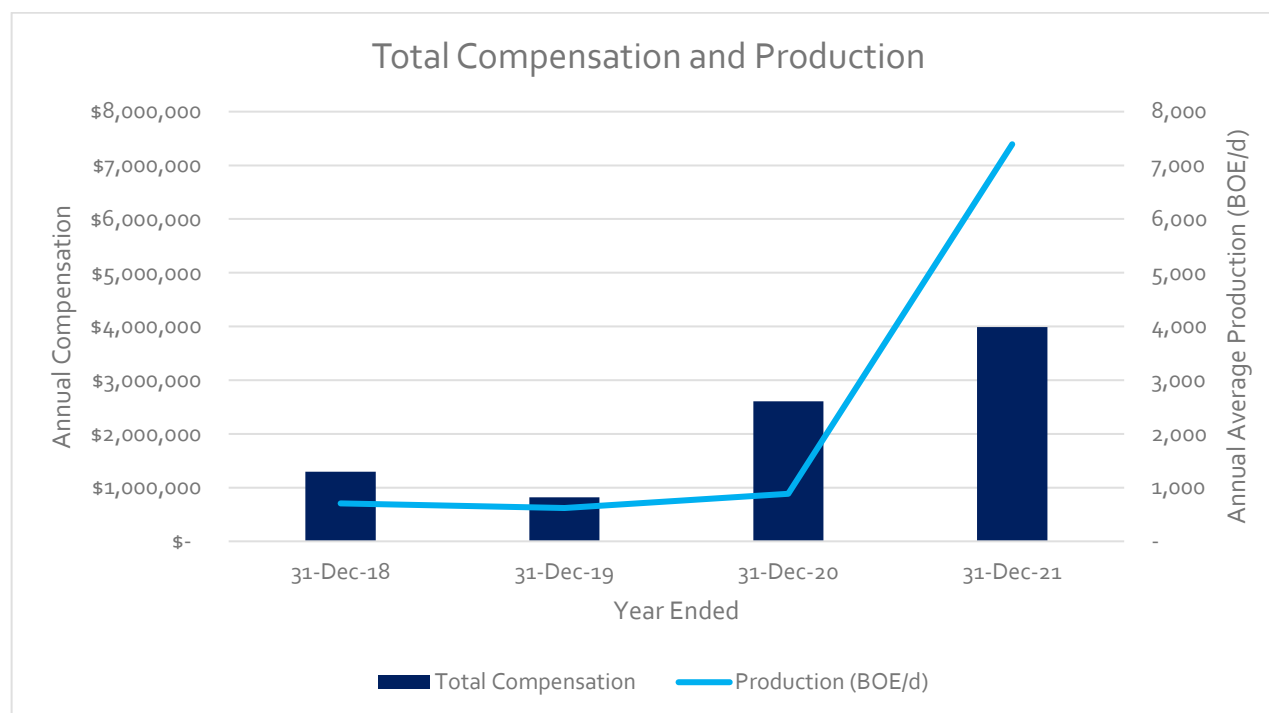
As a result of the completion of the Cenovus Transaction, the Corporation's operations significantly expanded and as a result the total compensation of the Named Executive Officers significantly increased in 2021 relative to 2020; however, as a result of the Corporation's operational successful in relation to the assets acquired pursuant to the Cenovus Transaction and certain other factors including improved commodity pricing, as demonstrated in the above chart, the total Shareholder return of the Common Shares once again substantially increased during 2021.

The following chart shows the Corporation's revenue and adjusted funds flow from operations in the years ended December 31, 2018 through December 31, 2021 as well as the total compensation of the Named Executive Officers as a percentage of the Corporation's revenue and adjusted funds flow from operations in such years.



As demonstrated in the above chart, in the years ended December 31, 2018 through December 31, 2020 the revenue and adjusted funds flow from operations was insignificant and as a result the total compensation of the Named Executive Officers as a percentage of the revenue and adjusted funds flow from operations was relatively high. This was especially true in 2020 as the total compensation of the Named Executive Officers significantly increased following completion of the Recapitalization Transaction but the Corporation did not begin receiving the additional revenue and adjusted funds flow from operations from the Cenovus Transaction until December 2020. In 2021, although the total compensation of the Named Executive Officers increased, as a percentage of revenue (2018 – 8%, 2019 – 9%, 2020 – 27%, 2021 – 2%) and adjusted funds flow from operations (2018 – 13%, 2019 – 10%, 2020 – 30%, 2021 – 3%) the total compensation of the Named Executive Officers significantly decreased, relative to the previous years as a result of the significant increase in revenue and adjusted funds flow from operations as a result of the Corporation's operational successful in relation to the assets acquired pursuant to the Cenovus Transaction and certain other factors including improved commodity pricing.

The following chart shows the Corporation's total production (on a BOE basis) in the years ended December 31, 2018 through December 31, 2021 as well as the total compensation of the Named Executive Officers in such years.



The above chart demonstrates the significant expansion of the Corporation's production in 2021 relative to the previous years, which resulted from the significant expansion of its operations in 2021. In addition, the above chart demonstrates that, although there was an increase in the total compensation of the Named Executive Officers in 2021 relative to the previous years, the increase in such total compensation was not as large as the increase in the total production and operations of the Corporation. As discussed under "*Executive Compensation – Compensation Discussion and Analysis*", the increase in compensation in 2021 was directly linked to the fact that the Named Executive Officers were managing an entity with much larger operations in 2021 relative to previous years.

Summary Compensation Table

The following table sets forth for the years ended December 31, 2021 and 2020, information concerning the compensation paid to the Named Executive Officers.

Name and principal position ⁽¹⁾	Year	Salary (\$)	Option-based awards ⁽²⁾ (\$)	Non-equity incentive plan compensation (\$)		All other compensation ⁽⁵⁾ (\$)	Total compensation (\$)
				Annual incentive plans ⁽³⁾ (\$)	Long-term incentive plans ⁽⁴⁾ (\$)		
Neil Roszell	2021	150,000	425,208	180,000	Nil	Nil	755,208
Chair and CEO	2020	125,000	424,372	Nil	Nil	Nil	549,372
Jason Jaskela	2021	225,000	425,208	250,000	Nil	Nil	900,208
President and COO	2020	125,000	339,497	50,000	Nil	Nil	514,497
Ali Horvath	2021	200,000	425,208	230,000	Nil	Nil	855,208
Vice President, Finance and CFO	2020	125,000	339,497	50,000	Nil	Nil	514,497
Jonathan Grimwood	2021	200,000	340,166	200,000	Nil	Nil	740,166
Vice President, Exploration	2020	125,000	339,497	50,000	Nil	Nil	514,497
Terry Danku	2021	200,000	340,166	200,000	Nil	Nil	740,166
Vice President, Engineering	2020	125,000	339,497	50,000	Nil	Nil	514,497

- (1) Each of the Named Executive Officers was appointed executive officers on March 4, 2020. No Named Executive Officer was an officer or employee of the Corporation prior to March 4, 2020.
- (2) The grant date fair value for compensation purposes is calculated using the Black-Scholes option pricing methodology, which is the fair value determined in accordance with International Financial Reporting Standards ("IFRS"). In 2021, this calculation was based on a risk-free interest rate of 0.4%, dividend yield of 0%, expected volatility of 60% and an expected life of 2.5 years resulting in an Option value of \$1.70. In 2020, this calculation was based on a risk-free interest rate of 0.3%, dividend yield of 0%, expected volatility of 61% and an expected life of 4 years resulting in an Option value of \$0.57. The Black-Scholes option pricing methodology was selected due to its acceptance as an appropriate valuation model used by similar sized oil and gas companies. The resulting fair value is an estimate of the value which may ultimately be received based on the historical volatility in the share price of the Corporation's peer group. It is important to note that the actual value realized pursuant to Option awards may be greater or less than the indicated value.
- (3) In 2020, amounts reflect bonuses earned and paid within the year. Mr. Roszell specifically requested not to be paid a bonus in respect of 2020. Half of the bonus amounts in respect of 2021 performance were paid in December 2021 with the remainder paid in March 2022.
- (4) The Corporation did not have any non-equity long-term incentive plans in place for executive officers.
- (5) Certain perquisites have not been included in the above table as the aggregate value of such perquisites per Named Executive Officer are not worth more than \$50,000 or 10% of such Named Executive Officer's salary.
- (6) The Corporation did not grant any share-based awards to officers or employees of the Corporation in 2021 or 2020.
- (7) The Corporation does not provide any pension benefits.

Incentive Plan Awards

In 2020 and 2021, the Corporation's long-term incentive program for Named Executive Officers consisted of Options granted under the terms of the 2020 Option Plan. In 2022 and in future years, the CG&S Committee and the Board intend that long-term incentive compensation will consist of grants of Restricted Awards and Performance Awards under the terms of the Award Plan. As such, the Board does not intend to grant any Options to officers, employees or consultants of the Corporation in 2022 or future years. For a description of the terms of the 2020 Option Plan see Schedule A hereto. For a description of the Award Plan see "Business of the Meeting - Approval of Restricted and Performance Award Plan".

In 2021, short-term non-equity compensation consisted of cash bonuses. See "Compensation Discussion and Analysis - 2021 Compensation Program - 2021 Short-Term Incentive Cash Bonus Plan".



Outstanding Option-based Awards

The following table sets forth for each Named Executive Officer, all option-based awards outstanding as at December 31, 2021. No share-based awards were held by any Named Executive Officers as at December 31, 2021.

Name	Option-based Awards			
	Number of securities underlying unexercised Options (# of Common Shares)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money Options ⁽¹⁾ (\$)
Neil Roszell	750,000	1.06	March 27, 2024	3,067,500
Chair and CEO	250,000	4.66	March 12, 2025	122,500
Jason Jaskela	400,000	1.06	March 27, 2024	1,636,000
President and COO	250,000	4.66	March 12, 2025	122,500
Ali Horvath	400,000	1.06	March 27, 2024	1,636,000
Vice President, Finance and CFO	250,000	4.66	March 12, 2025	122,500
Jonathan Grimwood	400,000	1.06	March 27, 2024	1,636,000
Vice President, Exploration	200,000	4.66	March 12, 2025	98,000
Terry Danku	400,000	1.06	March 27, 2024	1,636,000
Vice President, Engineering	200,000	4.66	March 12, 2025	98,000

(1) Calculated based on the closing price of the Common Shares on the TSX on December 31, 2021 of \$5.15 and the exercise price of the Options.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth, for each Named Executive Officer, the value of option-based awards that vested during the year ended December 31, 2021 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2021.

Name	Option-based awards – Value vested during the year ⁽¹⁾	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Neil Roszell	715,000	N/A	180,000
Jason Jaskela	572,000	N/A	250,000
Ali Horvath	572,000	N/A	230,000
Jonathan Grimwood	572,000	N/A	200,000
Terry Danku	572,000	N/A	200,000

(1) Calculated based on the closing price of the Common Shares on the TSX on the vesting date and the exercise price of the Options.

Pension Plan Benefits

The Corporation does not have a pension plan or similar benefit program.



Termination and Change of Control Benefits

The Corporation does not have any employment agreements, change of control agreement or other arrangements with the Named Executive Officers that provide for payments in connection with termination, resignation, change of control or a change in the NEO's responsibilities.

Under the 2020 Option Plan, if a "Change of Control" (as defined in the 2020 Option Plan) occurs and within six (6) months of the Change of Control, a Named Executive Officer is terminated without cause or resigns for "Good Reason" (as defined in the 2020 Option Plan), all unvested Options held by the Named Executive Officer will vest and all outstanding Options held by the NEO will be exercisable for 90 days following the termination of the Named Executive Officer's employment with the Corporation. The following table shows the value of each Named Executive Officer's unvested Options as at December 31, 2021, which reflects the value of the acceleration of the vesting of such Options if a Change of Control had occurred and the Named Executive Officer had been terminated as of December 31, 2021.

Name	Option Value ⁽¹⁾ (\$)
Neil Roszell	2,167,500
Jason Jaskela	1,758,500
Ali Horvath	1,758,500
Jonathan Grimwood	1,734,000
Terry Danku	1,734,000

(1) Options have been valued using the December 31, 2021 closing price of the Common Shares on the TSX of \$5.15.

OTHER INFORMATION

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information in respect of securities authorized for issuance under the Corporation's equity compensation plans as at December 31, 2021.

Plan Category	Number of securities to be issued upon exercise of outstanding Options, warrants and rights (a)	Weighted average exercise price of outstanding Options, warrants and rights (\$) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders ⁽¹⁾ (2008 Option Plan and 2020 Option Plan)	9,504,669	2.36	7,909,800
Equity compensation plans not approved by securityholders ⁽²⁾	N/A	N/A	N/A
Total	9,504,669	2.36	7,909,800

- (1) Equity securities are authorized for issuance under the 2008 Option Plan and the 2020 Option Plan. See Schedules A and B for a summary of the terms of the 2020 Option Plan and 2008 Option Plan, respectively. Under the 2020 Option Plan, Options may be granted in respect of Common Shares provided that the aggregate number of Common Shares reserved for issuance under the 2020 Option Plan does not exceed 8.0% of the aggregate number of issued and outstanding Common Shares less the aggregate number of Common Shares issuable under outstanding Options under the 2008 Option Plan. Although under the rules of the TSX, Options could continue to be granted under 2020 Option Plan until June 15, 2023 (the Option Plan was approved by the Shareholders on June 15, 2020), the Corporation does not intend to grant any further Options under the 2020 Option Plan.
- (2) If the Award Plan is approved at the Meeting, Awards may be granted under such plan in respect of Common Shares provided that the aggregate number of Common Shares reserved for issuance under the Award Plan does not exceed the lesser of: (i) 6.0% of the aggregate number of issued and outstanding Common Shares less the aggregate number Common Shares reserved for issuance under outstanding Options under the Option Plans; and (ii) 4.5% of the aggregate number of issued and outstanding Common Shares. See "Business of the Meeting - Approval of the Restricted and Performance Award Plan".

Annual Burn Rate Under Equity Compensation Plans

The following sets forth the number of Options granted during the periods noted below and the potential dilutive effect of such Options.

Period	Number of Options Granted	Weighted Average Common Shares Outstanding	Burn Rate ⁽¹⁾ (%)
2021	3,430,000	199,801,780	1.7
2020	7,905,000 ⁽²⁾	139,378,984	5.7
2019	225,000	88,472,042	0.3

- (1) The burn rate for a given period is calculated by dividing the number of Options granted during such period by the weighted average number of Common Shares outstanding during such period.
- (2) Upon completion of the Recapitalization Transaction, an entirely new management team and additional staff were appointed resulting in a large amount of Option grants.



For further information regarding the outstanding Options held by the Named Executive Officers as at December 31, 2021, see "*Executive Compensation – Incentive Plan Awards – Outstanding Option-based Awards*".

Indebtedness of Directors and Executive Officers

No person who is or has been a director or executive officer of the Corporation at any time since the beginning of the year ended December 31, 2021, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any one of them, is or was indebted to (i) the Corporation, or (ii) another entity where such indebtedness is or was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or its subsidiary, in either case at any time since the beginning of the year ended December 31, 2021.

Interest of Informed Persons in Material Transactions

Other than as set forth herein, there were no material interests, direct or indirect, of directors, nominees for director or executive officers of the Corporation, or any Shareholder who beneficially owns, directly or indirectly, or exercises control or direction over greater than 10% of the outstanding Common Shares, or any other Informed Person (as defined in NI 51-102) or any known associate or affiliate of such persons, in any transaction since the commencement of the last completed financial year of the Corporation or in any proposed transaction which has materially affected or would materially affect the Corporation.

Kam Sandhar is the Executive Vice President, Strategy & Corporate Development of Cenovus. Following the Cenovus Transaction in 2020, the Corporation was involved in a number of transactions with Cenovus in 2021.

On December 21, 2021, Headwater announced that it had issued a call notice to Cenovus Marten Hills Partnership ("**CMHP**"), a wholly owned subsidiary of Cenovus, requiring CMHP to exercise the 15,000,000 warrants to purchase Common Shares held by CMHP (the "**Cenovus Warrants**") issued to CMHP as partial consideration for Headwater's acquisition of assets under the Cenovus Transaction. CMHP exercised the 15,000,000 Cenovus Warrants to purchase 15,000,000 Common Shares at an exercise price of \$2.00 on December 23, 2021, for total gross proceeds of \$30 million in cash to the Corporation. On exercise of the Cenovus Warrants, Cenovus held approximately 7% of the then-outstanding Common Shares.

On October 14, 2021, Headwater and Cenovus completed a secondary offering (the "**Secondary Offering**") of Common Shares pursuant to a short-form prospectus filed by Headwater. Pursuant to the Secondary Offering, Cenovus, through CMHP, sold 50,000,000 Common Shares through a syndicate of underwriters at a price of \$4.55 per Common Share for total gross proceeds to CMHP of \$227.5 million. The Corporation did not receive any of the proceeds of the Secondary Offering. Cenovus paid the underwriters' fees and all expenses of the Secondary Offering.

Prior to the Secondary Offering, CMHP held 50,000,000 Common Shares, which, at the time, represented approximately 24.7% of the issued and outstanding Common Shares on an undiluted basis and approximately 26.8% of the issued and outstanding Common Shares on a fully diluted basis. Pursuant to the Secondary Offering, CMHP disposed of legal and beneficial ownership of 50,000,000 Common Shares, being 100% of the Common Shares held by CMHP at that time. Following completion of the Secondary Offering, CMHP retained the Cenovus Warrants entitling CMHP to purchase 15,000,000 Common Shares.



As a result of the completion of the Secondary Offering, the investor agreement between the Corporation and CMHP dated December 2, 2020 (the "**Investor Agreement**") automatically terminated in accordance with its terms as Cenovus no longer held, directly or indirectly, any Common Shares. The Investor Agreement provided CMHP with certain contractual rights related to, among other things, the nomination of directors of the Corporation. In connection with the termination of the Investor Agreement, Sarah Walters, who was a nominee of CMHP on the Board, resigned as a director of the Corporation effective upon completion of the Secondary Offering. Kam Sandhar, who was previously nominated to the Board by CMHP pursuant to the Investor Agreement, remained on the Board notwithstanding the termination of the Investor Agreement.

Interest of Certain Persons or Companies in Matters to be Acted Upon

Other than the approval of the Award Plan, management of the Corporation is not aware of any material interest, direct or indirect, by way of beneficial ownership or otherwise of any director or nominee for director, or executive officer of the Corporation, or anyone who has held office as such since the beginning of the Corporation's last completed financial year, or of any associate or affiliate of any of the foregoing in any matter to be acted on at the Meeting, other than the election of directors.

Additional Information

Additional information relating to the Corporation is available on SEDAR at www.sedar.com. Financial information in respect of the Corporation and its affairs is provided in the Corporation's annual audited comparative financial statements for the year ended December 31, 2021 and the related management's discussion and analysis. Copies of the Corporation's financial statements and related management's discussion and analysis are available upon request from the Corporation at phone number (587) 391-3680 and on the Corporation's website at www.headwaterexp.com.

Other Matters

Management knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Annual and Special Meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person or persons voting the proxy.



Schedule A

2020 Option Plan Summary

*Capitalized terms not otherwise defined shall have the meaning ascribed to such terms in the management information circular of Headwater Exploration Inc. (the "**Corporation**") dated April 1, 2022 to which this Schedule A is attached.*

The 2020 Option Plan was approved by the Shareholders at the annual and special meeting of Shareholders held on June 15, 2020 permits the granting of Options to the Corporation's directors, officers, employees and consultants (each a "**Grantee**"). The purpose of the 2020 Option Plan is to promote a proprietary interest in the Corporation and greater alignment of interests between directors, officers, employees and consultants of the Corporation and Shareholders, provide a compensation system for such directors, officers, employees and consultants that is reflective of their responsibility and commitment to the Corporation and to assist the Corporation in attracting and retaining experienced individuals to act as officers, employees and consultants of the Corporation. The 2020 Option Plan is administered by the Board (which may delegate its authority to the CG&S Committee or other committee), which has authority to interpret the 2020 Option Plan, including any questions in respect of any Options granted thereunder. The Options granted thereunder are not transferable or assignable and do not entitle the holder to any rights as a securityholder.

The Board sets the term of the Options granted under the 2020 Option Plan provided that such term does not exceed a maximum term of six (6) years. Currently, there are 8,403,355 Options outstanding under the 2020 Option Plan, which vest as to one third on each of the first, second and third anniversaries of the grant date and expire on the date that is four years from the date of grant. Unless otherwise determined by the Board, Options shall vest equally on the first, second and third anniversaries of the date of grant. The exercise price of Options shall not be less than the closing price of the Common Shares on the TSX on the trading day immediately preceding the date of grant of Options (the "**Market Price**") or such other minimum price as may be required by the TSX.

In addition to the typical exercise method of issuing Common Shares to the holder in exchange for payment of the exercise price of the Option, the 2020 Option Plan also allows Options, if permitted by the Board, to be exchanged for the issuance of Common Shares equal to the number determined by dividing the Market Price on the date of exercise into the difference between the Market Price and the exercise price of such Options. Additionally, any Grantee may make an offer to the Corporation, at any time, for the disposition and surrender by the same to the Corporation (and the termination thereof) of any of the Options granted under the 2020 Option Plan for an amount not to exceed Market Price (as of the date of the exercise) less the exercise price of the Options and the Corporation has the sole discretion as to whether to accept such offer.

Under the 2020 Option Plan, Options may be granted in respect of Common Shares provided that the aggregate number of Common Shares reserved for issuance under the 2020 Option Plan does not exceed 8.0% of the aggregate number of issued and outstanding Common Shares less the aggregate number of Common Shares issuable under outstanding Options under the 2008 Option Plan.

The 2020 Option Plan limits Insider participation such that in aggregate, no more than 10% of the issued and outstanding Common Shares (on a non-diluted basis) may be reserved at any time for insiders of the Corporation under the 2020 Option Plan, together with all of the Corporation's other security-based compensation arrangements. Further, the number of securities the Corporation issues to insiders of the Corporation within any



twelve-month period under all of the Corporation's security-based compensation arrangements (including the 2020 Option Plan) cannot exceed 10% of the issued and outstanding Common Shares. The aggregate number of Common Shares that may be reserved for issuance pursuant to Options awarded to non-executive directors of the Corporation shall not exceed 1% of the Common Shares outstanding from time to time and the aggregate value of Options granted to any non-executive director in any one year period shall not exceed \$100,000.

The Board has discretion to make amendments to the 2020 Option Plan which it may deem necessary without having to obtain Shareholder approval provided that in all cases it does not make any of the following amendments without first obtaining approval of the Shareholders: (i) increase the percentage of the issued and outstanding Common Shares that are available to be issued pursuant to granted and outstanding Options at any time above 8.0%; (ii) increase the number of Common Shares that may be issued to insiders of the Corporation above the restrictions contained in the 2020 Option Plan; (iii) increase the number of Common Shares that may be reserved for issuance pursuant to the exercise of Options granted to non-executive directors under the 2020 Option Plan; (iv) extend the expiry date of any outstanding Options under the 2020 Option Plan; (v) make any reduction in exercise price of an Option or permit a reduction in the exercise price of an Option granted under the 2020 Option Plan by the cancellation and immediate re-issue of Options or other entitlements; (vi) permit the transfer or assignment of Options except in the case of death of a Grantee; or (vii) amend the amendment provisions of the 2020 Option Plan.

Under the 2020 Option Plan, in the case of a Grantee's death, the Grantee's personal or legal representative may within twelve (12) months from the date of death and prior to the expiry date of the Options, exercise Options which were vested within such period after which time any remaining Options shall terminate and become null and void. In addition, if a Grantee ceases to be a director, officer, employee or consultant of Headwater (other than as a result of death), and the date on which the Grantee ceases to be a director, officer, employee or consultant of Headwater (the "**Termination Date**") is prior to the expiry date of the Option, all Options held by the Grantee which have vested as of the Termination Date shall be forfeited by the Grantee effective on the earlier of: (i) the expiry date; and (ii) the date that is ninety (90) days from the Termination Date, and all Options which have not vested as of the Termination Date shall become null and void. These provisions are subject to any alternative arrangements that may be contained in a separate Option agreement or employment agreement between the Corporation and a particular Grantee.

If a Change of Control (as defined in the 2020 Option Plan) occurs prior to the date on which the Corporation pays cash or issues Common Shares to the Grantee in respect of an outstanding Option and the Grantee is terminated without cause in connection with such Change of Control or within six (6) months following such Change of Control, all Options shall vest and if such termination occurs prior to, or at the effective time of such Change of Control, the Grantee shall be entitled to exercise all Options held by the Grantee until immediately prior to the Change of Control and if such termination occurs following the Change of Control, the Grantee shall be entitled to exercise all such Options until the date that is ninety (90) days after the Termination Date.

Alternatively, if within six (6) months following a Change of Control, the Grantee voluntarily resigns for an event or events that constitute Good Reason, all Options held by the Grantee shall vest and the Grantee shall be entitled to exercise all Options held by such Grantee until the date that is 90 days after the Grantee's Termination Date. "Good Reason" is defined in the 2020 Option Plan to mean any materially adverse change by the Corporation without the agreement of a Grantee, in any of the Grantee's duties, powers, rights, salary, title or lines of reporting,



such that immediately after such change or series of changes, the responsibilities and status of such Grantee, taken as a whole, are fundamentally diminished compared to those assigned to the Grantee immediately prior to such change or series of changes, or any other reason that would be considered to amount to constructive dismissal by a court of competent jurisdiction in Alberta.

If the Corporation completes a transaction or series of transactions whereby substantially all of the Common Shares or substantially all of the Corporation's property or assets become the property or assets of another body corporate, trust, partnership or other person (the "**Continuing Entity**"), the Corporation and the Continuing Entity shall take all necessary steps prior to or contemporaneously with the consummation of such transaction(s) to ensure all Options remain outstanding following the completion of the transactions and the Continuing Entity will assume all covenants and obligations of the Corporation under the 2020 Option Plan, the outstanding Options and the Option agreements in a manner that preserves and does not impair the rights of the Grantees thereunder in any material respect, and the Continuing Entity may exercise every right and power of the Corporation under the 2020 Option Plan, and Headwater shall be relieved of its obligations thereunder.

As at March 31, 2022, the Corporation had Options to acquire 963,334 Common Shares (representing approximately less than 1% of the outstanding Common Shares) outstanding under the 2008 Option Plan and Options to acquire 8,403,335 Common Shares (representing approximately 4% of the outstanding Common Shares) outstanding under the 2020 Option Plan, for a total of Options to acquire 9,366,669 Common Shares (representing approximately 4% of the outstanding Common Shares) under the 2008 Option Plan and the 2020 Option Plan.



Schedule B

2008 Option Plan Summary

*Capitalized terms not otherwise defined shall have the meaning ascribed to such terms in the management information circular of Headwater Exploration Inc. (the "**Corporation**") dated April 1, 2022 to which this Schedule A is attached.*

The 2008 Option Plan was approved by Shareholders at the annual and special meeting of Shareholders held on May 15, 2008. Under the 2008 Option Plan, the Board was able, from time to time, to issue Options to directors, officers and employees of Headwater (and its affiliates) and persons who provide services to Headwater (and its affiliates). On May 12, 2014, the Board, upon the recommendation of the Corporate Governance Committee, determined that non-employee directors of the Corporation would no longer be eligible to receive any Options as a component of their compensation. On March 25, 2020, the Board approved grants of Options to non-employee directors of the Corporation under the 2008 Option Plan and on March 27, 2020, each non-employee director was granted 200,000 Options under the 2008 Option plan.

No further Options were granted under the 2008 Option Plan following the approval of the 2020 Option Plan at the 2021 AGM. Once all Options under the 2008 Option Plan have been exercised and/or have expired, the 2008 Option Plan will no longer be an incentive plan of the Corporation.

Pursuant to the 2008 Option Plan, Options were only to be granted to persons or corporations ("**Eligible Optionees**") who: (a) were (i) employees (full-time or part-time), officers or directors of Headwater (or one or more of its affiliates), or (ii) consultants who were engaged to provide services to Headwater (or one or more of its affiliates) on an ongoing basis under a written contract with Headwater (or one or more of its affiliates), who devoted or were expected to devote a significant amount of time and attention to the business and affairs of Headwater (or one or more of its affiliates) who were engaged to provide services for an initial, renewal or extended period of twelve (12) months or more, and (b) the Board selected for participation in the 2008 Option Plan. Options could also be granted to corporations that were controlled by an Eligible Optionee.

The maximum number of Common Shares reserved for issuance pursuant to Options granted under the 2008 Option Plan was set at 8,262,513 (the "**Option Threshold**"), which represented 10% of the issued and outstanding Common Shares (calculated on a non-diluted basis) as at April 10, 2008. Effective March 27, 2020, an additional 1,200,000 Options were granted to the non-executive directors of the Corporation under the 2008 Option Plan, which vest as to one third on each of the first, second and third anniversaries of the grant date and expire on the date that is four years from the date of grant.

The 2008 Option Plan provided that all grants of Options thereunder were subject to the following terms and conditions: (a) an Eligible Optionee may hold more than one Option at any time; however, no one Eligible Optionee will be granted Options that, when combined with any other security-based compensation arrangement, would entitle the Eligible Optionee to purchase more than 5% of the total number of issued and outstanding Common Shares; (b) the number of Common Shares reserved at any time for issuance to insiders pursuant to Options, when combined with the number of Common Shares issued to insiders of the Corporation pursuant to any other security-based compensation arrangement, will not exceed 10% of the total number of issued and outstanding Common Shares; (c) there may not be issued to insiders of the Corporation, within a one-year period, a number of Common Shares that, when combined with the number of Common Shares issued to insiders pursuant to any



other security-based compensation arrangement, would exceed 10% of the total number of issued and outstanding Common Shares; and (d) there may not be issued to any one insider of the Corporation and such insider's associates, within a one-year period, a number of Common Shares that, when combined with the number of Common Shares issuable to such insider and such insider's associates pursuant to any other number of Common Shares issuable to such insider and such insider's associates pursuant to any other security-based compensation arrangement, would exceed 5% of the total number of issued and outstanding Common Shares. The foregoing limits may be calculated on a diluted basis with the consent of the TSX.

The exercise price of each Option was determined in the discretion of the Board at the time the Option was granted, provided that the exercise price would not be lower than the "Market Price". For purposes of the 2008 Option Plan, "Market Price" means the closing price of the Common Shares on the TSX on the last trading day prior to the date the Option was granted for which there was a closing price on the TSX; provided that in the event the Common Shares are not listed on any exchange, any Market Price would be such price as determined by the Board.

All Options granted under the 2008 Option Plan were subject to a fixed term and were exercisable from time to time as determined in the discretion of the Board at the time of the grant, provided that no Option had a term exceeding five years (or such longer period as is permitted by the TSX).

Unless otherwise determined by the Board, if any Option is scheduled to expire (a) at a time when the holder of the Option is subject to restrictions on trading securities of Headwater under a trading "blackout" established by Headwater, or (b) within five business days after the termination of such blackout period, the Option will, notwithstanding the scheduled expiry date of such Option, expire as of the date that is 10 business days following the end of such applicable blackout period and shall be exercisable by the holder at any time up to the applicable time on such revised expiry date.

In the event that an Eligible Optionee ceased to hold the position of director, officer or employee of Headwater (or any of its affiliates) or a service provider to Headwater (or any of its affiliates) for any reason whatsoever (other than as a result of death, incapacity, termination with cause or permanent disability), the unvested portion of the Option shall expire and terminate immediately and the vested portion of the Option will terminate on the earlier of its expiry date and ninety (90) days after such cessation. In the event of the death, incapacity or permanent disability of an Eligible Optionee, the vested portion of the Option will terminate on the earlier of its expiry date and twelve (12) months after the date of death, incapacity or permanent disability of the Eligible Optionee.

At or after the time that any fully vested Option could be exercised by an Eligible Optionee, the Eligible Optionee may elect to surrender, at his or her option, in whole or in part, his or her rights under any Option by written notice to the Corporation stating that such Eligible Optionee wishes to surrender his or her Option in exchange for a payment equal to the positive difference between the Exchange Date Price (as defined below) and the exercise price of the Option in respect of each Common Share that would otherwise be issued upon exercise of such Option (or portion of such Option) surrendered. The Board has the sole discretion to consent to or disapprove of the election of the Eligible Optionee to receive cash. If the Board disapproves of the election, the Eligible Optionee may (i) exercise the Option under the 2008 Option Plan or (ii) retract the request to surrender such Option and retain the Option. The Corporation will withhold from the amount otherwise payable such amounts as may be required to be withheld under applicable law. **"Exchange Date Price"** for the purposes of the 2008 Option Plan means a price per Common Share equal to the closing price of the Common Shares on the stock exchange on the



last trading day prior to the date the Option was surrendered by the Eligible Optionee or if the Common Shares are not then listed on any stock exchange, the Exchange Date Price shall be determined by the Board.

Options granted under the 2008 Option Plan are not assignable or transferable by an Eligible Optionee, except for: (i) a limited right of assignment to allow the exercise of Options by an Eligible Optionee's heirs, executor or legal representative (as the case may be) in the event of death, incapacity or permanent disability; and (ii) with the approval of the Board and the TSX, a right to transfer such Options to a corporation controlled by the Eligible Optionee and wholly-owned by the Eligible Optionee or his spouse or children (or any of them).

The Board has the right to amend the 2008 Option Plan and to suspend, terminate or discontinue the 2008 Option Plan. Any amendments to the 2008 Option Plan are subject to the approval of applicable regulatory authorities, including the TSX. Any amendment to the 2008 Option Plan shall take effect only with respect to Options granted after the effective date of such amendment, provided that an amendment may apply to any outstanding Options with the mutual consent of Headwater and the Eligible Optionees to whom such Options were granted.

Under the 2008 Option Plan, the Board has the power and authority to approve amendments to the 2008 Option Plan (or to Options granted thereunder), without further approval of the Shareholders, including, without limitation, to the extent that such amendment: (a) is for the purpose of curing any ambiguity, error or omission in the 2008 Option Plan or to correct or supplement any provision of the 2008 Option Plan that is inconsistent with any other provision of the 2008 Option Plan; (b) is necessary to comply with applicable law or the requirements of any stock exchange on which the Common Shares are listed; (c) is an amendment respecting administration or eligibility for participation under the 2008 Option Plan; (d) changes the terms and conditions on which Options may be or have been granted pursuant to the 2008 Option Plan, including changes to the vesting provisions and the term of any Option granted thereunder; (e) changes the termination provisions of the 2008 Option Plan or Options granted thereunder in a manner that does not entail an extension of such Option beyond its original expiry date (except in respect of a revised expiry date established in light of the existence of any trading "blackout", as described above); or (f) is an amendment to the 2008 Option Plan of a "housekeeping" nature; provided that in the case of any amendment referred to in paragraph (a) or (b) above, the amendment does not: (i) change the number of Common Shares issuable under the 2008 Option Plan granted under the 2008 Option Plan; (ii) add any form of financial assistance by Headwater for the exercise of any Option; (iii) result in material or unreasonable dilution in the number of outstanding Common Shares or any material benefit to an Eligible Optionee; or (iv) change the class of eligible participants under the 2008 Option Plan if such change would have the potential of broadening or increasing participation by insiders of Headwater.

Subject to any required regulatory approvals, the Board may amend the term of any Option (which in no event shall exceed five years from the date of grant (or such longer period as is permitted by the TSX)) and the termination provisions of Options granted pursuant to the 2008 Option Plan without Shareholder approval, provided that if the Board proposes to increase the Option Threshold, reduce the exercise price for Options granted to insiders of the Corporation or extend the term of any Option granted to an insider of Headwater pursuant to the 2008 Option Plan (unless the extension is in respect of a revised expiry date established in light of the existence of any trading "blackout", as described above), such amendments will require Shareholder approval.



Schedule C

Mandate of the Board of Directors

1. **General** - The Board of Directors (the "**Board**") of Headwater Exploration Inc. (the "**Corporation**" or "**Headwater**") is responsible for the stewardship of the Corporation. In discharging its responsibility, the Board will exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances and will act honestly and in good faith with a view to the best interests of Headwater. In general terms, the Board will:
 - (a) in consultation with the chief executive officer of the Corporation (the "CEO"), define the principal objectives of Headwater;
 - (b) supervise the management of the business and affairs of Headwater with the goal of achieving Headwater's principal objectives as developed in association with the CEO;
 - (c) discharge the duties imposed on the Board by applicable laws; and
 - (d) for the purpose of carrying out the foregoing responsibilities, take all such actions as the Board deems necessary or appropriate.
2. **Specific** - Without limiting the foregoing, the Board as determined to be appropriate, will endeavour to perform the following duties:

Executive Team Responsibility

- (a) appoint the CEO and senior officers, approve their compensation, and monitor the CEO's performance against a set of mutually agreed corporate objectives directed at maximizing shareholder value and stakeholder outcomes;
- (b) in conjunction with the CEO, develop a clear mandate for the CEO, which includes a delineation of management's responsibilities;
- (c) establish processes as required that adequately provides for succession planning, including the appointing, training and monitoring of senior management;
- (d) establish limits of authority delegated to management;

Operational Effectiveness and Financial Reporting

- (e) annual review and adoption of a strategic planning process and approval of Headwater's strategic plan, which takes into account, among other things, the opportunities and risks of the business;
- (f) establish or cause to be established systems to identify the principal risks to Headwater and that the best practical procedures are in place to monitor and mitigate the risks;
- (g) consider or cause to be considered the implications of risk associated with Headwater's compensation policies and practices;

- (h) endeavour to establish or cause to be established processes to address applicable regulatory, corporate, securities and other compliance matters;
- (i) establish or cause to be established an adequate system of internal control and management information systems;
- (j) establish or cause to be established due diligence processes and appropriate controls with respect to applicable certification requirements regarding Headwater's financial and other disclosure;
- (k) review and approve Headwater's financial statements and oversee Headwater's compliance with applicable audit, accounting and reporting requirements;
- (l) approve annual operating and capital budgets;
- (m) review and consider for approval all amendments or departures proposed by management from established strategy, capital and operating budgets;
- (n) review operating and financial performance results relative to established strategy, budgets and objectives;

Cyber Security

- (o) consider or cause to consider the technology and system risks associated with the Corporation's operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of the Corporation's information technology systems by third parties or internal personnel and the associated potential data recovery mechanisms;

Environmental, Health, Safety, Climate and Sustainability

- (p) establish or cause to be established fundamental policies pertaining to environment, health and safety to minimize environmental, occupational health and safety and other risks to asset value and mitigate damage to or deterioration of asset value;
- (q) establish or cause to be established systems for regular review of the Corporation's performance relating to environment, health and safety matters and steps taken to remedy or mitigate environment, health and safety risks;
- (r) oversee the Corporation's policies, procedures, practises and strategies relating to social and climate related issues and other sustainability matters to ensure due consideration of risks, opportunities and potential performance improvement relating thereto;

Integrity/Corporate Conduct

- (s) establish a communications policy or policies to ensure that a system for corporate communications to all salient stakeholders exists, including processes for consistent, transparent, regular and timely public disclosure, and to facilitate feedback from stakeholders;
- (t) approve a Business Conduct & Ethics Practice for directors, officers and employees and monitor compliance with the Practice and approve any waivers of the Practice for officers and directors;

- (u) to the extent feasible, satisfy itself as to the integrity of the CEO and other executive officers of the Corporation and that the CEO and other executive officers create a culture of integrity throughout Headwater;

Board Process/Effectiveness

- (v) endeavour to ensure that Board materials are distributed to directors in advance of regularly scheduled meetings to allow for sufficient review of the materials prior to the meeting;
- (w) engage in the process of determining Board member qualifications with the Corporate Governance and Sustainability Committee including ensuring that a majority of directors, including the Chair of the Board, qualify as independent directors pursuant to National Instrument 58-101 Disclosure of Corporate Governance Practices (as implemented by the Canadian Securities Administrators and as amended from time to time) and that the appropriate number of independent directors are on each committee of the Board as required under applicable securities rules and requirements;
- (x) approve the nomination of directors;
- (y) provide or cause to be provided a comprehensive orientation to each new director;
- (z) establish an appropriate system of corporate governance including practices to ensure the Board functions independently of management;
- (aa) establish appropriate practices for the regular evaluation of the effectiveness of the Board, its committees and its members;
- (bb) establish committees and approve their respective mandates and the limits of authority delegated to each committee;
- (cc) review and re assess the adequacy of the mandate of the committees of the Board on a regular basis, but not less frequently than on an annual basis; and
- (dd) review the adequacy and form of the directors' compensation to ensure it realistically reflects the responsibilities and risks involved in being a director.

3. Administrative Matters: The following general provisions shall have application to the Board:

- (a) the Board may delegate its duties to and receive reports and recommendations from any committee of the Board; and
- (b) subject to terms of any corporate disclosure policy and other policies and procedures of Headwater, the Chair of the Board (if any and independent) or the Lead Independent Director (if any), when appropriate, will act as a liaison between stakeholders of Headwater and the Board (including independent members of the Board).
- (c) a majority of Board members should be "independent" Directors as such term is defined in National Instrument 58-101 – Disclosure of Corporate Governance Practices;

- (d) each director shall disclose any conflict of interest the director may have in relation to any material contract or material transaction or a proposed material contract or proposed material transaction involving the Corporation to the Board as soon as practicably possible (and in no event no later than the commencement of the next Board meeting) after becoming aware of such conflict of interest in accordance with the provisions of the Business Corporations Act (Alberta);
- (e) on at least an annual basis, the Board shall conduct an analysis and make a positive affirmation as to the "independence" of a majority of its Board members;
- (f) members should have or obtain sufficient knowledge of Headwater and the oil and gas business to assist in providing advice and counsel on relevant issues.
- (g) the Board shall meet at least four times per year and/or as deemed appropriate by the Board Chair;
- (h) minutes of each meeting shall be prepared by the Corporate Secretary to the Board;
- (i) members should review materials prior to meetings to ensure that they have sufficient knowledge in providing advice and counsel on relevant issues;
- (j) the CEO or his designate(s) may be present at all meetings of the Board; and
- (k) the Chief Operating Officer, Chief Financial Officer, Vice-Presidents and such other staff as appropriate to provide information to the Board shall attend meetings at the invitation of the Board.
- (l) following each meeting, the Corporate Secretary will promptly report to the Board by way of providing draft copies of the minutes of the meetings;
- (m) supporting schedules and information reviewed by the Board at any meeting shall be available for examination by any Director upon request to the CEO;
- (n) the Board shall have the authority to review any corporate report or material and to investigate activity of the Corporation and to request any employees to cooperate as requested by the Board; and
- (o) the Board may retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling its responsibilities at the expense of Headwater.

Nothing contained in this mandate is intended to expand applicable standards of liability under statutory, regulatory, common law or any other legal requirements for the Board or members of the Board. The Board may adopt additional policies and procedures as it deems necessary from time to time to fulfill its responsibilities.

TSX: HWX



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