



## **Headwater Exploration Inc. Report on Modern Slavery 2023**

### **Introduction:**

Headwater Exploration Inc. (the "Company", "Headwater", "we" or "our") is a Canadian resource company engaged in the exploration for and development and production of petroleum and natural gas in Canada. Headwater is a public company existing under the Alberta Business Corporations Act with common shares listed on the Toronto Stock Exchange under the symbol "HWX". Headwater's principal place of business is located at 1400, 215 – 9th Avenue S.W., Calgary, Alberta, T2P 1K3 and our registered office is located at 2400, 525 - 8th Avenue S.W., Calgary, Alberta, T2P 1G1.

This report (the "Report") represents Headwater's response to Canada's *Fighting Against Forced Labour and Child Labour in Supply Chains Act* (the "Act") for the financial year ending December 31, 2023.

### **Steps to prevent and reduce the risks of forced labour and child labour in 2023:**

During the year ended December 31, 2023, Headwater took the following steps to prevent and reduce the risk of forced labour and child labour in our business and supply chains:

- Established a Vendor Code of Conduct (the "Vendor Code") specifically addressing child labour, human trafficking and slavery;
- Screened new suppliers through various due diligence procedures; and
- Engaged external counsel to help understand the requirements of the Act.

### **Structure, activities and supply chains:**

#### ***Structure and activities***

Headwater is a Canadian-based oil and gas producer headquartered in Calgary, Alberta. In 2023, Headwater achieved corporate annual average production of 18,038 BOE/d, consisting of 16,466 Bbls/d of heavy crude oil, 8.8 MMcf/d of natural gas and 98 Bbls/d of NGLs. Headwater has two distinct material operations including:

- Clearwater heavy oil operations in Alberta, Canada. Headwater spent approximately \$222 million on capital expenditures in 2023 and achieved annual average production of 17,578 BOE/d, consisting of 16,466 Bbls/d of heavy crude oil, 6.1 MMcf/d of natural gas and 95 Bbls/d of NGLs. The Company's Clearwater assets/operations are located in northern Alberta near Slave Lake.
- McCully natural gas operations in New Brunswick, Canada. Headwater's natural gas production averaged 2.7 MMcf/d and our NGLs production averaged 3 Bbls/d in 2023. No development operations occurred in 2023 as the lifting of the fracking moratorium in the Sussex region remained uncertain. The McCully Field is located approximately 12 km northeast of Sussex, New Brunswick.

In 2023, Headwater began accumulating a significant amount of land outside of the Clearwater acreage in Western Canada. At December 31, 2023, Headwater had accumulated a total of 155 net sections of land outside of the Clearwater acreage across numerous oil fairways in Western Canada including in Saskatchewan. There were no operations on these newly acquired lands outside of the Clearwater acreage in 2023.

Headwater operates solely within Canada. Below is map outlining the locations of Headwater's assets and operations in Canada.



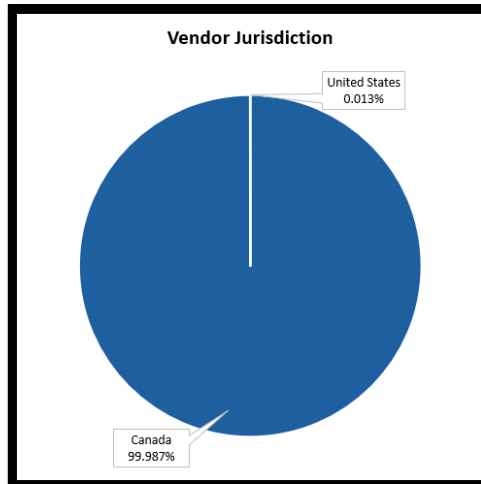
All of Headwater's employees and contractors are located in Canada. As of December 31, 2023, the Company had 31 employees and 7 consultants in the Calgary head office, 1 employee in Halifax, 3 employees in the field in New Brunswick, 22 consultants in the field in Alberta and 1 consultant in the field in New Brunswick.

Headwater has one inactive wholly owned subsidiary with no material assets.

For additional information regarding the corporate structure, operations and industry conditions of Headwater, see the Company's Annual Information Form for the year ended December 31, 2023, which can be accessed at SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

### ***Supply chains***

Headwater engages a variety of suppliers and service providers primarily within Canada. Over 99% of our direct capital and operating spend in 2023 was related to suppliers domiciled in Canada, with the remaining <1% domiciled in the United States. We strive to build relationships with suppliers who align with our values as outlined in our Vendor Code. Our 2023 direct supply chain spend by jurisdiction is presented below:



### **Policies and due diligence processes:**

#### ***Policies***

Headwater requires the highest standards of professional and ethical conduct from our partners, vendors and suppliers. Headwater vendors are required to read and comply with our Vendor Code in all respects.

Our Vendor Code specifically addresses human rights, stating that: *"vendors must comply with all applicable employment and labour laws and regulations. This includes but is not limited to requirements regarding minimum wage, working hours, overtime, days of rest, compensation and freedom of association."*

The Vendor Code also specifically addresses child labour, human trafficking and slavery, stating that: *"vendors must employ personnel who meet the applicable minimum legal age requirement to work in the countries or jurisdictions in which they operate. Vendors must not use child, forced or enslaved labour under any circumstances, whether in the form of compulsory, trafficked, involuntary, slave, modern slavery, mental and/or physical coercion or other forms."*

For internal stakeholders, Headwater has established a Code of Business Conduct and Ethics (the "Code") where the Company outlines that we require the highest standards of professional and ethical conduct from our directors, officers and employees. The Code specifically prohibits forced and child labour, stating that: *"we have a strong commitment to conducting our business in a manner to ensure that we do not participate in or otherwise allow any forced labour or child labour to occur in any way related to our business and operations. The Corporation follows and expects that any third-parties or business partners follow all child labour, youth employment, or equivalent laws and regulations within the regions which they operate. Further information relating to this matter can be found in the Corporation's Human Rights Policy."* All employees of the Company are required to sign off on the Code annually.

In 2024, Headwater established a Human Rights Policy which outlines expectations surrounding ethical business conduct, forced labour and child labour.

Headwater has a Corporate Governance and Compensation Committee which has reviewed the Code and the Human Rights Policy. The Company's Board of Directors has approved these policies.

The corporate governance policies noted above are located on the Company's website at the following link: <https://headwaterexp.com/corporate-governance/>.

### ***Due diligence processes***

Headwater has adopted a third-party verification system called Complyworks; this online tracking system assists in validating vendors during onboarding, including verifying vendors' insurance and health and safety programs, conducting online vendor orientations, etc. Each vendor that completes work for Headwater must be verified and meet or exceed Headwater's requirements. Beyond onboarding, vendors use Complyworks to access correspondence from Headwater, as well as to read and acknowledge certain required communications, including information and due diligence related to the Act. In the event certain communications are not acknowledged by vendors, follow-up reminders are sent.

### **Parts of business and supply chains that carry a risk of forced labour or child labour and the steps taken to assess and manage that risk:**

Headwater believes our operational modern slavery risk is low as 100% of the Company's employees, consultants and field staff are located in Canada. Additionally, 100% of our total direct supplier spend was procured from vendors within Canada and the United States which are inherently lower-risk jurisdictions.

We appreciate that some of our suppliers procure goods originating from outside Canada and the United States and further work is required to assess this risk.

### **Measures taken to remediate any forced labour or child labour or to remediate the loss of income to the most vulnerable families that has resulted from any remediation measures:**

During the year ended December 31, 2023 (and to the date of this Report), Headwater is not aware of any instances of forced labour or child labour in our operations or supply chains and as such, we have not engaged in any remediation measures.

### **Training provided to employees:**

As part of the onboarding process, all new employees are required to acknowledge that they have received, read and considered the Code (which, as noted, specifically addresses forced and child labour). All employees are also required to read and acknowledge the Code annually as part of Headwater's annual compliance procedures.

In addition, during the year ended December 31, 2023, Headwater distributed correspondence to all employees of the Company educating them on requirements of the Act and Headwater's commitment to high ethical standards. The Vendor Code was also distributed to employees to ensure employees are familiar with the expectations regarding Headwater's suppliers, partners and service providers.

**How the entity assesses our effectiveness in ensuring that forced labour and child labour are not being used in our business and supply chains:**

Headwater believes our operational modern slavery risk is low. 100% of the Company's employees, consultants and field staff are located in Canada and have been hired through proper recruitment, remuneration and compliance procedures, while >99% of Headwater's direct capital and operating spend in 2023 was procured from suppliers domiciled in Canada. Canada ranks in the top quartile of countries with respect to the Human Freedom Index and has long-standing labour laws in effect.

Headwater has established a Vendor Code and undertakes due diligence procedures for new suppliers, partners and service providers.

Through Board oversight including the Corporate Governance and Compensation Committee, the Company has established policies to address the fight against forced and child labour including the Code as well as Headwater's newly established Human Rights Policy.

**Approval and attestation:**

This Report was approved pursuant to subparagraph 11(4)(a) of the Act by the Board of Directors of Headwater.

In accordance with the requirements of the Act, I attest that I have reviewed the information contained in the Report. Based on my knowledge, and having exercised all reasonable due diligence, I attest that the information contained in the Report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year listed above.

|           |                                       |
|-----------|---------------------------------------|
| Signed    | "Jason Jaskela"                       |
| Full name | Jason Jaskela                         |
| Title     | President and Chief Executive Officer |
| Date      | May 9, 2024                           |

I have the authority to bind Headwater.