

**HEADWATER EXPLORATION INC.**  
**FORM 51-102F3**  
**MATERIAL CHANGE REPORT**

**1. NAME AND ADDRESS OF COMPANY**

Headwater Exploration Inc. ("**Headwater**" or the "**Company**")  
1700, 500-4th Avenue S.W.  
Calgary, Alberta T2P 2V6

**2. DATE OF MATERIAL CHANGE**

November 8, 2020.

**3. NEWS RELEASE**

A news release setting out information concerning the material changes described in this material change report was issued by the Company on November 9, 2020 and disseminated through the facilities of Cision, and would have been received by the securities commissions where the Company is a reporting issuer in the normal course of dissemination.

**4. SUMMARY OF MATERIAL CHANGE**

On November 8, 2020, the Company entered into a purchase and sale agreement (the "**Acquisition Agreement**") with Cenovus Energy Inc. ("**Cenovus**") and an affiliate of Cenovus, Cenovus Marten Hills Partnership (the "**Vendor**"), to acquire (the "**Acquisition**") Cenovus' assets located in the Marten Hills area of Alberta (the "**Acquired Assets**") from the Vendor for a purchase price of approximately \$100.0 million, subject to customary closing adjustments (the "**Purchase Price**"). Pursuant to the terms of the Acquisition Agreement, the Purchase Price will be satisfied through: (i) the issuance to the Vendor of 50.0 million common shares (the "**Common Shares**") of the Company and 15.0 million common share purchase warrants ("**Warrants**") of the Company; and (ii) a cash payment of \$35.0 million (the "**Cash Consideration**") to the Vendor.

**5. FULL DESCRIPTION OF MATERIAL CHANGE**

**5.1 FULL DESCRIPTION OF MATERIAL CHANGE**

***The Acquisition***

***General***

On November 8, 2020, Headwater entered into the Acquisition Agreement with Cenovus and the Vendor. Pursuant to the Acquisition Agreement, the Company agreed to purchase the Acquired Assets from the Vendor for the Purchase Price. The Acquisition will have an effective date of October 1, 2020 and is expected to be completed (the "**Closing Date**") on or before December 22, 2020.

The Acquired Assets are comprised of approximately 189,000 acres (including approximately 172,800 acres or 270 net sections of Clearwater rights) located in the Marten Hills area of Alberta with net proved plus probable reserves of 8.3 MMbbls as estimated by GLJ Ltd. ("**GLJ**") in their independent report dated effective December 31, 2020 with a preparation date of November 5, 2020, evaluating the oil reserves attributable to the Acquired Assets which is based on the average forecast prices of three independent reserves evaluators (GLJ, McDaniel & Associates Consultants Ltd. and Sproule Associates Ltd.) as of October 1, 2020.

The Acquisition is subject to receipt of applicable regulatory approvals and the satisfaction of certain other closing conditions customary in transactions of this nature, including compliance with the *Competition Act* (Canada), the acceptance of the Toronto Stock Exchange (the "**TSX**") and the approval of the Issuance Resolution (as defined below).

#### *Purchase Price*

The Purchase Price will be satisfied by the Company through the payment of the Cash Consideration and the issuance to the Vendor of 50.0 million Common Shares and 15.0 million Warrants (the "**Equity Consideration**"). The Company paid a \$10.0 million deposit to the Vendor concurrently with the execution of the Acquisition Agreement (the "**Deposit**"), which Deposit and accrued interest thereon will be deducted from the Cash Consideration due on the Closing Date. The Warrants will be issued to the Vendor on the Closing Date and each Warrant will entitle the Vendor to purchase one (1) Common Share (each an "**Underlying Share**") at an exercise price of \$2.00 per Underlying Share at any time within three (3) years following the Closing Date.

The Equity Consideration represents 34.5% of Headwater's issued and outstanding Common Shares prior to the completion of the Acquisition (assuming no Warrants are exercised) or 44.8% of Headwater's issued and outstanding Common Shares prior to the completion of the Acquisition (assuming all Warrants are exercised, other than on a "cashless" basis). Following the Acquisition, it is expected that Cenovus (through its beneficial ownership of the Vendor) will own or control, directly or indirectly, 50.0 million Common Shares or 25.6% of the then-outstanding Common Shares (assuming no Warrants are exercised) or 65.0 million Common Shares or 30.9% of the then-outstanding Common Shares (assuming all Warrants are exercised, other than on a "cashless" basis).

#### *Investor Agreement*

In connection with the completion of the Acquisition, the Vendor and Headwater have agreed to enter into an investor agreement (the "**Investor Agreement**") on the Closing Date. Pursuant to the Investor Agreement, the Company will grant the Vendor the right to appoint two (2) nominees to the board of directors of the Company (the "**Board**") if it, together with its affiliates, owns twenty percent (20%) or more of the outstanding Common Shares, or one (1) nominee, if it, together with its affiliates, owns ten percent (10%) or more but less than twenty percent (20%) of the outstanding Common Shares. It is expected that immediately following the completion of the Acquisition, the Board will consist of nine (9) directors, comprised of seven (7) members of the current Board (being Neil Roszell, Jason Jaskela, Kevin Olson, Chandra Henry, Stephen Larke, Dave Pearce and Phillip Knoll) and two (2) members nominated by the Vendor (expected to be Kam Sandhar and Sarah Walters, each of whom are officers of Cenovus).

The Investor Agreement will also provide the Vendor with a right to participate (the "**Participation Rights**") in future offerings of Common Shares or securities of the Company which are convertible, exchangeable or exercisable into Common Shares (the "**Convertible Securities**"), subject to the Vendor owning or controlling, directly or indirectly, at least twenty percent (20%) of the issued and outstanding Common Shares at the time of such offering. The Participation Rights entitle the Vendor to subscribe for the percentage of Common Shares or Convertible Securities being offered in the offering, which is equal to or less than the Vendor's then ownership of the issued and outstanding Common Shares (expressed as a percentage).

In accordance with the terms of the Investor Agreement, the Vendor will also agree to vote or cause to be voted all of the Common Shares held by it and its affiliates for or otherwise abstain from voting in respect of any management proposal set forth in the management forms of proxy prepared in respect of any meeting of shareholders of Headwater (the "**Shareholders**") (or securityholders, as applicable).

### *Development Agreement*

Headwater has also agreed to enter into a development agreement with the Vendor (the "**Development Agreement**") on the Closing Date, under which the Company will commit to spend \$100.0 million in capital expenditures ("**Expenditures**") on the Acquired Assets by December 31, 2022 unless otherwise extended by the Vendor (the "**Development Term**"). The Company has agreed that if it fails to satisfy the Expenditures within the Development Term, the Company will pay to the Vendor the balance of any remaining Expenditures and Headwater will have no further capital expenditure obligations under the Development Agreement.

### *Royalty Agreement*

The Vendor and Headwater have also agreed to enter into a royalty agreement (the "**Royalty Agreement**") on the Closing Date, pursuant to which, Cenovus (through its beneficial ownership of the Vendor) will retain a gross overriding royalty on the lands comprising the Acquired Assets.

The foregoing description of the Acquisition is a summary only and is qualified in its entirety by reference to the full text of the Acquisition Agreement. A copy of the Acquisition Agreement has been filed on Headwater's SEDAR profile and is available for viewing at [www.sedar.com](http://www.sedar.com).

### **Headwater Shareholder Approval**

The number of Common Shares issuable as part of the Equity Consideration together with the Underlying Shares, will together represent greater than 25% of the Company's issued and outstanding Common Shares (on a non-diluted basis). In accordance with the applicable rules in the TSX Company Manual, the Company intends to hold a special meeting of Shareholders on December 21, 2020 (the "**Meeting**") at which the Shareholders will be asked to approve, among other things, the issuance or reservation for issuance of up to an aggregate of 65,000,000 Common Shares, comprised of the Common Shares issued as part of the Purchase Price and the Underlying Shares which may be issued upon exercise of the Warrants (the "**Issuance Resolution**").

The Board recommends that the Shareholders vote in favour of the Issuance Resolution.

As a means of expediting the approval of the Issuance Resolution, the Company will also seek the written approval of the Issuance Resolution by Shareholders representing at least 50% of the outstanding Common Shares (the "**Written Consent**"). In the event that the Company is able to obtain the Written Consent, the Company intends to cancel the Meeting.

## **5.2 DISCLOSURE FOR RESTRUCTURING TRANSACTIONS**

Not applicable.

## **6. RELIANCE ON SUBSECTION 7.1(2) OF NATIONAL INSTRUMENT 51-102**

Not applicable.

## **7. OMITTED INFORMATION**

Not applicable.

## **8. EXECUTIVE OFFICER**

For further information, contact Ali Horvath, Vice-President Finance and Chief Financial Officer of Headwater, whose business telephone number is (587) 391-3682.

## 9. DATE OF REPORT

November 18, 2020.

### ADVISORY ON FORWARD LOOKING STATEMENTS

*This material change report of the Company contains forward-looking statements and forward-looking information (collectively, "forward-looking statements"). More particularly, this material change report contains forward-looking statements concerning: the Closing Date and the nominees of Cenovus to be appointed to the board of Headwater; the performance characteristics of the Acquired Assets including, the reserves attributable thereto; the participation of Cenovus in future equity financings of the Company; Cenovus' ownership in Headwater following the completion of the Acquisition; the amount of capital that will be spent by the Company in the next two calendar years on the Acquired Assets; the ability of the Company to obtain regulatory approvals in respect of the Acquisition including, shareholder, TSX and Competition Act (Canada) approval; the date of the Meeting and the matters to be considered at the Meeting; the ability to obtain the Written Consent and whether the Meeting will be cancelled if obtained. In addition, the use of any of the words "guidance", "initial", "scheduled", "can", "will", "prior to", "estimate", "anticipate", "believe", "should", "forecast", "future", "continue", "may", "expect", and similar expressions are intended to identify forward-looking statements. Statements relating to reserves are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future.*

*The forward-looking statements contained in this material change report are based on certain key expectations and assumptions made by management of Headwater ("**Headwater Management**") including but not limited to the receipt of all regulatory and other approvals required for the Acquisition; general economic conditions; availability of required equipment and services; assumptions of future commodity prices (including premiums); the outcome of the U.S. election and the impacts on the economy generally and, in particular, the oil and gas industry; Canada-U.S. exchange rate; and other assumptions identified herein, including certain expectations and assumptions made by Headwater Management in respect thereof. Although Headwater Management believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because there is no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (including but not limited to operational risks in development, exploration and production; failure to realize the anticipated benefits of the Acquisition; the uncertain outcome of the U.S. election; delays or changes in plans with respect to exploration or development projects, capital expenditures, acquisitions or other corporate transactions; the uncertainty of reserve estimates (including the estimates in respect of the Acquired Assets); the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks); commodity price and exchange rate fluctuations; the short and long-term impacts of the Covid-19 pandemic; changes in legislation affecting the oil and gas industry; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures.*

*In addition, Headwater cautions that current global economic uncertainty with respect to the spread of COVID-19 may have a significant negative effect on Headwater. While the precise impact of COVID-19 on Headwater remains unknown, the rapid spread of the virus may have a material adverse effect on global economic activity, and can result in volatility and disruption to global supply chains, operations, mobility of people and financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to Headwater.*

*Unless explicitly noted otherwise, forward-looking statements contained in this material change report are made as of the date hereof and Headwater Management does not undertake any obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.*

*All information in respect of past and current performance characteristics of the Acquired Assets has been provided by Cenovus to Headwater Management, or GLJ, its independent reserves evaluator. All forward looking statements in respect of the Acquired Assets are based on Headwater Management's reasonable expectations and assumes the completion of the Acquisition.*