

***A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada excluding Québec but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.***

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws. Accordingly, these securities may not be offered or sold within the United States unless registered under the U.S. Securities Act and applicable state securities laws or except pursuant to exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws and in accordance with the Underwriting Agreement (as defined herein). This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States. See "Plan of Distribution".*

***Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice President, Finance and Chief Financial Officer of Headwater Exploration Inc., at Suite 1200, 500 4th Avenue SW, Calgary, Alberta T2P 2V6 (telephone (587) 391-3680) and are also available electronically at [www.sedar.com](http://www.sedar.com).***

## **PRELIMINARY SHORT FORM PROSPECTUS**

*Secondary Offering*

October 1, 2021



### **HEADWATER EXPLORATION INC.**

**\$204,750,000**  
**45,000,000 Common Shares**

Headwater Exploration Inc. ("**Headwater**" or the "**Corporation**") is a Canadian 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 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.

Cenovus Marten Hills Partnership (the "**Selling Shareholder**"), a wholly-owned subsidiary of Cenovus Energy Inc. ("**Cenovus**"), is offering for sale an aggregate of 45,000,000 common shares (the "**Common Shares**") in the capital of the Corporation for gross proceeds of \$204,750,000 (the "**Offering**") at a price of \$4.55 per Common Share (the "**Offering Price**"). Headwater will not receive any proceeds from the Offering. See "**Selling Shareholder**" and "**Plan of Distribution**".

The Selling Shareholder presently holds 50,000,000 Common Shares representing approximately 24.7% of the issued and outstanding Common Shares and 15,000,000 warrants to purchase Common Shares exercisable at a price of \$2.00 per Common Share until December 2, 2023 ("**Cenovus Warrants**"). If the Selling Shareholder exercised all 15,000,000 of the Cenovus Warrants, the Selling Shareholder would hold 65,000,000 Common Shares representing approximately 29.9% of the issued and outstanding Common Shares as of the date of this short form prospectus.

Upon the closing of the Offering, Cenovus will hold 5,000,000 Common Shares (nil Common Shares assuming full exercise of the Over-Allotment Option (as defined below)), representing approximately 2.5% of the issued and outstanding Common Shares (0.0% assuming full exercise of the Over-Allotment Option) and 15,000,000 Cenovus Warrants. Assuming exercise of all of the Cenovus Warrants, following closing of the Offering, Cenovus would hold 20,000,000 Common Shares (15,000,000 Common Shares assuming full exercise of the Over-Allotment Option), representing approximately 9.2% of the issued and outstanding Common Shares (6.9% assuming full exercise of the Over-Allotment Option).

The Selling Shareholder and the Corporation are parties to an investor agreement dated December 2, 2020 (the "**Investor Agreement**") pursuant to which the Selling Shareholder has certain contractual rights relating to, among other things, the nomination of directors of the Corporation. See "*Material Contracts*" in the AIF (as defined herein) and "*Plan of Distribution*", "*Selling Shareholder*" and "*Risk Factors*" in this short form prospectus. Following the completion of the Offering, the Investor Agreement will automatically terminate in accordance with its terms.

The issued and outstanding Common Shares are listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol "HWX". On September 24, 2021, the last trading day before the public announcement of the Offering, the closing price of the Common Shares on the TSX was \$4.58 and on September 30, 2021, the last trading day before the filing of this short form prospectus, the closing price of the Common Shares on the TSX was \$4.55.

The Offering is being underwritten by Peters & Co. Limited and BMO Nesbitt Burns Inc. (together, the "**Lead Underwriters**") and CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. (collectively with the Lead Underwriters, the "**Underwriters**"). See "*Plan of Distribution*".

**Price: \$4.55 per Common Share**

	<u>Price to the Public<sup>(1)</sup></u>	<u>Underwriters' Commissions</u>	<u>Net Proceeds to the Selling Shareholder<sup>(2)</sup></u>
Per Common Share.....	\$4.55	\$0.182	\$4.368
Total Offering <sup>(3)(4)</sup> .....	\$204,750,000	\$8,190,000	\$196,560,000

Notes:

- (1) The Offering Price has been determined by negotiation between Cenovus and the Selling Shareholder, on the one hand, and the Underwriters, on the other hand. See "*Plan of Distribution*".
- (2) After deducting the Underwriters' commissions of \$0.182 (4.0%) (the "**Underwriters' Commission**") for each Common Share offered pursuant to the Offering payable by the Selling Shareholder but before deducting the expenses of the Offering, which are estimated to be approximately \$0.7 million and will be paid by the Selling Shareholder. See "*Proceeds to the Selling Shareholder*" and "*Plan of Distribution*".
- (3) The Selling Shareholder has also granted to the Underwriters an option (the "**Over-Allotment Option**") to purchase up to an additional 5,000,000 Common Shares on the same terms and conditions as the Offering. The Over-Allotment Option is exercisable at any time, in whole or in part until and including the day that is 30 days following the Closing Date (as defined herein), solely to cover over-allotments, if any, and for market stabilization purposes. This short form prospectus qualifies the distribution of the Common Shares issuable on the exercise of the Over-Allotment Option and a purchaser who acquires Common Shares forming part of the Underwriters over-allocation position acquires those Common Shares under this short form prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. If the Over-Allotment Option is exercised in full, the "*Total Offering*", "*Underwriters' Commission*" and the "*Net Proceeds to the Selling Shareholder*" (before deducting expenses of the Offering) will be \$227,500,000, \$9,100,000 and \$218,400,000, respectively.
- (4) Excluding any amounts received upon exercise of the Over-Allotment Option.

The following table sets forth the number of Common Shares that may be offered by the Selling Shareholder pursuant to the Over-Allotment Option.

<u>Underwriters' Position</u>	<u>Maximum Size</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Over-Allotment Option	5,000,000 Common Shares	Until and including the date that is 30 days following the Closing Date	\$4.55 per Common Share

In connection with the Offering, the Underwriters may effect transactions which stabilize, maintain or otherwise affect the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. **The Underwriters may offer the Common Shares at a price lower than that stated above. Any such reduction in price will not affect the proceeds received by the Selling Shareholder. See "Plan of Distribution".**

The Underwriters, as principals, conditionally offer the Common Shares offered under this short form prospectus, subject to prior sale, if, as and when sold and delivered by the Selling Shareholder, to, and accepted by, the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Selling Shareholder by Bennett Jones LLP, on behalf of the Corporation by Burnet, Duckworth & Palmer LLP and on behalf of the Underwriters by Torys LLP.

Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that closing of the Offering will occur on or about October 14, 2021 or such later date as the Selling Shareholder, the Corporation and the Lead Underwriters may agree (the "**Closing Date**"), but in any event the Common Shares offered under this short form prospectus are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for this short form prospectus.

Except in certain limited circumstances, no certificates representing Common Shares will be issued to purchasers in the Offering. Instead, on the Closing Date, the purchasers of Common Shares will have their securities registered in the name of CDS Clearing and Depository Services Inc. or its nominee ("**CDS**") and electronically deposited with CDS. Purchasers of Common Shares will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Common Shares is acquired.

**An investment in the Common Shares is speculative and is subject to a number of risks that should be considered by a prospective investor. The risk factors identified under the heading "Risk Factors" in this short form prospectus and in other documents incorporated by reference in this short form prospectus should be carefully reviewed and evaluated by prospective investors before purchasing the securities being offered hereunder.**

**A return on an investment in the Common Shares is not comparable to the return on an investment in a fixed-income security. The recovery by shareholders of their initial investment is at risk, and the anticipated return on that investment is based on many performance assumptions.**

It is important for purchasers of Common Shares to consider the particular risk factors that may affect the industry in which they are investing, See "Risk Factors" in the AIF.

**Under applicable securities legislation of each province of Canada and the rules, instruments, policies and orders of each Canadian securities regulator made thereunder ("Canadian Securities Laws"), Cenovus and the Selling Shareholder may be considered to be a "connected issuer" of each of BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., and TD Securities Inc. (collectively, the "Connected Underwriters"), each of which is, or is a subsidiary or affiliate of: (i) a lender under one or more committed credit facilities of Cenovus; and/or (ii) a holder of certain debt securities of Cenovus. Cenovus intends to use the net proceeds received from the Offering as part of its plan to reduce its net debt levels. As a result, to the extent that such underwriters (or their respective subsidiaries or affiliates) are lenders under any**

**committed credit facilities that are repaid using the net proceeds of the Offering, they may receive a portion of the net proceeds from this Offering. Consequently, the Selling Shareholder may be considered to be a connected issuer to such Connected Underwriters under Canadian Securities Laws. See "*Relationships Between the Selling Shareholder and Certain Underwriters*".**

Headwater is incorporated under the ABCA and the head office of the Corporation is located at Suite 1200, 500 4th Avenue SW, Calgary, Alberta T2P 2V6 and registered office of the Corporation is located at Suite 2400, 525 8th Avenue SW, Calgary, Alberta T2P 1G1.

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## IMPORTANT ADVISORY

*A prospective investor should read this entire short form prospectus and the documents incorporated by reference and consult the prospective investor's own professional advisors to assess the income tax, legal, risk factors and other aspects of their investment in the Common Shares.*

A prospective investor should rely only on the information contained in or incorporated by reference in this short form prospectus. None of the Corporation, the Selling Shareholder or any of the Underwriters has authorized anyone to provide investors with additional or different information.

None of the Selling Shareholder, the Corporation or any of the Underwriters is offering to sell the Common Shares in any jurisdiction where an offer or sale is not permitted. Unless otherwise stated, the information contained in this short form prospectus is accurate only as of the date of this short form prospectus, regardless of the time of delivery of this short form prospectus or any sale of the Common Shares. It should be assumed that the information appearing in this short form prospectus and the documents incorporated by reference in this short form prospectus are accurate only as of their respective dates. The Corporation's business, financial condition, results of operations and prospects may have changed since those dates.

*Prospective investors are urged to carefully read the information under this heading, under the heading "Notice to Investors" in this short form prospectus and under the heading "Risk Factors" in this short form prospectus and in the AIF.*

## PRESENTATION OF INFORMATION

Words importing the singular include the plural and vice versa and words importing any gender include all genders. A reference to an agreement means the agreement, as it may be amended, supplemented or restated from time to time.

Unless otherwise indicated, all references to "\$" or "dollars" refer to Canadian dollars and all references to "US\$" or "U.S. dollars" refer to United States dollars.

Figures, columns and rows presented in tables provided in this short form prospectus may not add due to rounding.

## ELIGIBILITY FOR INVESTMENT

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Corporation, Bennett Jones LLP, counsel to the Selling Shareholder, and Torys LLP, counsel to the Underwriters, based on the current provisions of the *Income Tax Act* (Canada) and the regulations thereunder, as amended from time to time (the "**Tax Act**"), and subject to the provisions of any particular plan, provided that the Common Shares are listed on a "designated stock exchange", as defined in the Tax Act (which currently includes the TSX), or the Corporation is otherwise a "public corporation" (other than a "mortgage investment corporation"), each within the meaning of the Tax Act, the Common Shares will, on the Closing Date, be a "qualified investment" under the Tax Act for a trust governed by a registered retirement savings plan ("**RRSP**"), registered retirement income fund ("**RRIF**"), a deferred profit sharing plan, a registered education savings plan ("**RESP**"), a registered disability savings plan ("**RDSP**") or a tax free savings account ("**TFSA**").

Notwithstanding that the Common Shares may be a qualified investment, if a Common Share is a "prohibited investment" for an RRSP, RRIF, RESP, RDSP or TFSA (each a "**Registered Plan**"), the annuitant under the RRSP or RRIF, the subscriber of the RESP, or the holder of the RDSP or TFSA (as applicable) (each a "**Controlling Individual**") may be subject to a penalty tax under the Tax Act. A Common Share will not be a "prohibited investment" in respect of a Registered Plan provided that the Controlling Individual: (i) deals at arm's length with the Corporation for purposes of the Tax Act, and (ii) does not have a "significant interest" in the Corporation (within the meaning of the Tax Act). In addition, a Common Share will generally not be a "prohibited investment" for a Registered Plan if the Common Share is an "excluded property" (as defined in the Tax Act) for such Registered Plan. Controlling Individuals should consult with their own tax advisors regarding whether Common Shares would be prohibited investments.

## NOTICE TO INVESTORS

### About this Prospectus

*Prospective investors are urged to carefully read the information under this heading and under the headings "Important Advisory", "Presentation of Information" and "Risk Factors" in this short form prospectus and "Risk Factors" in the AIF.*

For an explanation of certain terms and abbreviations used in this short form prospectus and not otherwise defined, reference is made to "*Abbreviations and Conversions*" in the AIF.

In this short form prospectus, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars.

### Forward-Looking Statements

This short form prospectus and the documents incorporated by reference herein contain forward looking statements or forward-looking information (collectively, "**forward-looking statements**") within the meaning of applicable Canadian Securities Laws. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar expressions. Such statements and assumptions also include those relating to: Headwater's intent to focus on exploration and development in the Marten Hills area; the potential for the Corporation to pursue further development of the McCully Field assets to supply natural gas to the undersupplied market in Atlantic Canada; plans or intentions regarding the Selling Shareholder's exercise of the Cenovus Warrants or the sale of any Common Shares issuable upon exercise of the Cenovus Warrants; and Cenovus's intentions with respect to the use of the net proceeds of the Offering. Additional forward-looking statements are identified in the documents incorporated by reference in this short form prospectus.

Forward-looking statements are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Headwater believes that the expectations reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements because Headwater can give no assurance that such expectations will prove to be correct.

In addition to other factors and assumptions which may be identified in this short form prospectus and the documents incorporated by reference herein, assumptions have been made regarding, among other things: that the Corporation will be able to capitalize on potential asset consolidations and/or other acquisition opportunities in the current economic environment; that royalty regimes will not be subject to material modification; that the Corporation will be able to obtain skilled labour and other industry services at reasonable rates; that the timing and amount of capital expenditures and implementation thereof will be consistent with the Corporation's expectations; that the conditions in general economic and financial markets will not continue to vary materially; that drilling and other equipment will be available on acceptable terms; that government regulations and laws will not change materially; that future operating costs will be consistent with the Corporation's expectations; the impact of increasing competition; the general stability of the economic and political environment in which Headwater operates; the timely receipt of any required regulatory approvals; the ability of Headwater to obtain qualified staff, equipment and services in a timely manner; future drilling results; the ability of Headwater to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of Headwater to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Headwater operates; and the ability of Headwater to successfully market its oil and natural gas products.

A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, risks associated with public health risks including the novel coronavirus, the Delta variant, and other variants (collectively, "**COVID-19**"), risks associated with volatility of commodity prices and stock exchanges, oil and natural gas exploration, development, exploitation, production, changes to the Corporation's

capital budget, marketing and transportation, loss of markets, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, ability to access sufficient capital from internal and external sources and the risk factors outlined under "*Risk Factors*" and elsewhere in this short form prospectus and in the AIF. Operations may be unsuccessful or delayed as a result of the province-wide fracking moratorium in New Brunswick, competition for services, supplies and equipment, mechanical and technical difficulties, challenges associated with attracting and retaining employees on a cost-effective basis, and commodity and marketing risks. The Corporation is subject to significant drilling risks and uncertainties relating to its ability to find oil and natural gas reserves on an economic basis and the potential for technical problems that could lead to well blowouts and environmental damage. The Corporation is also exposed to risks relating to obtaining timely regulatory approvals, surface access, transportation and other third party related operational risks. Furthermore, there are numerous uncertainties in estimating the Corporation's reserve base due to the complexities in estimated future production, costs and timing of expenses and future capital. The Corporation is subject to regulatory legislation, which may require significant expenditures to ensure compliance or which may result in fines, penalties or production restrictions for non-compliance. Additional risk factors may be identified in the documents incorporated by reference in this short form prospectus.

The forward-looking statements contained herein are as of the date of this short form prospectus and are subject to change after this date. Investors are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Except as required by law, Headwater disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Investors are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this short form prospectus and the documents incorporated by reference herein are expressly qualified by this cautionary statement. For a full description of the risk factors, please see "*Risk Factors*" in this short form prospectus and in the AIF.

**The forward-looking statements contained in this short form prospectus are expressly qualified by the foregoing cautionary statements. Investors should read this entire short form prospectus and consult their own professional advisors to ascertain and assess the income tax, legal, risk factors and other aspects of their investment in the Common Shares. See "*Forward-Looking Statements*" in the AIF.**

### **Marketing Materials**

The "template version" of the "marketing materials" (as such terms are defined under applicable Canadian Securities Laws) utilized by the Underwriters in connection with the Offering to be incorporated by reference into this short form prospectus are not part of this short form prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this short form prospectus. The template version of the marketing materials filed on SEDAR after the date of this short form prospectus and before the termination of the distribution under the Offering (including any amendments to, or an amended version of, the template version of the marketing materials) will be deemed to be incorporated by reference into this short form prospectus.

### **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents of the Corporation have been filed with the securities commission or similar authority in each of the provinces of Canada and are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) the Annual Information Form of the Corporation dated March 10, 2021 for the year ended December 31, 2020 (the "**AIF**");

- (b) the audited financial statements of the Corporation as at and for the years ended December 31, 2020 and 2019, together with the notes thereto and the auditors' report thereon for the year ended December 31, 2020 and the auditors' report on the audited financial statements of the Corporation as at and for the year ended December 31, 2019;
- (c) the Corporation's management's discussion and analysis for the years ended December 31, 2020 and 2019;
- (d) the unaudited interim condensed financial statements of the Corporation as at and for the three and six month periods ended June 30, 2021 and 2020, together with the notes thereto;
- (e) the Corporation's management's discussion and analysis for the three and six month periods ended June 30, 2021 and 2020;
- (f) the management information circular of the Corporation dated March 29, 2021 for the annual and special meeting of the Corporation's shareholders held on May 13, 2021;
- (g) the management information circular of the Corporation dated April 27, 2020 for the annual and special meeting of the Corporation's shareholders held on June 15, 2020;
- (h) the management information circular of the Corporation dated February 3, 2020 for the special meeting of the Corporation's shareholders held on March 4, 2020;
- (i) the Corporation's business acquisition report dated and filed on February 10, 2021 relating to the Corporation's acquisition of the Marten Hills assets from the Selling Shareholder (the "**Marten Hills Acquisition**");
- (j) the "template version" (as such term is defined in National Instrument 41-101 – *General Prospectus Requirements*) of the term sheet for the Offering dated and filed on September 27, 2021; and
- (k) the "template version" (as such term is defined in National Instrument 41-101 – *General Prospectus Requirements*) of the term sheet for the Offering dated and filed on September 28, 2021.

Any documents of the type described in Section 11.1(1) of Form 44-101 – *Short Form Prospectus*, if filed by the Corporation with the securities commissions or similar authorities in the provinces of Canada after the date of this short form prospectus and before the termination of this distribution, are deemed to be incorporated by reference in this short form prospectus.

**Any statement contained in this short form prospectus, or in a document (or part thereof) incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document (or part thereof) which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.**

#### **HEADWATER EXPLORATION INC.**

Headwater is a Canadian resource company currently engaged in the exploration for, development of, and production of petroleum and natural gas in the Western Canadian Sedimentary Basin and onshore in New Brunswick. The

Corporation has high quality oil production, reserves and lands in the Clearwater play in the Marten Hills area of Alberta. In addition, the Corporation has low decline natural gas production and reserves in the McCully Field near Sussex, New Brunswick and a shale gas prospect in New Brunswick.

The Headwater management team is focused on exploration and development in the Marten Hills area. The historic assets of the Corporation in New Brunswick provide production and cash flow for the Corporation's operations. To the extent that the New Brunswick government's fracking moratorium is lifted in respect of the Corporation's assets in the McCully Field, the Corporation may pursue further development of such assets to supply natural gas to the undersupplied market in Atlantic Canada.

Additional information on Headwater's business is contained in the AIF under the heading "*Description of the Business*".

### **DESCRIPTION OF SHARE CAPITAL**

The authorized capital of the Corporation includes an unlimited number of Common Shares without nominal or par value of which 202,465,519 were issued and outstanding as of September 30, 2021. In addition, the Corporation has 15,420,374 warrants to purchase Common Shares (the "**Recapitalization Warrants**"), 15,000,000 Cenovus Warrants and stock options to purchase 9,661,335 Common Shares outstanding as of September 30, 2021. See descriptions contained under the headings "*Description of Share Capital*", "*General Development of the Business Year 2020 – Private Placements and Reconstitution of Management*", and "*General Development of the Business - Year 2020 – Transaction with Cenovus*" in the AIF.

### **PROCEEDS TO THE SELLING SHAREHOLDER**

The estimated net proceeds that the Selling Shareholder expects to receive from the Offering (before giving effect to any exercise of the Over-Allotment Option), after deducting the Underwriters' Commissions payable by the Selling Shareholder to the Underwriters in connection with the Offering and the estimated expenses of the Offering of approximately \$0.7 million, will be approximately \$195,860,000 (\$217,700,000 assuming exercise, in full, of the Over-Allotment Option). The Corporation will not receive any of the proceeds payable to the Selling Shareholder under the Offering. See "*Plan of Distribution*" and "*Selling Shareholder*".

### **CAPITALIZATION**

There has not been any material change in the share and loan capital of the Corporation, on a consolidated basis, since June 30, 2021.

### **PLAN OF DISTRIBUTION**

The Offering consists of 45,000,000 Common Shares (50,000,000 Common Shares if the Over-Allotment Option is exercised in full). See "*Description of Share Capital*" for a description of the attributes of the Common Shares.

Under an agreement dated effective September 27, 2021 among the Corporation, Cenovus, the Selling Shareholder and the Underwriters (the "**Underwriting Agreement**"), the Selling Shareholder has agreed to sell and the Underwriters have severally agreed to purchase on the Closing Date, but in any event no later than the date that is 42 days after the date of the receipt for the (final) short form prospectus, an aggregate of 45,000,000 Common Shares, at a price of \$4.55 per Common Share, payable in cash to the Selling Shareholder against delivery of the Common Shares, for aggregate gross proceeds of \$204,750,000 to the Selling Shareholder. In consideration for their services in connection with the Offering, the Selling Shareholder has agreed to pay the Underwriters a fee equal to \$0.182 per Common Share sold pursuant to the Offering, including any Common Shares sold pursuant to the Over-Allotment Option. It is estimated that the total expenses of the Offering, not including the Underwriters' Commissions, will be approximately \$0.7 million. The Underwriter's Commissions are payable on the Closing Date and, if applicable, at the time of closing of the Common Shares sold pursuant to the Over-Allotment Option (the "**Additional Closing Date**"). All expenses of the Offering will be paid by the Selling Shareholder. The Underwriters may form a selling group including other qualified investment dealers and determine the fee payable to the members of such group, which fee

will be paid by the Underwriters out of the Underwriters' Commissions. The Offering Price was determined by negotiation between Cenovus and the Selling Shareholder, on the one hand, and the Underwriters, on the other hand.

The Selling Shareholder has granted to the Underwriters the Over-Allotment Option, which is exercisable, in whole or in part, at any time until and including the date which is 30 days following the Closing Date, to purchase up to an additional 5,000,000 Common Shares at the Offering Price, to cover the Underwriters' over-allocation position and for market stabilization purposes. This short form prospectus also qualifies the distribution of Common Shares issuable pursuant to the exercise of the Over-Allotment Option.

The Underwriters propose to offer the Common Shares initially at the Offering Price. After the Underwriters have made a reasonable effort to sell all of the Common Shares at the Offering Price, the Offering Price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page. In the event that the Offering Price is reduced, the compensation received by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Common Shares is less than the gross proceeds paid by the Underwriters to the Selling Shareholder for such Common Shares. Any such reduction in price will not affect the proceeds received by the Selling Shareholder.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint, nor joint and several, and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. If an Underwriter fails to purchase the Common Shares which it has agreed to purchase, the remaining Underwriter(s) may terminate their obligation to purchase their allotment of Common Shares, or may, but are not obligated to, purchase the Common Shares not purchased by the Underwriter or Underwriters which fail to purchase. The Underwriters are, however, obligated to take up and pay for all of the Common Shares if any of the Common Shares are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that the Corporation and the Selling Shareholder will indemnify the Underwriters, their respective affiliates and each of their respective directors, officers, employees, partners, agents and controlling persons of the Underwriter against certain liabilities, claims, actions, complaints, losses, costs, fines, penalties, taxes, interest, damages and expenses.

The Offering is being made in each of the provinces of Canada excluding Québec. The Common Shares offered under this short form prospectus will be offered in each of the provinces of Canada excluding Québec through those Underwriters or their affiliates who are registered to offer such Common Shares for sale in such provinces and such other registered dealers as may be designated by the Underwriters. Subject to applicable law and the provisions of the Underwriting Agreement, the Underwriters may offer such Common Shares outside of Canada.

The Common Shares offered under this short form prospectus have not been, and will not be, registered under the U.S. Securities Act, or any state securities laws, and may not be offered or sold within the United States absent registration or pursuant to an applicable exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, except to the extent permitted by the Underwriting Agreement and except for offers and sales made pursuant to an available exemption from the registration requirements of the U.S. Securities Act, the Common Shares to be sold pursuant to the Offering may not be offered or sold within the United States. Each Underwriter has agreed that it will not offer or sell Common Shares within the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement provides that the Underwriters may re-offer and re-sell the Common Shares that they have acquired pursuant to the Underwriting Agreement in the United States to qualified institutional buyers ("**Qualified Institutional Buyers**") in accordance with Rule 144A under the U.S. Securities Act and exemptions under applicable state securities laws. The Underwriting Agreement also provides that the Underwriters will offer and sell the Common Shares outside the United States in accordance with Rule 903 of Regulation S under the U.S. Securities Act. In addition, until 40 days after the Closing Date, an offer or sale of the Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act, unless such offer is made pursuant to an exemption from registration under the U.S. Securities Act.

Subscriptions for Common Shares offered under this short form prospectus will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that the Closing Date will occur on or about October 14, 2021 or such later date as the Selling Shareholder, the Corporation and the Lead Underwriters may agree, but in any event the Common Shares offered

under this short form prospectus are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for the (final) short form prospectus. Common Shares sold pursuant to the Offering will be registered in the name of CDS and electronically deposited with CDS on the Closing Date and, if applicable, the Additional Closing Date. Purchasers of Common Shares will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Common Shares is acquired.

### **Price Stabilization, Short Positions and Passive Market Making**

In connection with the Offering, the Underwriters may effect transactions which stabilize or otherwise affect the market price of the Common Shares at levels other than those which otherwise might prevail on the open market, including: stabilizing transactions; short sales; purchases to cover positions created by short sales; imposition of penalty bids; and syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Common Shares while the Offering is in progress. These transactions may also include making short sales of the Common Shares, which involve the sale by the Underwriters of a greater number of Common Shares than they are required to purchase in the Offering.

The Underwriters may close out any covered short position by purchasing Common Shares in the open market or as otherwise permitted by applicable law. In making this determination, the Underwriters will consider, among other things, the price of Common Shares available for purchase in the open market. The Underwriters must close out any naked short position by purchasing Common Shares in the open market or as otherwise permitted by applicable law. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Common Shares in the open market that could adversely affect investors who purchase in the Offering.

In addition, in accordance with rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period of distribution, bid for or purchase Common Shares. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and the TSX, including the Universal Market Integrity Rules for Canadian Marketplaces, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the price of the Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on any stock exchange on which the Common Shares are listed, in the over-the-counter market, or as otherwise permitted by applicable law.

### **Standstill**

Each of the Corporation and the Selling Shareholder has agreed not to, as applicable, without the prior written consent of the Lead Underwriters (such consent not to be unreasonably withheld or delayed): (i) issue, offer, sell (including without limitation, any short sale), contract or agree to sell, hypothecate, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of or transfer, directly or indirectly, any Common Shares, or any securities convertible into or exchangeable or exercisable for, or warrants or other rights to purchase, the foregoing; (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Common Shares or any other of the Corporation's securities that are substantially similar to Common Shares, or any securities convertible into or exchangeable or exercisable for, or any warrants or other rights to purchase, the foregoing, whether any such transaction is to be settled by delivery of Common Shares or such other securities, in cash or otherwise; or (iii) publicly announce an intention to do any of the foregoing, for a period commencing on the effective date of the Underwriting Agreement and until 90 days following the Closing Date, other than, (1) in the case of the Corporation, (A) the issuance of stock options pursuant to the Corporation's stock option plan or awards or rights granted pursuant to any shareholder approved security-based compensation arrangement, (B) the issuance of Common Shares upon the exercise of stock options, warrants or other rights of purchase, or pursuant

to any shareholder approved security-based compensation arrangement, or (C) Common Shares issued by the Corporation directly to the vendors of assets or shares acquired by the Corporation pursuant to an arm's length acquisition; and (2) in the case of the Selling Shareholder: (A) pursuant to the Offering, including the Over-Allotment Option; (B) any transfer or other disposition being made to an affiliate of the Selling Shareholder, provided the affiliate agrees to be bound in writing to the restrictions contained in the Underwriting Agreement; or (C) pursuant to a bona fide third party take-over bid made to all shareholders of the Corporation or similar acquisition transaction that has been approved by a resolution of the Corporation's shareholders; provided that, in the event that the take-over bid or acquisition transaction is not completed, any securities of the Corporation held by the Selling Shareholder shall remain subject to the restrictions contained in the Underwriting Agreement, or (D) any surrender of the Cenovus Warrants in exchange for Common Shares or cash. Notwithstanding the foregoing, the Corporation has the right to cause the Selling Shareholder to exercise, subsequent to December 2, 2021, any Cenovus Warrants in accordance with the terms of such Cenovus Warrants.

## **RELATIONSHIPS BETWEEN THE SELLING SHAREHOLDER AND CERTAIN UNDERWRITERS**

Under Canadian Securities Laws, Cenovus and the Selling Shareholder may be considered to be a "connected issuer" of each of the Connected Underwriters, each of which is (i) a direct or indirect affiliate of a lender to Cenovus and the Selling Shareholder (collectively, the "**Cenovus Lenders**") pursuant to a \$6.0 billion credit facility with a \$4.0 billion tranche expiring on August 18, 2025 and a \$2.0 billion tranche expiring on August 18, 2024 (the "**Cenovus Credit Facilities**") and/or (ii) a holder of certain debt securities of Cenovus (collectively, "**Cenovus Debt Securities**"). Cenovus intends to use the net proceeds received from the Offering as part of its plan to reduce its net debt. As a result, to the extent that such Connected Underwriters (or their respective subsidiaries or affiliates) are lenders under any Cenovus Credit Facilities or holders of Cenovus Debt Securities that are repaid using the net proceeds of the Offering, they may receive a portion of the net proceeds from this Offering. Consequently, the Selling Shareholder may be considered to be a connected issuer to such Connected Underwriters under Canadian Securities Laws.

As at September 30, 2021, there were no drawings on the Cenovus Credit Facilities. Additionally, as at such date, approximately \$418 million in letters of credit with the Cenovus Lenders were supported under the Cenovus Credit Facilities. At the date hereof, the Cenovus Credit Facilities are unsecured and Cenovus is in compliance with the terms of such credit facilities and none of the Cenovus Lenders has waived any material breach of the Cenovus Credit Facilities since their execution. Further, Cenovus's financial position has not changed substantially or adversely since their execution. None of the Cenovus Lenders were involved in the decision to offer the Common Shares under this Offering or in the determination of the terms of the Offering. The Offering has not been required, suggested or consented to by a Cenovus Lender. The decision to sell the Common Shares pursuant to the Offering was made by Cenovus and the Selling Shareholder and the determination of the terms of the Offering, including the Offering Price of such Common Shares, has been determined by negotiation between Cenovus and the Selling Shareholder, on the one hand, and the Underwriters, on the other hand. As a consequence of the Offering, each of the Underwriters will receive their respective share of the Underwriters' Commission payable by the Selling Shareholder to the Underwriters.

Certain of the Underwriters and their affiliates have provided, and may in the future provide, various investment banking, commercial banking and other financial services to Cenovus and its affiliates in the ordinary course of business for which services such Underwriters have received, and may in the future receive, customary fees and expenses. The Underwriters may, from time to time, engage in transactions with and perform services for Cenovus in the ordinary course of their business. In addition, in the ordinary course of their business activities, the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of Cenovus or its affiliates. The Connected Underwriters or their affiliates that have a lending relationship with Cenovus routinely hedge, and certain other of Underwriters or their affiliates may hedge, their credit exposure to Cenovus consistent with their customary risk management policies. Typically, such Underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in Cenovus's securities. Any such credit default swaps or short positions could adversely affect future trading prices of Cenovus Debt Securities. The Underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## SELLING SHAREHOLDER

The Selling Shareholder has agreed to sell 45,000,000 Common Shares to the Underwriters (50,000,000 Common Shares if the Over-Allotment Option is exercised in full), as described under the heading "*Plan of Distribution*". The Selling Shareholder has indicated to the Corporation that, other than pursuant to the Offering (including pursuant to any exercise of the Over-Allotment Option, if applicable), it has no specific plans or timing to sell any remaining Common Shares including any Common Shares that may be issuable on exercise of the Cenovus Warrants. See "*Prior Sales*" in this short form prospectus and "*Material Contracts*" in the AIF.

The table below sets forth the number and percentage of outstanding Common Shares owned by the Selling Shareholder as of the date of this short form prospectus, the type of ownership of those Common Shares, the number of Common Shares anticipated to be sold by the Selling Shareholder pursuant to the Offering and the number and percentage of Common Shares anticipated to be owned by the Selling Shareholder after giving effect to the Offering.

<u>Shareholder Name</u>	<u>Type of Ownership<sup>(1)</sup></u>	<u>Number and percentage of Common Shares owned, controlled or directed prior to giving effect to the Offering<sup>(2)</sup></u>	<u>Common Shares to be sold by the Selling Shareholder pursuant to the Offering<sup>(3)</sup></u>	<u>Number and percentage of Common Shares owned, controlled or directed after giving effect to the Offering<sup>(4)(5)</sup></u>
Cenovus Marten Hills Partnership	Common Shares	50,000,000 (24.7%)	45,000,000	5,000,000 (2.5%)

Notes:

- (1) Such Common Shares are owned both of record and beneficially by the Selling Shareholder.
- (2) The Selling Shareholder holds 26.8% of the issued and outstanding Common Shares on a fully-diluted basis after giving effect to all convertible securities of the Corporation, including the exercise of 15,000,000 Cenovus Warrants.
- (3) If the Over-Allotment Option is exercised in full, 50,000,000 Common Shares would be sold by the Selling Shareholder.
- (4) The Selling Shareholder will hold nil Common Shares after giving effect to the Offering if the Over-Allotment Option is exercised in full. On a fully-diluted basis and assuming exercise of 15,000,000 Cenovus Warrants, 8.2% of the issued and outstanding Common Shares will be held by the Selling Shareholder after giving effect to the Offering (6.2% if the Over-Allotment Option is exercised in full).
- (5) The 15,000,000 Cenovus Warrants are owned of record and beneficially by the Selling Shareholder. Assuming exercise of all of the Cenovus Warrants, the Selling Shareholder will hold 20,000,000 Common Shares after giving effect to the Offering (15,000,000 Common Shares if the Over-Allotment Option is exercised in full), representing approximately 9.2% of the issued and outstanding Common Shares (6.9% if the Over-Allotment Option is exercised in full).

The Selling Shareholder and the Corporation are parties to the Investor Agreement. The terms of the Investor Agreement are described under the heading "*Material Contracts*" in the AIF. As a result of this Offering, the percentage of Common Shares held by the Selling Shareholder will be less than 10% of the issued and outstanding Common Shares and the Investor Agreement will automatically terminate in accordance with its terms and the Selling Shareholder shall cease to have any further rights thereunder. Except for such covenants set forth in the Investor Agreement, which agreement will automatically terminate on the Closing Date in accordance with its terms, none of the Common Shares are held, or are to be held following the Closing Date, subject to any voting trust or other similar agreement.

To the knowledge of the Corporation, other than as set forth above: (i) as of the date of this short form prospectus, there is no other person or company who beneficially owns, or controls or directs, directly or indirectly, 10% or more of the Common Shares; and (ii) following completion of the Offering, there will not be any other person or company who beneficially owns, or controls or directs, directly or indirectly, 10% or more of the Common Shares then outstanding.

## PRIOR SALES

### Trading Price and Volume

The Common Shares are listed and posted for trading on the TSX under the trading symbol "HWX". The following table sets forth the trading price range and the aggregate volume of trading of the Common Shares, as reported by the TSX, for the 12-month period prior to the date of this short form prospectus:

<u>Period (2020)</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
October .....	1.35	1.20	5,332,952
November .....	1.96	1.19	11,314,395
December .....	2.64	1.90	15,086,668
<u>Period (2021)</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
January .....	3.21	2.32	12,688,065
February .....	4.15	2.81	9,849,356
March .....	4.80	3.72	17,599,398
April .....	4.57	3.73	9,181,527
May .....	4.73	4.14	8,450,943
June .....	4.66	4.06	37,121,635
July .....	4.41	3.47	11,256,146
August .....	4.17	3.39	10,070,399
September .....	4.90	3.74	19,088,270

### Prior Sales

#### *Summary of Equity Issuances to the Selling Shareholder*

On December 2, 2020, the Corporation issued to the Selling Shareholder as partial consideration under the Marten Hills Acquisition 50,000,000 Common Shares with an aggregate value as of such date of \$96,500,000 (\$1.93 per Common Share) and 15,000,000 Cenovus Warrants with an aggregate value as of such date of approximately \$6,000,000 (\$0.40 per Cenovus Warrant). See "*General Development of the Business – Year 2020 – Transaction with Cenovus*" in the AIF.

#### *Summary of Other Equity Issuances by the Corporation*

The following table summarizes the issuances of Common Shares and other securities of the Corporation that are convertible or exchangeable into Common Shares for the twelve-month period before the date of this short form prospectus.

<u>Date of Issuance</u>	<u>Description of Transaction<sup>(1)</sup></u>	<u>Number and Type of Securities</u>	<u>Price per Security<sup>(2)</sup></u>
December 2020	Exercise of Recapitalization Warrants	61,500 Common Shares	\$0.92
	Grant of Stock Options	1,640,000 Stock Options	\$2.40
January 2021	Exercise of Recapitalization Warrants	145,020 Common Shares	\$0.92
	Exercise of Stock Options	51,250 Common Shares	\$0.70
	Grant of Stock Options	710,000 Stock Options	\$2.77

March 2021	Exercise of Recapitalization Warrants	271,736 Common Shares	\$0.92
	Grant of Stock Options	2,255,000 Stock Options	\$4.61
April 2021	Exercise of Stock Options	17,000 Common Shares	\$1.06
May 2021	Exercise of Stock Options	974,649 Common Shares	\$1.05
	Grant of Stock Options	50,000 Stock Options	\$4.45
June 2021	Exercise of Recapitalization Warrants	5,646,826 Common Shares	\$0.92
	Exercise of Stock Options	73,045 Common Shares	\$0.85
August 2021	Grant of Stock Options	165,000 Stock Options	\$3.98
September 2021	Exercise of Recapitalization Warrants	180,000 Common Shares	\$0.92

## Notes:

- (1) Certain exercises of Recapitalization Warrants and stock options were made on a "cashless" basis in accordance with the underlying agreements.
- (2) Price per security calculated on a weighted average basis.

## RISK FACTORS

### Overview

Investing in the Common Shares involves risks. A prospective investor should carefully consider the following risk factors together with all of the other information included or incorporated by reference in this short form prospectus in evaluating an investment in the Common Shares. Additional risks not presently known to Headwater or that Headwater currently deems immaterial could also materially affect the Corporation's business. The risks set out below and in the documents incorporated herein by reference are not an exhaustive description of all the risks associated with the Corporation's business and the oil and natural gas business generally. This short form prospectus and the documents incorporated by reference herein include forward-looking statements regarding, among other things, the Corporation's plans, strategies, prospects and projections, both business and financial. A prospective investor should not place undue reliance on any such statements included in this short form prospectus or any other offering materials. See "*Notice to Investors – Forward-Looking Statements*" in this short form prospectus.

Investors should carefully review and consider all other information contained in this short form prospectus and in the documents incorporated by reference herein before making an investment decision and consult their own professional advisors where necessary.

### **The trading price of the Common Shares may be adversely affected by factors related and unrelated to the oil and natural gas industry**

The trading price of the securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to the Corporation's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices, and/or current perceptions of the oil and natural gas market. In recent years, the volatility of commodities has increased due, in part, to the implementation of computerized trading and the decrease of discretionary commodity trading. In addition, the volatility, trading volume and share price of issuers have been impacted by increasing investment levels in passive funds that track major indices, as such funds only purchase securities included in such indices. In addition, in certain jurisdictions, institutions, including government sponsored entities, have determined to decrease their ownership in oil and natural gas entities which may impact the liquidity of certain securities and put downward pressure on the trading price of those securities. Similarly, the market price of the Common Shares could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. Accordingly, the price at which Common Shares will

trade cannot be accurately predicted. See "*Risk Factors– Impact of Pandemics*" and "*Risk Factors– Weakness and Volatility in the Oil and Natural Gas Industry*" in the AIF.

### **Forward-Looking Statements and Financial Outlooks May Prove to be Inaccurate**

Investors are cautioned not to place undue reliance on forward-looking statements or financial outlooks. By their nature, forward-looking statements and financial outlooks involve numerous assumptions, known and unknown risks and uncertainties, of both general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements and/or financial outlooks or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties can be found in this short form prospectus under the heading "*Notice to Investors - Forward-Looking Statements*".

### **The Offering may not be completed**

Although the Corporation and the Selling Shareholder have entered into the Underwriting Agreement with the Underwriters, there is no guarantee that all of the conditions to the completion of the Offering will be satisfied.

### **Impact of Future Financings on Market Price**

In order to finance future operations or acquisition opportunities, the Corporation may raise funds through the issuance of Common Shares or the issuance of debt instruments or securities convertible into Common Shares. The Corporation cannot predict the size of future issuances of Common Shares or the issuance of debt instruments or other securities convertible into Common Shares or the effect, if any, that future issuances and sales of the Corporation's securities will have on the market price of the Common Shares.

### **COVID-19**

Headwater has been closely monitoring developments related to COVID-19 and other macro-economic conditions. These events have resulted in increased volatility in crude oil prices and increased economic uncertainty. Due to the uncertainty surrounding the magnitude, duration and potential outcomes of COVID-19, the Corporation is unable at this time to predict its long-term impact on its operations, liquidity, financial condition and results. The extent to which COVID-19 impacts the Corporation's results will ultimately depend on future developments, which are highly uncertain, and will include vaccination rates, the impact of variants and the actions taken by governments and private businesses to attempt to contain COVID-19. The Corporation will continue to closely monitor this global health crisis. Any significant decrease in the demand for crude oil and natural gas could in turn disrupt the Corporation's business, activities and operations.

### **EXPERTS**

Certain legal matters relating to the Offering under Canadian law will be passed upon by Burnet, Duckworth & Palmer LLP on behalf of the Corporation, Bennett Jones LLP on behalf of the Selling Shareholder and Torys LLP on behalf of the Underwriters.

As at the date hereof, the partners and associates of each of Burnet, Duckworth & Palmer LLP, Bennett Jones LLP and Torys LLP, as respective groups, beneficially own, directly or indirectly, less than 1% of the outstanding securities of any associate or affiliate of the Corporation.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or the Selling Shareholder or of any associate or affiliate of the Corporation or the Selling Shareholder except for Edward (Ted) Brown, the Corporate Secretary of the Corporation, who is a Partner of Burnet, Duckworth & Palmer LLP.

For additional information relating to persons or companies who are named as having prepared or certified a report, valuation, statement or opinion incorporated by reference in this short form prospectus and whose profession or business gives authority to such report, valuation, statement or opinion, see "*Interests of Experts*" in the AIF.

#### **RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission, or, in some jurisdictions, revisions of the price or damages, if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

**CERTIFICATE OF THE ISSUER**

Dated: October 1, 2021

This short form prospectus, together with the documents incorporated by reference, constitutes, full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required under the securities legislation of each of the provinces of Canada excluding Québec.

(signed) "*Neil Roszell*"  
Chief Executive Officer and Chairman

(signed) "*Ali Horvath*"  
Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors  
of Headwater Exploration Inc.

(signed) "*Kevin Olson*"  
Director

(signed) "*Dave Pearce*"  
Director

**CERTIFICATE OF THE UNDERWRITERS**

Dated: October 1, 2021

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required under the securities legislation of each of the provinces of Canada excluding Québec.

**PETERS & CO. LIMITED**

(signed) "*Christopher Potter*"

**BMO NESBITT BURNS INC.**

(signed) "*Gregory Stadnyk*"

**CIBC WORLD  
MARKETS INC.**

(signed) "*Bryan Berg*"

**RBC DOMINION  
SECURITIES INC.**

(signed) "*Darrell Law*"

**SCOTIA CAPITAL  
INC.**

(signed) "*Roy Arthur*"

**TD SECURITIES INC.**

(signed) "*Scott Barron*"