



# Fighting Against Forced Labour and Child Labour in Supply Chains Act, SC 2023, c 9

*Annual Report*

For the year ended December 31, 2023



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## Definitions

**“Act”** the Government of Canada introduced new modern slavery legislation which came into force on January 1, 2024, namely the *Fighting Against Forced Labour and Child Labour in Supply Chains Act*, SC 2023, c 9. The Act includes reporting legislation to establish reporting obligations on businesses to increase transparency with respect to the use of forced labour and child labour in their activities and supply chains.

**“Child Labour”** under the Act means labour or service provided or offered to be provided by persons under the age of 18 years and that:

- (a) are provided or offered to be provided in Canada under circumstances that are contrary to the laws applicable in Canada;
- (b) are provided or offered to be provided under circumstances that are mentally, physically, socially or morally dangerous to them;
- (c) interfere with their schooling by depriving them of the opportunity to attend school, obliging them to leave school prematurely or requiring them to attempt to combine school attendance with excessively long and heavy work; or
- (d) constitute the worst forms of child labour per article 3 of the Worst Forms of Child Labour Convention, 1999, adopted at Geneva on June 17, 1999, which are defined as:
  - (i) all forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and serfdom and forced or compulsory labour, including forced or compulsory recruitment of children for use in armed conflict;
  - (ii) the use, procuring or offering of a child for prostitution, for the production of pornography or for pornographic performances;
  - (iii) the use, procuring or offering of a child for illicit activities, in particular for the production and trafficking of drugs as defined in the relevant international treaties;
  - (iv) work which, by its nature or the circumstances in which it is carried out, is likely to harm the health, safety or morals of children.

**“Forced Labour”** under the Act means labour or service provided or offered to be provided by a person under circumstances that:

- (a) could reasonably be expected to cause the person to believe their safety or the safety of a person known to them would be threatened if they failed to provide or offer to provide the labour or service; or
- (b) constitute forced or compulsory labour per article 2 of the Forced Labour Convention, 1930, adopted in Geneva on June 28, 1930, which are defined as:
  - (i) any work or service exacted in virtue of compulsory military service laws for work of a purely military character;
  - (ii) any work or service which forms part of the normal civic obligations of the citizens of a fully self-governing country;
  - (iii) any work or service exacted from any person as a consequence of a conviction in a court of law, provided that the said work or service is carried out under the supervision and control of a public authority and that the said person is not hired to or placed at the disposal of private individuals, companies or associations;
  - (iv) any work or service exacted in cases of emergency, that is to say, in the event of war or of a calamity or threatened calamity, such as fire, flood, famine, earthquake, violent epidemic or epizootic diseases, invasion by animal, insect or vegetable pests, and in general any circumstance that would endanger the existence or the well-being of the whole or part of the population;



(i) minor communal services of a kind which, being performed by the members of the community in the direct interest of the said community, can therefore be considered as normal civic obligations incumbent upon the members of the community, provided that the members of the community or their direct representatives shall have the right to be consulted in regard to the need for such services.

“**Modern Slavery**” refers collectively to Child Labour and/or Forced Labour (as such terms are defined above).

## **Introduction**

This annual report (the “**Report**”) describes the actions taken by HWN Energy Ltd. (“**HWN**”, the “**Corporation**”, “**we**”, “**our**” and like phrases) from January 1, 2023 to December 31, 2023. The Report has been prepared in accordance with the requirements of the Act. Terms used in this Report and not otherwise defined shall have the meaning ascribed to them in the Act, unless the context otherwise requires.

## **Background**

HWN is a crude oil and natural gas corporation that engages in the business of acquiring, developing and exploiting petroleum and natural gas properties in the Western Canadian Sedimentary Basin. Through a combination of strategic acquisitions and organic growth, we have amassed significant landholdings and grown production volumes materially over the last several years.

HWN prides itself in being a leading Canadian energy producer and an employer of choice that creates high-quality, sustainable and equal opportunity jobs within the communities that we operate. As part of our commitment to being a premier Alberta-based employer we abide by and uphold all local employment laws and standards. We stand firmly against all forms of Modern Slavery practices within our workforce and further reaching supply chain operations.

### **(a) Structure**

HWN is a private corporation incorporated under the Business Corporations Act in Alberta and is a wholly owned subsidiary of Hawthorne Energy LLC (“**Hawthorne**”). Hawthorne is based out of the United States and not subject to reporting under the Act. Carnelian Energy Capital III LP is the majority shareholder of Hawthorne. The Corporation’s registered office is located at 1100-225 6 Ave SW Brookfield Place, Calgary, Alberta T2P 1N2. HWN’s head office is located at 1000, 207 9th Avenue SW, Calgary, Alberta T2P 1K3. The Corporation’s financial year end is December 31. Further information on the Corporation can be accessed on its website at [www.hwnenergy.com](http://www.hwnenergy.com).

HWN has approximately one hundred employees in Canada currently.

### **(b) Activities**

HWN is a producer of crude oil and natural gas with its current assets and operations located exclusively in Alberta, Canada. HWN is focused on exploiting the well-established Dunvegan, Cardium and Montney geological formations.



The majority of HWN's production volumes are sold in Canada with a minor portion of its natural gas volumes transported and marketed to the United States. HWN does not engage in importing commodities or any other goods as part of its direct business activities.

### (c) Supply Chains

HWN engages with hundreds of oilfield services providers and other suppliers (collectively referred to herein as “**vendors**”) as part of its routine, ongoing operations. HWN requests bids for proposal from vendors on its projects in accordance with industry practice and norms. HWN reviews and selects its vendors based on merits such as reputation, cost competitiveness, availability and product / service offerings.

Our vendors are predominantly Canadian based, however they often source their inputs from outside of Canada, which in-turn contributes to HWN's supply chains under the Act. There can be multiple parties involved across the supply chain from inception to final delivery of goods consumed.

The supply chains of HWN are far reaching. For example, we use extensive amounts of steel tubulars as part of our drilling operations and building pipelines. The steel tubulars are purchased from vendors who may source their product from independent manufacturers in countries such as China or India, where steel products are commonly produced. The iron ore inputs consumed by the manufacturer of the steel tubulars are further sourced from additional suppliers engaged in mining operations as part of their principal business activities. All throughout this supply chain raw materials and refined products are subject to transportation and storage involving other parties.

Another significant example of HWN's supply chain is the contracting of drilling rigs and hydraulic fracturing equipment. We engage with vendors to supply us with the equipment and accompanying crews to facilitate drilling and completion operations for our wells. While the equipment and crews supplied are usually from Alberta and likely comply with the Act under local laws and regulations, the equipment used may be manufactured outside of Canada. Furthermore, where equipment is assembled and delivered from may not be indicative of where the various parts and materials were originally sourced from to build such equipment. As part of drilling, completion and other operations HWN also engages with vendors for smaller equipment rentals (i.e. lighting towers, crew accommodations, water storage, etc.), consumable materials (i.e. drilling fluids, sand, etc.) and labour (foreman/supervisors, construction, wellsite geologists, safety consultants, etc.).

While the dynamic nature and global expansiveness of HWN's supply chains does pose challenges to our ability to ensure compliance with the Act from our entire supply chain, HWN can control its vendor selection process and supply chain management system to ensure that its immediate vendors comply with all applicable legal requirements in the jurisdictions in which they operate, and that they consistently monitor for and do not support any forms of Modern Slavery in their own operations and supply chains. Moving forward, HWN will place reliance on responses to a standard questionnaire to be provided to vendors / prospective vendors (the “**Vendor Diligence Questionnaire**”) to gain comfort that any such vendor's extended supply chains are free from Modern Slavery. HWN anticipates circulating the Vendor Diligence Questionnaire to vendors / potential vendors later this year.



## Our Policies and Due Diligence Processes

HWN is in the early stages of creating and implementing appropriate policies and due diligence processes with respect to Modern Slavery in its business activities. While we believe that high moral standards and responsible business conduct are engrained in HWN's existing policies and culture, which is likely to prevent our staff from violating the Act, we are taking the following initiatives and actions to specifically fight against Modern Slavery in our supply chains:

- HWN is creating a general awareness of the Act among its staff by drafting and disseminating a "Modern Slavery in Supply Chain Policy" through its human resource system that will require mandatory review and sign-off, progress will be monitored and tracked for compliance in late 2024;
- HWN is in the process of drafting the Vendor Diligence Questionnaire, which will be administered through HWN's supplier risk management platform so that responses can be documented. This project will begin in 2024 but full integration and compliance may not occur until a later year; and
- HWN plans to implement formal education and training to staff that it deems the most applicable, specifically those in positions that: (i) exercise influence over vendor selection, (ii) manage vendors, and (iii) are most likely to have to resolve potential instances of Act violations.

## Assessed Risk in our Business and Supply Chains

HWN operates solely in Alberta, Canada where it adheres to all local employment laws and standards as well as human resource best practices. HWN appropriately recruits and retains its employees and contractors in compliance with the Act. All staff of HWN provide their labour or services out of their own free will in exchange for predetermined monetary compensation and are of an appropriate age or, if they are under the age of 18 (i.e. summer students or interns), do not violate any of the conditions outlined per the definition of Child Labour in the Act. HWN offers fair compensation and benefit packages to its staff that are regularly benchmarked against independent research data and pay scales to ensure competitiveness. HWN also provides safe, suitable working environments to its head office and field staff.

Given these human resource practices outlined above, HWN believes that the inherent risk of Modern Slavery occurring in its direct workforce is very low. We have not identified any cases of Modern Slavery in our workforce to date and believe that we have appropriately implemented processes and controls to de-risk and safeguard from infringing upon the Act going forward.

Our supply chains, as described previously, are largely comprised of Canadian based vendors that are headquartered in Alberta and comply with the same employment standards and practices as HWN in mitigating Modern Slavery risks to their respective businesses. HWN's perceived risk of its vendors violating the Act while operating with Alberta is relatively low. HWN does however believe that there is a medium to high risk associated within our vendors' extended supply chains in situations where their inputs are sourced from outside of Canada and not subject to the same legislation and high ethical standards.



## **Measures Taken**

HWN has not identified any known instances of Modern Slavery in its activities and supply chains to date. As such, there have been no actions taken to remediate violations of the Act. HWN is fully committed to addressing and remediating any violations of the Act should they arise in the future despite our best efforts to prevent them.

### **(a) Measures Taken to Remediate Forced Labour or Child Labour**

HWN has not identified any forced labour or child labour in its activities and supply chains.

### **(b) Measures Taken to Remediate Loss of Income from Forced Labour or Child Labour**

HWN has not identified any loss of income to vulnerable families resulting from measures taken to eliminate the use of forced labour or child labour in its activities and supply chains.

## **Employee Training**

HWN has not yet implemented employee training with respect to Modern Slavery. HWN does however plan to develop and provide mandatory training to targeted demographics within its employee base where we determine and believe it will be the most effective use of resources to fight against Modern Slavery in our operations. Updates will be provided in future annual reports.

## **Assessment of Effectiveness**

HWN has taken no formal actions to date to assess our effectiveness in preventing and reducing risks of Modern Slavery in our activities and supply chains. HWN does however plan to design and implement procedures to assess the effectiveness of its anti-Modern Slavery practices as it advances its work in this area. Updates will be provided in future annual reports.



## Approval

In accordance with the requirements of the Act, and in particular section 11 thereof, I attest that I have reviewed the information contained in the report for HWN. Based on my knowledge, and having exercised reasonable diligence, I attest that the information in the report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year listed above.

**Tiffany Cooper** (signed)

Chief Financial Officer

May 29, 2024

I have the authority to bind HWN Energy Ltd.