HIGHWOOD
OIL COMPANY LTD.

MANAGEMENT DISCUSSION & ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

August 27, 2020

Management's Discussion and Analysis

This management's discussion and analysis (MD&A) of operating and financial results of Highwood Oil Company Ltd. ("Highwood" or the "Company") is dated August 27, 2020 and is based on currently available information. It should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended December 31, 2019 and 2018, and the unaudited condensed interim consolidated financial statements and accompanying notes for the three and six months ended June 30, 2020. Unless otherwise noted, all financial information is presented in Canadian dollars, and is in accordance with International Financial Reporting Standards (IFRS) as set out in Part 1 of the Chartered Professional Accountants Canada Handbook – Accounting. Additional information can be found at www.sedar.com and www.highwoodoil.com.

Refer to the end of the MD&A for commonly used abbreviations.

Readers should read "Forward-Looking Statements" at the end of the MD&A, which explains the basis for and limitations of statements throughout this report that are not historical facts and may be considered "forward-looking statements" under securities regulations.

All figures in tables are stated in thousands of Canadian dollars, except operational and per share amounts or as noted.

Description of Business

The Company is engaged in the acquisition, exploration, development and production of oil and natural gas reserves in Western Canada. The Company's focus is to generate and develop its own prospects, acquire oil and natural gas properties directly and/or through farm-in, and participate with joint ventures and other industry partners in oil and natural gas exploration and development in Alberta and Saskatchewan.

Q2 2020 Corporate Highlights and Outlook

- Production of 870 bbl/d of oil in the second quarter of 2020, a 54% decrease from 1,872 bbl/d in the first quarter of 2020 amidst uneconomic shut-ins during the period.

- Current net production from Highwood is approximately 1,400 bbl/d of oil with production capacity of 2,200 bbl/d. Highwood continues to bring on production previously shut-in during April and May as a result of the COVID-19 Global Pandemic.

- Highwood continues to be encouraged by production performance from the Q1 2020 Clearwater drilling program at Nipisi where three of the new wells are currently on production.

2020 Second Quarter Overview

Highwood's second quarter results were highlighted by the decrease in production from 1,872 bbl/d in the first quarter of 2020 to 870 bbl/d in the second quarter, a decrease of 54% given the Company's decision to shut in uneconomic production during April & May amidst the global oil price collapse.

For the first half of 2020, the Company had revenues net of royalty expense (including realized gains on commodity contracts) of $12.1 million impacted by the sharp drop in commodity prices that began in March 2020. The Company had revenues of $17.7 million for the same first half period of 2019 without the increased production capacity brought on by the success of the Clearwater drilling program through Q1 2020.

2020 Second Quarter Operations

Highwood's focus in the second quarter of 2020 was on financial sustainability as the Company continually re-evaluated and adjusted field production & operations as well as corporate overheads given the price collapse beginning in March 2020. Highwood ceased its capital program in March 2020 and spent only essential capital during the second quarter.

Highwood reduced executive and employee salaries by approximately 20%, ceased its bonus program and reduced staff to help mitigate the financial impact of the COVID-19 Global Pandemic. The Company has received support from government grants including the Canada Emergency Wage Subsidy ("CEWS") to help mitigate the financial impact of COVID-19 and has also recently completed an application for available credit guarantee programs provided by the Export Development Bank of Canada ("EDC"). The Company anticipates feedback from the application in the coming weeks.

The Company has drilled 19 gross wells (9.5 net) in the Clearwater play since it started the Clearwater program in the fourth quarter of 2018. Total capital spend in the first quarter of 2020 was $4.2 million where the Company drilled 5 gross (2.5 net) wells in the Clearwater play.

Of the total $4.2 million Company expenditures, $4.1 million was development capital with $2.6 million spent on Clearwater drilling & completions, $1.0 million spent on the expansion of the Company's multi-well oil battery in Nipisi and $0.5 million spent on recompletions in the Red Earth area.

The Company continually reviews and revises its technical approach to drilling in the Clearwater and has decreased costs as the program has evolved. The Company continues to have its land position delineated by offset operators who are also showing success with secondary recovery method pilot projects. The Company is currently undergoing a waterflood study project at Nipisi which would help to increase ultimate recovery factors if a producing well bore was switched to an injection well.

Outlook

The Company has continued to cease 2020 non-discretionary capital as a result of the COVID-19 Global Pandemic and the current suppressed pricing seen in Western Canada and around the world.

Once returns prove economically feasible, the Company remains excited about the drilling inventory it currently has in its portfolio. The Clearwater oil resource play continues to deliver positive delineation results which underpin an expanding opportunity set for Highwood to pursue lower risk, highly economic, oil-weighted growth. Since early 2017, industry has spud more than 300 wells to delineate and quickly grow the Clearwater play to achieve production in excess of 29,000 bbl/d. Even within a pricing environment that has been very suppressed by historical standards, strong well economics characterized by short cycle times and quick payback periods supported industry drilling over 30 wells to date in 2020.

The Company has, and will continue to, evaluate acquisition opportunities in the M&A market, but will remain disciplined to pursue only those opportunities that are accretive and deleveraging to its balance sheet. The Company intends to build a growing profile of recurring free funds flow that will provide maximum flexibility fund growth, debt repayment and / or other strategic M&A opportunities in a non-dilutive fashion.

The Company is subject to covenants under the terms of the Company's credit facility (see Liquidity and Capital Resources section in this MD&A). The current price collapse in oil as a result of the demand shock caused by concerns over the COVID-19 pandemic and supply concerns due to the Saudi Arabia – Russia price war, the Company expects that the full available funds available under the existing credit facility will need to be drawn to settle current obligations. The Company was in violation of certain financial covenants at June 30, 2020 which were subsequently waived. Subsequent to June 30, 2020, the Company executed an amended and restated credit facility with modified repayment terms and interest rates as discussed further in the Liquidity and Capital Resources section of this MD&A. The Company's borrowing base renewal is now scheduled to occur on or before November 30, 2020. The Company is closely paying attention to programs and strategies deployed by the Provincial and Federal governments that will assist the Oil industry. The Company has focused on cost reductions across all areas of the business and has shut-in production that is no longer economical to produce at current prices. The Company's hedge portfolio will provide significant cash flows while prices are suppressed and the Company's midstream asset provides a source of revenue diversification.

Economic Uncertainty and Oil Price Volatility

Significant declines and abnormal volatility in oil prices and global economic uncertainty have occurred as a result of the COVID-19 pandemic and Saudi Arabia-Russia price war, the scale and duration of these developments is unknown and could have significant impact on the Company's future earnings, cash flow and overall financial condition.

Highwood Oil Company Ltd. – Financial and Operating Highlights

	Three months ended June 30, 2020	2019	Six months ended June 30, 2020	2019
Financial				
Oil and natural gas sales	**$ 1,737**	$ 9,662	**$ 8,282**	$ 16,591
Transportation pipeline revenues	**769**	1,498	**1,929**	2,731
Total revenues, net of royalties and commodity contracts [1]	**1,052**	6,813	**17,317**	12,386
Loss	**(3,837)**	(475)	**(7,561)**	(2,983)
Cash flows from operations	**2,167**	6,936	**5,954**	12,667
Capital expenditures	**223**	595	**4,415**	4,673
Proceeds from dispositions	**-**	750	**648**	2,250
Working capital surplus (deficit), excluding current bank debt *(end of period)* [2]			**(7,779)**	(4,886)
Net debt [3]			**46,089**	36,514
Shareholders' equity *(end of period)*			**10,860**	25,532
Shares outstanding *(end of period)*			**6,014**	6,014
Options outstanding *(end of period)*			**128**	107
Restricted share units outstanding *(end of period)*			**110**	88
Weighted-average basic shares outstanding	**6,014**	5,994	**6,014**	5,943
Operations [4]				
Production				
Crude oil *(bbls/d)*	**870**	1,608	**1,371**	1,482
Total *(boe/d)*	**870**	1,608	**1,371**	1,482
Benchmark prices				
Crude oil				
Canadian Light *(Cdn$/bbl)*	**25.20**	65.31	**34.91**	61.93
Average realized prices [5]				
Crude oil *(per bbl)*	**21.94**	66.04	**33.19**	61.86
Operating netback *(per boe)* [6]	**(16.77)**	27.36	**(3.30)**	22.14

(1) Includes unrealized gain and losses on commodity contracts

(2) Working capital deficit includes commodity contract asset of $1,310,000, (June 30, 2019 – commodity contract asset of $1,341,000, a commodity contract liability of $1,133,000 and a commodity contract premium payable of $3,500,000). Excluding this, the working capital deficit would be $9,089,000 (June 30, 2019 – $1,594,000). Working capital deficit also excludes bank debt of $37,000,000 (June 30, 2019 - $25,000,000) for the period ended June 30, 2020.

(3) Net debt consists of bank debt and working capital surplus (deficit) excluding commodity contract assets and/or liabilities and commodity contract premium payable.

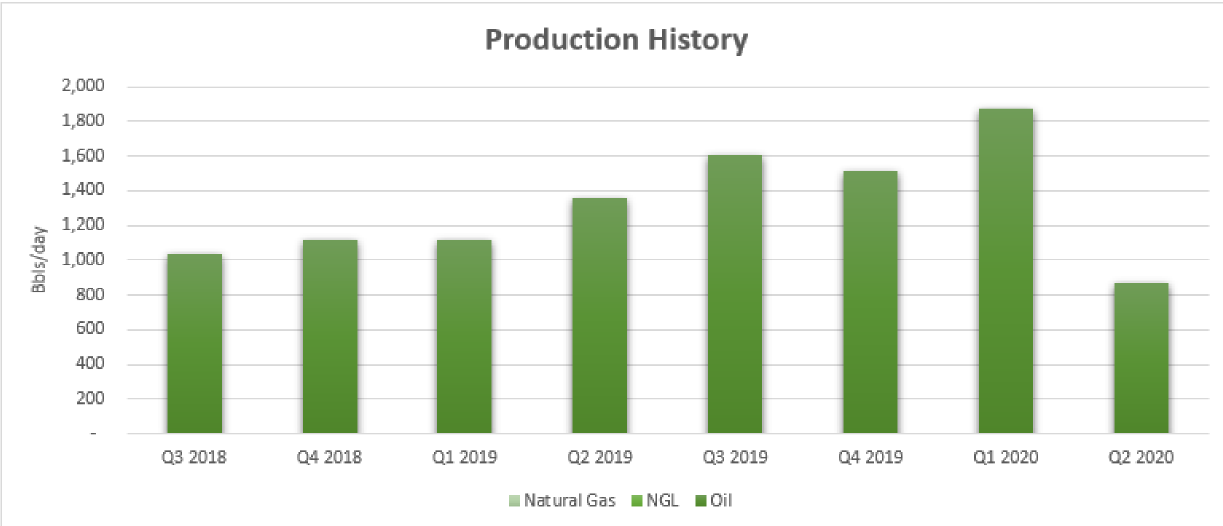
(4) For a description of the boe conversion ratio, see "Basis of Barrel of Oil Equivalent".

(5) Before hedging.

(6) See "Non-GAAP measures".

Financial and Operating Results

Production



	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Daily average volume				
Crude oil *(bbls/d)*	**870**	1,608	**1,371**	1,482
Total sales *(boe/d)*	**870**	1,608	**1,371**	1,482
Total sales *(boe)*	**79,169**	146,305	**249,540**	268,187
Production weighting				
Crude oil	**100%**	100%	**100%**	100%

Second quarter 2020 production decreased 46% over comparative period in 2019 and decreased 54% compared to the Company's record production of 1,872 bbls/d in the first quarter of 2020. The decrease in production was primarily due to the Company voluntarily shutting in the majority of production, including virtually all production from the Company's core Clearwater CGU, as a result of the historic collapse in oil prices. In June, as oil prices stabilized, the Company restored approximately 60% of production, and has continued to bring on additional production as realized pricing justifies subsequent to June 30, 2020. Current production is 1,400 bbls/d with production capacity of 2,400 bbls/d. The Company is very encouraged by the early production results from the wells that were drilled in the first quarter of 2020, which the Company chose to delay full production of the wells until prices recovered to retain the long term value of the reserves. Since the fourth quarter of 2018, the Company has drilled 19 gross (9.5 net) wells in the Clearwater area, including 5 gross (2.5 net) in the first quarter of 2020. During the second quarter of 2020, the net Clearwater production averaged approximately 147 bbls/d, compared to approximately 725 bbls/d in the first quarter of 2020, however in June Clearwater production was up to 439 bbls/d and is currently 775 bbls/d. Production on the Company's other core producing area in Red Earth was down approximately 50% from comparative periods due to production declines and shut in production.

Sales

Oil sales

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Crude oil	**1,737**	9,662	**8,282**	16,591
Total	**1,737**	9,662	**8,282**	16,591
Average realized prices before hedging				
Crude oil *($/bbl)*	**21.94**	66.04	**33.19**	61.86
Combined average *($/boe)*	**21.94**	66.04	**33.19**	61.86

Oil sales for the second quarter of 2020 decreased significantly from the second quarter of 2019 mainly due to the decrease in realized commodity prices from $66.04/bbl in 2019 to $21.94/bbl in 2020, a decrease of 67%. Sales also decreased as the Company chose to voluntarily shut in a majority of its production in the second quarter of 2020 due to uneconomic commodity prices as oil prices hit record lows. The second quarter of 2020 continued to see a sharp decline in oil prices, particularly in the month of May where the Company's realized price dropped to less than $5.00/bbl. Over the short term, the Company anticipates continued price volatility. With respect to oil prices, a significant factor is the unknown impact of transportation constraints in Alberta, demand levels, as well as global inventory levels. The Company anticipates that there will be continued price volatility for at least the next several quarters as various dynamics play out. There have been significant declines in oil prices and the stock markets worldwide for various reasons linked to the Coronavirus pandemic and other conditions impacting worldwide oil prices, resulting in the Company shutting in uneconomic production. The Company continues to monitor current and forecasted pricing to determine when uneconomic production will be brought back online.

The Company's realized prices were consistent with the changes in the benchmark prices.

Transportation pipeline revenues

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Total	**769**	1,498	**1,929**	2,731

Transportation pipeline revenues relate to the Wabasca River pipeline system that the Company has a 100% working interest in. Revenues are generated from a tariff charged to vendors who transport product on the pipeline. Revenue decreased for the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019 due to a decrease in volumes transported through the pipeline as producers reduced production due to uneconomic commodity prices. Despite the decrease in volumes the Wabasca River pipeline system produced net operating income of approximately $475,000 and $1,436,000 for the three and six months ended June 30, 2020.

Royalties

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Royalties	**106**	1,440	**834**	2,049
Per boe	**1.34**	9.84	**3.34**	7.64
Percentage of oil and natural gas sales	**6.1%**	14.9%	**10.1%**	12.4%

Highwood's royalty burden includes crown, gross over-riding and freehold royalties applicable on the Company's production sales.

The decrease in royalties is a direct result of the decrease in commodity prices and decrease in production in 2020. The decrease in royalty rate as a percentage of sales in 2020 compared to 2019 is mainly due to the decrease in the commodity reference pricing used by the Alberta and Saskatchewan governments to calculate royalties.

Operating and Transportation Expense

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Operating and transportation	**2,958**	4,220	**8,272**	8,603
Per boe	**37.37**	28.84	**33.15**	32.08

Overall, operating and transportation expenses decreased in the second quarter of 2020 due to the significant amount of production being shut in along with cost saving initiatives the Company has undertaken.

Operating and transportation expenses increased on a per boe basis for the three months ended June 30, 2020, compared to the prior period, mainly due to the decrease in production along with some one-time costs being incurred in the second quarter. As a significant portion of the Company's operating expenses are fixed, the decrease in production have impacted operating and transportation expenses per boe negatively. The expenses per boe in the second quarter was also impacted by the majority of the Clearwater production being shut in for the quarter. The Clearwater play has significantly lower costs on a per boe basis compared to the Company's historical production from Red Earth. During the six months ended June 30, 2020, operating and transportation expense per boe was approximately $7.30 for the Clearwater CGU, despite majority of production being shut-in during the second quarter of 2020. The Company continues to focus on increasing production in the Clearwater area to reduce overall operating and transportation expense per boe, with current production in the Clearwater field of 775 bbls/d.

Operating and transportation expenses also includes expenditures related to the Wabasca River Pipeline System. The Wabasca River Pipeline System does not provide any production which increases the costs per boe.

Management continues to look at production and operating costs to identify additional efficiencies.

The table below shows the adjusted operating and transportation expense per boe (*see Non-GAAP measures for definition*) for the past eight quarters:

	June 30, 2020	**Mar 31, 2020**	**Dec. 31, 2019**	**Sept. 30, 2019**	**June 30, 2019**	**Mar. 31, 2019**	**Dec. 31, 2018**	**Sept. 30, 2018**	**Jun. 30, 2018**
	$	$	$	$	$	$	$	$	$
Total operating and transportation per boe	37.37	31.19	38.53	37.40	28.84	35.96	28.41	53.34	37.41
Adjusting items per boe									
Wabasca River Pipeline System	(3.68)	(1.19)	(2.61)	(6.31)	(1.97)	(1.35)	(1.46)	(1.40)	(2.00)
Turnarounds	-	-	(0.09)	(1.16)	-	-	-	(1.60)	-
Workovers	(0.17)	(0.91)	(5.60)	(0.04)	(0.74)	(3.90)	(0.82)	(1.47)	(1.47)
Undeveloped Clearwater lands	-	-	-	-	-	-	-	(0.64)	(0.14)
Pipeline release	(10.74)	-	-	-	-	-	9.71	(10.49)	(4.39)
Adjusted operating and transporation per boe	22.78	29.10	30.23	29.89	26.13	30.71	35.84	37.74	29.41

Adjusted operating and transportation expense is adjusted in order to present what the operating and transportation expense per boe would be for the Company's producing assets, assuming no unusual or non-recurring expenditures.

Netback Analysis

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**21.94**	66.04	**33.19**	61.86
Royalties	**(1.34)**	(9.84)	**(3.34)**	(7.64)
Operating and transportation	**(37.37)**	(28.84)	**(33.15)**	(32.08)
Operating netback	**(16.77)**	27.36	**(3.30)**	22.14

The main reason for the decrease in operating netback for the three and six months ended June 30, 2020 compared to respective periods in 2019 is due to the reduction in average realized sales price. The average realized price for the three and six months ended June, 2020 were approximately 67% and 47%, respectively, lower than the three and six months ended June 30, 2019. The decrease in operating netback was partially offset by decreased in royalties per boe the three and six months ended June 30, 2020 compared to the prior periods. Management continues to look at ways to maximize the operating netback, including but not limited to the continued development of the Clearwater CGU. The Company remains excited about the Clearwater CGU and the economics it can provide once commodity prices stabilize, with a royalty rate of 9% and operating and transportation expenses that were just $6.40 per boe in the first quarter of 2020 prior to production being shut in. While increased production from the Clearwater area is key, the Company is also ensuring it maintains the long-term integrity of the asset.

Risk Management

Highwood's cash flow is highly variable, in large part because oil and natural gas are commodities whose prices are determined by worldwide and/or regional supply and demand, transportation constraints, weather conditions, availability of alternative energy sources and other factors, all of which are beyond Highwood's control. World prices for oil and natural gas have fluctuated widely in recent months.

During the first half of 2020, oil prices have dramatically collapsed due to the impact of the Coronavirus pandemic and other conditions. On January 30, 2020, the World Health Organization declared the Coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020 declared COVID-19 a pandemic. As a result, there has been a significant demand shock worldwide which creates downward pressure on oil prices. There has also been increased supply due to the dispute between Saudi Arabia and Russia which had a further adverse impact on oil prices. These factors have combined to result in oil prices never before seen, at one point during the second quarter of 2020, prices in North America for oil were briefly negative. Benchmark crude oil prices for the second quarter of 2020 were down 61% compared to the second quarter of 2019.

Management of cash flow variability is an integral component of the Company's business strategy. Business conditions are monitored regularly and reviewed with the Board of Directors to establish risk management guidelines used by management in carrying out the Company's strategic risk management program.

The Company has elected not to use hedge accounting and, accordingly, the fair value of the financial contracts is recorded at each period-end. The fair value may change substantially from period to period depending on commodity forward strip prices for the financial contracts outstanding at the balance sheet date. The change in fair value from period-end to period-end is reflected in the income for that period. As a result, income may fluctuate considerably.

At June 30, 2020 Highwood had the following commodity contracts, with a total mark-to-market asset of $1,772,000.

CAD Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	50bbls/day	January 1, 2020 to December 31, 2020	$ 70.05	WTI - NYMEX
Crude Oil	50bbls/day	January 1, 2020 to December 31, 2020	$ 71.53	WTI - NYMEX
Crude Oil	250bbls/day	January 1, 2020 to December 31, 2020	$ 65.00	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2020 to December 31, 2020	$ 66.00	WTI - NYMEX
Crude Oil	250bbls/day	January 1, 2021 to December 31, 2021	$ 65.40	WTI - NYMEX

Differential:

Product	Notional Volume	Term	Fixed Price Differential (CAD/bbl)	Index
Crude Oil	200bbls/day	April 1, 2020 to December 31, 2020	$ (21.20)	WCS vs. WTI - NYMEX
Crude Oil	100bbls/day	April 1, 2020 to December 31, 2020	$ (21.40)	WCS vs. WTI - NYMEX

Subsequent to June 30, 2020, the Company entered into the following commodity contracts:

CAD Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	50bbls/day	July 1, 2020 to December 31, 2020	$ 54.27	WTI - NYMEX
Crude Oil	50bbls/day	July 1, 2020 to December 31, 2020	$ 54.60	WTI - NYMEX
Crude Oil	50bbls/day	July 1, 2020 to December 31, 2020	$ 55.05	WTI - NYMEX
Crude Oil	50bbls/day	July 1, 2020 to December 31, 2020	$ 54.50	WTI - NYMEX
Crude Oil	50bbls/day	July 1, 2020 to December 31, 2020	$ 55.00	WTI - NYMEX
Crude Oil	50bbls/day	July 1, 2020 to December 31, 2020	$ 55.00	WTI - NYMEX
Crude Oil	50bbls/day	July 1, 2020 to December 31, 2020	$ 56.05	WTI - NYMEX
Crude Oil	50bbls/day	January 1, 2021 to June 30, 2021	$ 57.15	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2021 to June 30, 2021	$ 58.19	WTI - NYMEX
Crude Oil	50bbls/day	January 1, 2021 to June 30, 2021	$ 58.70	WTI - NYMEX

Commodity contracts are considered financial instruments, and the resulting derivative financial asset or liability was recorded on the Company's balance sheet, with the unrealized gain or loss being recorded on the statement of loss and comprehensive loss.

	Three months ended June 30,		**Six months ended June 30,**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Realized gain (loss) on commodity contracts	**1,185**	(435)	**2,053**	(639)
Unrealized gain (loss) on commodity contracts	**(2,684)**	(3,082)	**5,214**	(5,275)

The realized gain on commodity contracts during the three and six months ended June 30, 2020 was due to oil commodity prices being lower than the contract price. The realized loss on commodity contracts during the three months and six months ended June 30, 2019 was due to oil commodity prices being higher than the contract price.

The unrealized loss for the three months ended June 30, 2020 was a result of an increase in future strip prices from the previous reporting period of March 31, 2020. The unrealized gain for the six months ended June 30, 2020 was a result of decreased future strip prices during the period from when the contracts were entered into. The unrealized loss for the three and six months ended June 30, 2019 was a result of increased future strip prices during the period from when the contracts were entered into.

General and Administrative (G&A)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
G&A	**1,537**	1,427	**2,946**	2,616
G&A expense per boe	**19.38**	9.75	**11.80**	9.76

G&A expenses increased for the three and six months ended June 30, 2020 compared to the prior periods mainly due to an increase in risk mitigation expenditures, increase in director and officer insurance caused by the uncertainty in the energy market, reduced overhead recoveries due to reduced capital activity and additional one time costs associated with a reduction in staff due to the market conditions caused by COVID-19 and the volatility in commodity prices. G&A expense per BOE was significantly impacted by the Company shutting in the majority of production capacity during the second quarter due to the collapse in oil prices. In the second quarter of 2020, the Company reduced compensation of executive and office salaries by a minimum of 20%. The Company has also applied for and received government subsidies in order to further reduce G&A costs. The Company has also suspended any discretionary spending and is working with vendors to find additional cost savings. Risk mitigation expenditures for the three and six months ended June 30, 2020 was $858,000 and $1,649,000, respectively ($10.83 per boe and $6.61 per boe, respectively), compared to $801,000 and $1,449,000, respectively ($5.48 per boe and $5.40 per boe, respectively) in the comparative period.

Stock-Based Compensation

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Stock-based compensation	**153**	192	**424**	331

The decrease in stock-based compensation for the three months ended June 30, 2020 from the comparative three months ended June 30, 2019 is due a reversal of stock-based compensation of $91,000 relating to the unvested portion of the forfeited options and RSU’s that had been previously recognized.

The increase in stock-based compensation for the six months ended June 30, 2020 is due to the timing of option and RSU’s grants on January 23, 2019 and October 31, 2019. The comparative period would only recognize a portion of the January 23, 2019 grants and none of the October grants.

At June 30, 2020 the Company had 128,000 options and 110,000 RSU’s outstanding.

Depletion and Depreciation (“D&D”)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
D&D	**1,155**	2,396	**3,639**	4,422
Per boe	**14.59**	16.38	**14.58**	16.49

The decrease in D&D for the three and six months ended June 30, 2020, compared to the prior periods, is mainly a result of the a significant decrease in the depletable base due to the impairment expense recognized in the first quarter of 2020 along with a decrease in production from the comparative periods

Impairment

	Three months ended June 30, 2020	2019	**Six months ended June 30, 2020**	2019
	$	$	**$**	$
Impairment of property, plant and equipment	**-**	-	**10,926**	-
Impairment of exploration and evaluation assets	**-**	-	**198**	-
Impairment expense	**-**	-	**11,124**	-

Impairment of property, plant and equipment

The Company assesses many factors when determining if an impairment test should be performed. For the period ended June 30, 2020, the Company conducted an assessment of impairment indicators for the Company's CGU's. The Company determined there were no indicators of impairment or reversal of prior impairments present, therefore no impairment test was performed at June 30, 2020.

As at March 31, 2020, management determined that the continued depressed commodity pricing and the impact this has on the economic performance of the Company's CGUs justified calculation of the recoverable amounts of all CGUs. The recoverable amounts were estimated at the value in use based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by external engineers at December 31, 2019 and internally updated by Company engineers at March 31, 2020. The future net cash flows were discounted at a before tax rate of 15%

During the first quarter of 2020, the Company determined that the following CGU's were impaired:

			Sensitivities			
CGU	**Recoverable amount**	**Impairment**	***Increase in rate***[2]	***Decrease in rate***[2]	***Increase in cash flows***[3]	***Decrease in cash flows***[3]
House Creek[1]	$ 6,934	$ 1,617	*$ 2,168*	*$ 904*	*$ 946*	*$ 1,866*
Panny[1]	15,174	3,642	*4,598*	*2,673*	*2,703*	*4,530*
North Senex[1]	2,076	438	*540*	*329*	*334*	*540*
South Senex[1]	2,235	3,125	*3,619*	*2,591*	*2,647*	*3,598*
Kidney[1]	-	1,772	*2,016*	*1,512*	*1,587*	*1,993*
Saskatchewan	3,862	332	*486*	*168*	*133*	*541*
		$ 10,926				

1 CGU's are part of the Red Earth area

2 What impairment would be based on a 1% change in the assumed discount rate over the life of the reserves independently

3 What impairment would be based on a 5% change in cash flows

Impairment of exploration and evaluation assets

The Company assesses many factors when determining if an impairment test should be performed. As at June 30, 2020, the Company conducted an assessment of impairment indicators for the Company's CGUs. In performing the review, management determined that there were no indicators of impairment or impairment reversal present, therefore no impairment test was performed at June 30, 2020.

During the first quarter of 2020, due to depressed commodity pricing and the impact this has on the economic performance of the Company's CGUs justified calculation of the recoverable amounts of all CGUs. The recoverable amounts were estimated at fair value less costs to sell based on recent land sales in the areas surrounding the Company's lands. During the three month period ended March 31, 2020, the Company determined that, Viking, one of its non-core CGU's would no longer be pursued and the Company intends to allow the leases to expire. The

Company recognized an impairment loss relating to the non-core CGU of $198,000, representing the full carrying value of the non-core CGU, due to the carrying value exceeding its recoverable amount of $nil.

Finance Income and Expenses, Net

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Interest on bank debt	**119**	213	**$ 297**	417
Stamping fees on bank debt	**371**	257	**647**	496
Other interest expense (income)	**(54)**	22	**(54)**	22
Cash finance income and expenses	**436**	492	**890**	935
Finance fees	**25**	20	**131**	32
Accretion of decommissioning liabilities	**103**	152	**240**	318
Other expense	**3**	4	**6**	10
Non-cash finance expense	**131**	176	**377**	360
Total finance income and expenses	**567**	668	**1,267**	1,295

Interest on bank debt and stamping fees relates to interest and fees paid to Highwood's bankers to service the bank debt and bank overdraft. Interest on bank debt and stamping fees three and six months ended June 30, 2020 compared to 2019 was consistent as the increase in amount drawn was offset by a decrease in interest rates in 2020.

Interest rates are based on the Company's most recent quarter net debt to cash flow ratio. Net debt is defined by the agreement as working capital deficit plus bank debt and cash flow is defined effectively as cash flow from operating activities before changes in non-cash working capital for the most recent quarter annualized and normalized for extraordinary and nonrecurring earnings, gains, and losses.

Deferred Income Tax

Deferred income tax was a recovery of $1,484,000 and $2,325,000, respectively, for the three and six months ended June 30, 2020, compared to a recovery of $893,000 and $1,316,000 for the three and six months ended June 30, 2019. The deferred tax recoveries for the six months ended June 30, 2020 was mainly due to the impairment expense incurred during the period which decreased the deferred tax liability with respect to property, plant and equipment and exploration and evaluation.

Loss

The Company incurred a loss of $3,837,000 and $7,561,000, respectively, for the three and six months ended June 30, 2020, compared to a loss of $475,000 and $2,983,000, respectively, for the comparative three and six months ended June 30, 2019. The loss for the three month period ended June 30, 2020 is primarily due to the collapse in oil prices and impact of COVID-19 and other market conditions. For the six months ended June 30, 2020, the Company's loss was primarily a result of a non-cash $11,124,000 impairment expense along with the collapse in oil prices. For the six months ended June 30, 2019, the Company's loss was partially a result of a non-cash $1,329,000 listing expense related to the Company's acquisition and amalgamation of Predator Blockchain Capital Corp. The listing expense represents the difference between the compensation paid by the Company and the net assets the Company acquired. The listing expense was incurred in order for the Company to begin trading on the TSX Venture Exchange.

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Loss	**(3,837)**	(475)	**(7,561)**	(2,983)
Per share, basic and diluted	**(0.64)**	(0.08)	**(1.26)**	(0.50)

Supplemental Information

The following tables summarize key financial and operating information for the periods indicated:

Cash Flows from Operating Activities

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Loss	**(3,837)**	(475)	**(7,561)**	(2,983)
Non-cash items:				
Unrealized (gain) loss on commodity contracts	**2,684**	3,082	**(5,214)**	5,275
Exploration and evaluation expenditures	**-**	22	**-**	22
Depletion and depreciation expense	**1,155**	2,396	**3,639**	4,422
Impairment loss	**-**	-	**11,124**	-
Finance expense	**106**	177	**352**	360
Deferred income tax recovery	**(1,484)**	(893)	**(2,325)**	(1,316)
Stock-based compensation	**153**	192	**424**	331
Gain on disposal of assets	**-**	(650)	**(586)**	(1,950)
Listing expense	**-**	-	**-**	1,329
Cash abandonment expenditures	**-**	(8)	**-**	(161)
Change in non-cash working capital	**3,390**	3,093	**6,101**	7,338
	2,167	6,936	**5,954**	12,667

Selected Quarterly Information

Three months ended	June 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018
Financial ($000s, except per share amounts and share numbers)								
Oil and natural gas sales	1,737	6,545	7,908	8,850	9,662	6,929	3,113	7,337
Transportation pipeline revenues	769	1,160	1,228	1,316	1,498	1,234	1,309	976
Income (loss)	(3,837)	(3,724)	(6,583)	(1,447)	(475)	(2,508)	1,223	(837)
Capital expenditures	223	4,191	4,895	2,382	595	4,077	6,420	2,118
Total assets *(end of quarter)*	103,782	106,906	114,187	120,543	119,614	119,065	126,545	122,308
Working capital surplus (deficit), excluding commodity contracts and bank debt *(end of quarter)*	(9,089)	(4,064)	(8,811)	2,311	(1,594)	1,333	3,370	1,077
Shareholders' equity *(end of quarter)*	10,860	14,544	17,997	24,279	25,532	24,167	24,580	24,059
Weighted-average basic shares outstanding *(000s)*	6,014	6,014	6,014	6,014	5,994	5,890	5,695	5,539
Operations								
Production								
Natural gas *(Mcf/d)*	-	-	-	-	-	-	12	16
NGL *(bbls/d)*	-	-	-	-	-	-	-	-
Crude oil *(bbls/d)*	870	1,872	1,515	1,495	1,608	1,354	1,117	1,033
Total *(boe/d)*	870	1,872	1,515	1,495	1,608	1,354	1,119	1,036
Average realized prices *($)*								
Natural gas *(per Mcf)*	-	-	-	-	-	-	2.01	1.33
NGL *(per bbl)*	-	-	-	-	-	-	72.03	82.25
Crude oil *(per bbl)*	21.94	38.42	56.74	64.32	66.04	56.85	30.27	77.15

Inherent to the nature of the oil and gas industry, fluctuations in Highwood's quarterly oil and natural gas sales, cash flows from operating activities, and income or loss are primarily caused by variations in production volumes, realized commodity prices and the related impact on royalties, realized and unrealized gains/losses on financial instruments, changes in per-unit expenses, and deferred income taxes. Please refer to the Financial and Operating Results section above for an explanation of changes.

Capital Activity

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	$	$	**$**	$
Land	**-**	67	**4**	460
Seismic and other pre-drilling costs	**55**	57	**95**	132
Production equipment and facilities	**50**	296	**1,065**	1,444
Drilling and completions	**114**	175	**2,720**	1,983
Recompletions	**4**	-	**531**	653
Acquisitions	**-**	-	**-**	-
	223	595	**4,415**	4,673

At June 30, 2020, the Company had E&E assets of $7,408,000 (December 31, 2019 – $7,569,000). This included approximately 334,000 net acres of undeveloped land, of which approximately 140,000 net acres are located in the Company's Clearwater core area the Company began acquiring in September 2017.

At June 30, 2020, the Company had gross property and equipment of $135,812,000 (December 31, 2019 - $128,555,000). This included developed land and costs associated with the wells the Company has drilled and acquired to date and the transportation pipelines the Company acquired in 2018.

During the three and six months ended June 30, 2020, the Company drilled nil and 5 gross wells (2.5 net) in its Clearwater core area. As of the date of this MD&A, the Company has drilled 19 gross wells (9.5 net) it its Clearwater core area. The first eight drills in the Clearwater core area were primarily funded by the proceeds from the sale of the 4% non-deduct royalty and the remaining funded from cash flows. One of the wells drilled in the first quarter of 2020 was funded by proceeds from the sale of an additional non-deduct royalty of 4% on additional lands.

The Company, along with its 50% joint venture partner in the Clearwater area, disposed of a 4% royalty over certain jointly held Clearwater mineral rights, in the Craigend area, for gross proceeds of $1,296,000 ($648,000 being the Company's share). As a condition of the royalty divestiture, the Company and its joint venture partner were required drill a well in the Craigend formation prior to March 31, 2020. Upon rig release of the applicable well in February, 2020, $1,296,000 ($648,000 Company's share), was paid to the Company.

In response to the decrease in commodity prices as a result of the COVID-19 pandemic and the recent volatility in commodity prices, the Company has ceased non-essential capital activity. The Company will closely monitor commodity prices and market conditions to determine when it is economical to continue developing the Clearwater area.

Share Capital and Option Activity

As at June 30, 2020 the Company had 6,014,000 common shares, 128,000 options and 110,000 RSU's outstanding.

Subsequent to June 30, 2020, the Company granted 45,000 options at an exercise price of $16.50 per option. The options granted vest 1/3 on each of the twelve, twenty-four and thirty-six month anniversaries from the grant date and have a five year term.

Subsequent to June 30, 2020, the Company granted 45,000 RSU's exercisable for nominal consideration. The RSU's granted vest 1/3 on each of June 30, 2021, June 30, 2022 and June 30, 2023 and expire on December 31, 2023.

As at the date of this MD&A the Company had 6,014,000 common shares, 173,000 options and 155,000 RSU's outstanding

Liquidity, Capital Resources and Going Concern

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities as they become due. The decrease in commodity prices as a result of the COVID-19 impact reducing demand and the oversupply of oil caused by the Saudi-Russia price war will negatively impact the Company's financial performance and position, which increases the liquidity risk of the Company.

At June 30, 2020, the Company was in a negative working capital position, excluding bank debt, of $7,779,000 In addition, the Company is required to make certain minimum payments under other commitments. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows and through deleveraging transactions. The Company also has a credit facility to facilitate the management of liquidity risk. At June 30, 2020, approximately $1,000,000 was available under the credit facility. Subsequent to June 30, 2020, the bank facility was confirmed at $38.0 million, consisting of a $20.0 million operating facility that matures May 31, 2021, a $9.0 million term facility that matures September 30, 2020 and a $9.0 million term facility that matures December 31, 2020.

The borrowing base, currently set at $38,000,000, will be reviewed at least semi-annually by the lender, and more frequent under certain circumstances. The borrowing base can be determined at the sole discretion of the lender and any amount outstanding under the credit facility in excess of a newly established borrowing base must be repaid in full within 30 days. The Company's next review and borrowing base determination is scheduled on or before November 30, 2020 but may be set at an earlier or later date at the discretion of the bank.The lender has sole discretion on the determination of the borrowing base which is based predominantly on the Company's cash flows forecast from proved developed producing oil and natural gas reserves. The current state of the Western Canadian energy sector coupled with the suppressed global oil and natural gas commodity price environment has negatively impacted the availability for credit within the industry.

The Company is required to maintain a current ratio of not less than 1.0:1.0, and such ratio is to be tested at the end of each fiscal quarter. Current ratio is defined as the ratio of (i) current assets, excluding financial derivatives, plus any undrawn availability under the credit facility to (ii) current liabilities, excluding financial derivatives, any amounts drawn under the credit facility and any current liabilities related to lease contracts. At June 30, 2020, the Company's current ratio was 0.59:1.0 (December 31, 2019 – 0.8:1.0), however, subsequent to June 30, 2020 the lender waived compliance with this covenant for the three months ended June 30, 2020. For the three month period ended June 30, 2020, the net debt to cash flow covenant for the Company was also waived. The Company is required to maintain a net debt to cash flow ratio no greater than 3.0:1.0 as at the last day of the fiscal quarter ended September 30, 2020 and each quarter thereafter. The Company believes it may be in violation of the net debt to cash flow ratio in future reporting periods at current forecasted prices and is regular communications with its lender. For the purposes of the covenant, net debt is defined by the agreement as working capital deficit (excluding financial derivatives) plus bank debt and cash flow is defined effectively as cash flow from operating activities before changes in non-cash working capital for the most recent two quarters annualized and normalized for extraordinary and nonrecurring earnings, gains, and losses. The Company will also be required to meet certain reporting requirements on a quarterly and annual basis. Under the credit facility existing at June 30, 2020, the Company is also restricted from entering into notional commodity contracts exceeding forty-two months in term and cannot exceed 60% of gross production volumes (by commodity) for the three month trailing period, at the time the contracts are entered into. The Company is required to enter into notional commodity contracts for and in respect of not less than 50% of forecasted aggregate oil and liquids production volumes of the Company immediately following 12 months based on gross trailing quarter production adjusted for acquisition; and enter into notional commodity contracts for and in respect of not less than 25% of forecasted aggregate oil and liquids production volumes of the Company for month 13 to 24 of such 24 month period based on gross trailing quarter production for acquisitions.

Subsequent to June 30, 2020, under the ARCA, the Company was required within 5 business days of the effective date of the ARCA to put in place additional commodity contracts such that an aggregate of 800 bbl per day are subject to commodity swap contracts for the second half of 2020; and within 60 days of the effective date of the ARCA to put in place additional commodity contracts such that an aggregate of 800 bbl per day are subject to commodity swap contracts for the first half of 2021.

The bank facility has financial and hedging covenants. The Company was in violation of its financial covenants at June 30, 2020, but it has obtained a waiver from the bank. At planned production rates and forward prices for crude oil being traded in the futures market, management is forecasting a breach in covenants within the next 12 months. The Company forecasts that it can continue to meet its obligations including interest payments, general & administrative expenses and operating expenses within its internally generated cash flows. However, there are no assurances that the lender will maintain the borrowing base at the current level, or that the Company will be able to extinguish the term credit facilities due September 30, 2020 and December 31, 2020, which may result in a borrowing base shortfall. If the Company cannot generate sufficient funds to meet the borrowing base shortfall it would constitute an event of default under the loan agreement and the bank could demand immediate repayment of the outstanding loan amount. The Company is evaluating and planning to act on several liquidity options to help ensure the short-term availability of funds in this tumultuous time. During the quarter ended June 30, 2020 the Company shut-in certain properties that were uneconomic at prevailing prices. Subsequent to June 30, 2020 the Company began to restore production when a recovery in prices was seen and the production became economic once more.

The Company has reduced accounts payable and accrued liabilities by approximately $758,000 during six months ended June 30, 2020 from December 31, 2019. The main reason for the decrease is due to the Company collecting insurance proceeds along with cost cutting measures implemented in the second quarter of 2020, including the suspension of capital activity, offset by capital activity in the first quarter of 2020.

The Company believes it has sufficient funds to meet foreseeable obligations by actively monitoring its credit facilities through use of the revolving debt, coordinating payment and revenue cycles each month, and an active commodity hedge program to mitigate commodity price risk and secure cash flows. The Company will also seek secondary financing to meet obligations if terms are considered to be economic by the Company.

The Company generally relies on operating cash flows and its credit facility to fund its capital requirements and provide liquidity. Future liquidity depends primarily on funds generated from operations, drawing on existing credit facilities and accessing debt and equity markets.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The oil and natural gas commodity price environment has been extremely volatile and suppressed by historical standards in the past few years and has been made significantly worse with the recent COVID-19 outbreak and the resulting global oversupply of oil. The Company has, to the best of its ability, managed through this low price environment by maintaining an active risk management and hedging program, targeting low risk capital projects and accretive, long life asset acquisitions. The recent downward shift on global oil and natural gas commodity pricing has resulted in the deterioration in the Company's projected cash flows over the next 12 months.

Due to the factors mentioned above, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include necessary adjustments to reflect the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and such adjustment could be material.

Off-Balance-Sheet Arrangements

The Company does not have any special-purpose entities nor is it a party to any arrangements that would be excluded from the balance sheet.

Environmental Initiatives Affecting Highwood

In October 2019, the Government of Canada announced a national carbon pricing regime in response to the Paris Agreement ratified by Canada earlier that month. Under the Carbon Strategy, a benchmark carbon pricing program will be applied, pricing carbon emissions at a minimum of $10 per tonne in 2019, rising by $10 per tonne each nine months to $50 per tonne by 2022. The Carbon Strategy also proposes a federal backstop in the event that jurisdictions fail to meet the benchmark. The Government of Alberta established a carbon pricing system referenced in the federal announcement; therefore, in the short term, the national price on carbon will likely have little additional impact to Highwood beyond that imposed by the Government of Alberta.

Commitments and Contingencies

(a) Commitments

At June 30, 2020, the Company had the following commitments in addition to the leases described in note 12:

(i) Physical delivery electricity services contract:

	Average monthly contracted kW	Term	Fixed Price
Electricity	413 kW	January 1, 2020 to December 31, 2020	5.046¢/kWh

(b) Contingencies

By nature of its oil and gas operations in Northern Alberta, the Company is subject to numerous safety and environmental regulations, with which non-compliance may result in adverse financial impact. The Company mitigates these risks through the adherence to formal safety and environmental policies, as well as adequate insurance coverage. The Company is currently remediating three environmental pipeline releases at Red Earth, Alberta, all relating to the same segment of pipeline. While the Company believes it has recorded its best estimate of the impact of this contingency in these financial statements, the ultimate outcome is uncertain. The event is insurable and the Company has made payments on the majority of remediation work in 2018 and 2019. There will be ongoing monitoring costs which the Company anticipates paying over the next several years subject to the overview and approval of the provincial regulatory bodies. The Company anticipates the majority of the estimated $33,350,000 pipeline release related costs will be paid out from anticipated insurance proceeds of $32,830,000 which $30,900,000 was received as at June 30, 2020 and remainder of the proceeds are expected to be received prior to December 31, 2020. In relation to the pipeline release the Company has cumulatively recorded $32,830,000 of accounts receivable for the anticipated insurance proceeds, $33,350,000 of accounts payable and accrued liabilities in relation to the estimated costs of the remediation work and $520,000 in operating costs during 2018 and $nil for 2019 and 2020 for the remediation work the Company will be responsible for as part of the self-insured portion of the insurance coverage and expenses not covered by insurance. At June 30, 2020, $1,930,000 and $1,896,000 were included in insurance proceeds receivable and accounts payable and accrued liabilities, respectively related to this insurable event.

Related-Party Transactions

During the three and six months ended June 30, 2020, the Company incurred charges of $59,000 and $145,000, respectively (three and six months ended June 30, 2019 – $61,000 and $74,000, respectively) from a company with common officers and directors, Tidewater Midstream and Infrastructure for management fees, office space, subscriptions and supplies of which $29,000 and $85,000, respectively (three and six months ended June 30, 2019 – $31,000 and $14,000, respectively) was recorded as an increase general and administrative expense and $30,000 and $60,000 (three and six months ended June 30, 2019 – $30,000 and $60,000, respectively) was recorded as a reduction to lease liabilities. In addition the Company was charged $nil and $93,000, respectively (three and six months ended June 30, 2019 – $187,000 and $206,000, respectively) for net non-operated gas sales, butane purchases and gas processing fees which is included in operating and transportation expense. During the three and six months ended June 30, 2020, the Company was also charged $nil and $573,000, respectively (three and six months ended June 30, 2019 – $217,000 and $863,000, respectively) for propane purchases and distribution from a subsidiary of this company which is included in operating and transportation expenses on the statement of loss and comprehensive loss. As at June 30, 2020, $4,000 (December 31, 2019 - $4,000) is included within accounts receivable and $1,466,000 (December 31, 2019 - $1,000,000) is included within accounts payable with respect to these charges.

Hedging

The Company historically practiced an active hedging program, with the objective to provide a measure of downside protection for its oil and natural gas sales and cash flow from operations, while maximizing exposure to potential commodity pricing upside.

Critical Accounting Judgments, Estimates and Policies

The Company's critical accounting judgements, estimates and policies are described in notes 2 and 3 to the December 31, 2019 annual consolidated financial statements. Certain accounting policies are identified as critical because they require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain, and because the estimates are of material magnitude to revenue, expenses, funds flow from operations, income or loss and/or other important financial results. These accounting policies could result in materially different results should the underlying conditions change or the assumptions prove incorrect.

Critical accounting estimates are those requiring management to make particularly subjective or complex judgments about inherently uncertain matters. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recognized in the same period.

Management's assumptions are based on factors that, in management's opinion, are relevant and appropriate, and may change over time as operating conditions change

In March 2020, COVID-19 was declared a pandemic by the World Health Organization. Global commodity prices have faced significant downward pressure primarily due to the collapse in demand attributed to COVID-19 combined with a global price war. These events have resulted in volatile and challenging economic conditions. There is significant ongoing uncertainty surrounding COVID-19 and the extent and duration of the impacts that the Company may experience. The potential risk and impact due to the events described above relating to the Company has been taken into consideration in management's estimates used for the period end. However, there could be further prospective material impacts in future periods.

More specifically, the assumptions may changes that are involved in the estimates of valuation of exploration and evaluation assets and property and equipment cash generating units, the timing of decommissioning obligations, the fair value of commodity contracts, the expected credit loss provisions related to accounts receivable as well as liquidity and going concern assessments.

A full list of significant estimates and judgments can be found in note 2(e) of the Company's annual financial statements for the year ended December 31, 2019. COVID-19 and current market conditions have increased the complexity of estimates and assumptions used to prepare the condensed interim financial statements.

New accounting standards and policies issued but not yet applied

Changes in accounting policies

Business Combinations

On January 1, 2020, the Company adopted the amendment as issued on October 22, 2018 by the IASB related to IFRS 3, "*Business Combinations"* ("IRFS 3"), revising the definition of a business and providing for the addition of an optional 'concentration test' to determine if the acquisition is a business. To be considered a business under the amendments to IFRS 3, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The three elements of a business are defined as follows:

- Input – Any economic resource that creates outputs or has the ability to contribute to the creation of outputs, when on or more processes are applied to it.
- Process – Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output – The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional ‘concentration test’ permits a simplified assessment that results in as asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or group of similar identifiable assets. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the sets of activities and assets is determined to not be a business and no further assessment is needed. The amendment to IFRS 3 had no effect to the Company for the period ended June 30, 2020.

Non-GAAP Measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry. The term “operating netback” (oil and natural gas sales less royalties and production, operating and transportation expenses, all expressed on a per-unit-of-production basis) is not defined under IFRS, and may not be comparable with similar measures presented by other companies. Operating netback is a per-unit-of-production measure that may be used to assess the Company’s performance and efficiency.

The term “adjusted operating and transportation expense” is not defined under IFRS, and may not be comparable with similar measures presented by other companies. Adjusted operating and transportation expense is adjusted in order to present what the operating and transportation expense per boe would be for the Company’s producing assets, assuming no unusual or non-recurring expenditures.

The term “working capital surplus (deficit), excluding bank debt” is not defined under IFRS, and may not be comparable with similar measures presented by other companies. Working capital surplus (deficit), excluding bank debt is included to show what the working capital relating to customers, vendors, and joint venture partners would be.

Basis of Barrel of Oil Equivalent

Petroleum and natural gas reserves and production volumes are stated as a “barrel of oil equivalent” (boe), derived by converting natural gas to oil equivalency in the ratio of 6,000 cubic feet of gas to one barrel of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6,000 cubic feet of gas to one barrel of oil is based on energy equivalency, which is primarily applicable at the burner tip, and does not represent a value equivalency at the wellhead. Readers are cautioned that boe figures may be misleading, particularly if used in isolation.

Forward-Looking Statements

This document contains certain forward-looking statements. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could influence actual results or events and cause them to differ materially from those stated, anticipated or implied. Such forward-looking statements necessarily involve risks including, without limitation, those associated with oil and natural gas exploration, property development, production, marketing and transportation, such as dry holes and non-commercial wells, facility and pipeline damage, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, production declines, health, safety and environmental risks, competition from other producers and the ability to access sufficient capital from internal and external sources. Forward-looking information typically includes statements with words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, “estimate”, “propose”, “project”, or similar words suggesting future outcomes. The Company cautions readers and prospective investors in the Company’s securities not to place undue reliance on forward-looking information as, by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company.

Forward-looking information typically involves substantial known and unknown risks and uncertainties, certain of which are beyond the Company’s control. Such risks and uncertainties include, without limitation: financial risk of marketing reserves at an acceptable price given market conditions; volatility in market prices for oil and natural gas; delays in business operations; pipeline restrictions; blowouts; the risk of carrying out operations with minimal environmental impact; industry conditions including changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; uncertainties associated with estimating oil and natural gas reserves; risks and uncertainties related to oil and gas interests and operations on aboriginal lands; economic risk of finding and producing reserves at a reasonable cost; uncertainties associated with partner plans and approvals; operational matters related to non-operated properties; increased competition for, among other things, capital, acquisitions of reserves and undeveloped lands; competition for and availability of qualified personnel or management; incorrect assessments of the value of acquisitions and exploration and development programs; unexpected geological, technical, drilling, construction, processing and transportation problems; availability of insurance; fluctuations in foreign exchange and interest rates; stock market volatility; general economic, market and business conditions; uncertainties associated with regulatory approvals; uncertainty of government policy changes; uncertainties associated with credit facilities and counterparty credit risk; changes in income tax laws, Crown royalty rates and incentive programs relating to the oil and gas industry; and other factors, many of which are outside the Company’s control. The Company’s actual results, performance or achievements could, therefore, differ materially from those expressed in, or implied by, these forward-looking estimates and whether or not any such actual results, performance or achievements transpire or occur, there can be no certainty as to what benefits or detriments the Company will derive therefrom.

The forward-looking information included herein is expressly qualified in its entirety by this cautionary statement. It is made as of the date hereof and the Company assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

Abbreviations

The following summarizes the abbreviations used in this document:

Crude Oil and Natural Gas Liquids

bbl	barrel
Mbbl	thousand barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
Mboe	thousand barrels of oil equivalent
boe/d	barrel of oil equivalent per day
NGL	natural gas liquids

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
GJ	Gigajoule; 1 Mcf of natural gas is about 1.05 GJ
MMBtu	million British thermal units; 1 GJ is about 0.95 MMBtu

Other

$000s	thousands of dollars
IFRS	International Financial Reporting Standards
IAS	International Accounting Standard

Corporate Information

BOARD OF DIRECTORS

GREG MACDONALD
President & CEO
Highwood Oil Company Ltd.
Calgary, Alberta

STEPHEN HOLYOAKE
CEO, Fireweed Energy Ltd.
Calgary, Alberta

TREVOR WONG-CHOR
Partner, DLA Piper (Canada) LLP
Calgary, Alberta

ARIF SHIVJI
Independent Businessman
Calgary, Alberta

OFFICERS

GREG MACDONALD
President & Chief Executive Officer

GRAYDON GLANS
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