



**HIGHWOOD**  
OIL COMPANY LTD.

**HIGHWOOD OIL COMPANY LTD.**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019**  
*(unaudited)*

**Highwood Oil Company Ltd.**  
**Condensed Interim Consolidated Statement of Financial Position**

(amounts in Canadian dollars) (unaudited)	Note	As at September 30 2019	As at December 31 2018
<b>Assets</b>			
Current assets			
Accounts receivable	3, 16(a)	\$ 14,169,173	\$ 7,171,840
Insurance proceeds receivable	3	3,530,000	26,630,000
Deposits and prepaid expenses		1,235,810	294,839
Reclamation deposits		123,300	-
Commodity contracts	16(b)	-	1,316,000
<b>Total current assets</b>		<b>19,058,283</b>	<b>35,412,679</b>
Acquisition deposits		150,000	150,000
Reclamation deposits		18,000	141,300
Commodity contracts	16(b)	106,000	-
Exploration and evaluation assets	6	10,209,563	8,130,352
Property, plant and equipment	7	90,740,075	82,711,108
Right-of-use assets	8	260,723	-
<b>Total assets</b>		<b>\$ 120,542,644</b>	<b>\$ 126,545,439</b>
<b>Liabilities</b>			
Current liabilities			
Bank overdraft		\$ 1,009,050	\$ 1,872,893
Accounts payable and accrued liabilities		15,620,932	30,170,245
Bank debt	9	-	33,000,000
Commodity contracts	16(b)	1,890,000	-
Current portion of lease liabilities	8	117,394	-
<b>Total current liabilities</b>		<b>18,637,376</b>	<b>65,043,138</b>
Accounts payable and accrued liabilities		1,129,000	1,386,750
Bank debt	9	36,490,400	-
Lease liabilities	8	149,534	-
Decommissioning liabilities	10	36,214,999	30,793,999
Deferred tax liability		3,642,000	4,742,000
<b>Total liabilities</b>		<b>96,263,309</b>	<b>101,965,887</b>
<b>Shareholders' Equity</b>			
Share capital	12	16,309,535	12,819,650
Contributed surplus		791,072	151,072
Retained earnings		7,178,728	11,608,830
<b>Total equity</b>		<b>24,279,335</b>	<b>24,579,552</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 120,542,644</b>	<b>\$ 126,545,439</b>

Commitments and contingencies (note 8, 15)

Subsequent events (note 9, 16(a), 16(b), 19)

*See the accompanying Notes to the Condensed Interim Consolidated Financial Statements*

Approved by the Board:

*"signed"*, Stephen J Holyoake, Director

*"signed"*, Arif Shivji, Director

## Highwood Oil Company Ltd.

### Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

(amounts in Canadian dollars)

(unaudited)

	Note	Three Months Ended,		Nine Months Ended,	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
<b>Revenue</b>					
Oil and natural gas sales	4	\$ 8,849,696	\$ 7,336,814	\$ 25,440,302	\$ 21,826,363
Royalties		(1,192,878)	(1,194,395)	(3,242,049)	(3,598,546)
Transportation pipeline revenues		1,316,317	975,964	4,047,792	2,640,085
Processing and road use revenues	4	765,938	264,224	1,793,191	1,329,348
		<b>9,739,073</b>	<b>7,382,607</b>	<b>28,039,236</b>	<b>22,197,250</b>
Realized loss on commodity contracts	16(b)	(1,003,719)	(817,395)	(5,143,170)	(1,461,337)
Unrealized gain (loss) on commodity contracts	16(b)	(1,325,000)	305,000	(3,100,000)	(1,859,000)
Total revenue, net of royalties and commodity contracts		<b>7,410,354</b>	<b>6,870,212</b>	<b>19,796,066</b>	<b>18,876,913</b>
<b>Expenses</b>					
Operating and transportation		5,144,885	5,084,434	13,747,819	14,963,381
General and administrative		1,360,256	720,058	3,976,755	1,909,603
Bad debt expense		6,774	500	8,065	56,916
Exploration and evaluation expenditures	6	-	-	21,700	-
Depletion and depreciation	7, 8, 10	2,305,667	1,273,000	6,727,188	4,259,000
Stock-based compensation	13	194,000	192,000	525,000	229,000
Total expenses		<b>9,011,582</b>	<b>7,269,992</b>	<b>25,006,527</b>	<b>21,417,900</b>
Operating loss		<b>(1,601,228)</b>	<b>(399,780)</b>	<b>(5,210,461)</b>	<b>(2,540,987)</b>
Other income (expenses)					
Gain on disposal of assets	5(b)	650,000	266,965	2,600,000	366,965
Listing expense and transaction costs	5	(108,900)	(14,277)	(1,605,616)	(18,647)
Finance income and expenses, net	11	(799,963)	(859,379)	(2,095,190)	(1,814,456)
Total other income (expenses)		<b>(258,863)</b>	<b>(606,691)</b>	<b>(1,100,806)</b>	<b>(1,466,138)</b>
Loss before taxes		<b>(1,860,091)</b>	<b>(1,006,741)</b>	<b>(6,311,267)</b>	<b>(4,007,125)</b>
Current tax recovery		38	-	152,165	-
Deferred tax recovery		413,000	169,000	1,729,000	974,000
Total tax recovery		<b>413,038</b>	<b>169,000</b>	<b>1,881,165</b>	<b>974,000</b>
Loss and comprehensive loss for the period		<b>\$ (1,447,053)</b>	<b>\$ (837,471)</b>	<b>\$ (4,330,102)</b>	<b>\$ (3,033,125)</b>
Attributable to:					
Equity holders of Highwood Oil Company Ltd.		<b>\$ (1,447,053)</b>	<b>\$ (837,578)</b>	<b>\$ (4,430,102)</b>	<b>\$ (3,034,229)</b>
Non-controlling interest		<b>\$ -</b>	<b>\$ 107</b>	<b>\$ -</b>	<b>\$ 1,104</b>
Loss per share					
Basic and Diluted	12(c)	<b>\$ (0.24)</b>	<b>\$ (0.15)</b>	<b>\$ (0.74)</b>	<b>\$ (0.55)</b>

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

**Highwood Oil Company Ltd.**  
**Condensed Interim Consolidated Statement of Changes in Shareholders' Equity**

(amounts in Canadian dollars)  
(unaudited)

Equity attributable to Highwood Oil Company Ltd. shareholders							
	Note	Share capital	Contributed surplus	Retained earnings	Total	Non-controlling interest	Total equity
Balance, January 1, 2018		\$ 11,500,000	\$ 827,125	\$ 14,386,488	\$ 26,713,613	\$ 149,908	\$ 26,863,521
Stock-based compensation	12	-	229,000	-	229,000	-	229,000
<b>Loss and comprehensive loss for the period</b>		-	-	(3,034,229)	(3,034,229)	1,104	(3,033,125)
<b>Balance, September 30, 2018</b>		<b>\$ 11,500,000</b>	<b>\$ 1,056,125</b>	<b>\$ 11,352,259</b>	<b>\$ 23,908,384</b>	<b>\$ 151,012</b>	<b>\$ 24,059,396</b>
<b>Balance, January 1, 2019</b>		<b>\$ 12,819,650</b>	<b>\$ 151,072</b>	<b>\$ 11,608,830</b>	<b>\$ 24,579,552</b>	<b>\$ -</b>	<b>\$ 24,579,552</b>
Stock-based compensation	13	-	525,000	-	525,000	-	525,000
Shares issued for cash	12	68,400	-	-	68,400	-	68,400
Shares issued on corporate acquisition	5(c)	1,648,375	-	-	1,648,375	-	1,648,375
Reverse takeover transaction	5(a)	1,698,111	150,000	-	1,848,111	-	1,848,111
Exercise of agent options	12, 13	74,999	(35,000)	-	39,999	-	39,999
<b>Loss and comprehensive loss for the period</b>		-	-	(4,430,102)	(4,430,102)	-	(4,430,102)
<b>Balance, September 30, 2019</b>		<b>\$ 16,309,535</b>	<b>\$ 791,072</b>	<b>\$ 7,178,728</b>	<b>\$ 24,279,335</b>	<b>\$ -</b>	<b>\$ 24,279,335</b>

See the accompanying notes to the Condensed Interim Consolidated Financial Statements

# Highwood Oil Company Ltd.

## Condensed Interim Consolidated Statement of Cash Flows

(amounts in Canadian dollars)		Three Months Ended,		Nine Months Ended,	
(unaudited)	Note	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
<b>Cash provided by (and used in)</b>					
<b>Operating activities</b>					
Loss for the period		\$ (1,447,053)	\$ (837,471)	\$ (4,430,102)	\$ (3,033,125)
Items not involving cash:					
Unrealized (gain) loss on commodity contracts		1,325,000	(305,000)	3,100,000	1,859,000
Exploration and evaluation expenditures	6	-	-	21,700	-
Depletion and depreciation expense	7, 8, 10	2,305,667	1,273,000	6,727,188	4,259,000
Finance expense	11	170,056	152,000	529,710	465,000
Deferred tax recovery		(413,000)	(169,000)	(1,729,000)	(974,000)
Stock-based compensation	13	194,000	192,000	525,000	229,000
Gain on disposal of assets	5(b)	(650,000)	(266,965)	(2,600,000)	(366,965)
Listing expense	5(a)	-	-	1,329,552	-
Cash abandonment expenditures	10	(6,671)	(62,331)	(167,772)	(62,331)
Change in long-term accounts receivable		-	49,100	-	115,166
Changes in long-term accounts payable and accrued liabilities		(257,750)	-	(257,750)	-
Change in non-cash working capital	14	1,005,619	(2,991,203)	8,343,905	(3,839,760)
<i>Net cash from (used in) operating activities</i>		<b>2,225,868</b>	<b>(2,965,870)</b>	<b>11,392,431</b>	<b>(1,349,015)</b>
<b>Financing activities</b>					
Proceeds on exercise of agent options	12, 13	-	-	39,999	-
Proceeds on issuance of shares for cash	12	-	-	68,400	-
Payments of finance lease obligations	8	(29,349)	-	(90,783)	-
Finance fees paid	9	(57,000)	-	(169,000)	-
Bank debt, net of repayments	9	1,600,000	7,000,000	3,600,000	15,600,000
<i>Net cash from financing activities</i>		<b>1,513,651</b>	<b>7,000,000</b>	<b>3,448,616</b>	<b>15,600,000</b>
<b>Investing activities</b>					
Advances to related parties		-	-	-	(404,952)
Repayments of advances to related parties		-	-	-	1,967,057
Acquisition deposit		6,149,509	(127,500)	-	(255,000)
Acquisition of petroleum and natural gas assets	-	-	(1,132,085)	-	(5,673,242)
Additions to property, plant and equipment	7	(469,471)	(166,522)	(2,919,953)	(6,629,766)
Additions to exploration and evaluation assets	6	(1,912,730)	(819,548)	(4,134,968)	(4,525,392)
Proceeds on disposition of property, plant and equipment		-	141,091	-	141,091
Proceeds on disposition of exploration and evaluation assets	5(b)	750,000	-	3,000,000	-
Corporate acquisitions, net of cash received	5(a), 5(c)	5,782	-	(2,315,037)	-
Change in non-cash working capital	14	(8,839,397)	(1,568,104)	(7,607,246)	1,854,431
<i>Net cash used in investing activities</i>		<b>(4,316,307)</b>	<b>(3,672,668)</b>	<b>(13,977,204)</b>	<b>(13,525,773)</b>
<b>Change in cash</b>		<b>\$ (576,788)</b>	<b>\$ 361,462</b>	<b>\$ 863,843</b>	<b>\$ 725,212</b>
<b>Cash (bank overdraft), beginning of period</b>		<b>(432,262)</b>	<b>4,199</b>	<b>(1,872,893)</b>	<b>(359,551)</b>
<b>Cash (bank overdraft), end of period</b>		<b>\$ (1,009,050)</b>	<b>\$ 365,661</b>	<b>\$ (1,009,050)</b>	<b>\$ 365,661</b>
<b>Cash is comprised of:</b>					
Balances with banks (bank overdraft)		\$ (1,009,050)	\$ 365,661	\$ (1,009,050)	\$ 365,661

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

# Highwood Oil Company Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

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Three and nine months ended September 30, 2019

(amounts in Canadian dollars)

(unaudited)

### 1. REPORTING ENTITY

Highwood Oil Company Ltd. (the “Company”) is a public oil and natural gas exploration, development and production Company incorporated in Alberta, Canada on August 24, 2012. The Company conducts its operations in the Western Canadian Sedimentary basin, primarily in the province of Alberta. The Company’s principal place of business is located at Suite 900, 222 – 3<sup>rd</sup> Avenue SW, Calgary, Alberta, T2P 0B4.

The Company completed a transaction on January 23, 2019 that resulted in the Company becoming a publicly traded entity (note 5(a)). The Company’s common shares trade on the TSX Venture Exchange under the symbol “HOCL”.

These Condensed Interim Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors on November 27, 2019.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (IAS) 34, “Interim Financial Reporting”, using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Certain information and disclosures normally included in the annual financial statements prepared in accordance with IFRS have been condensed or omitted.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements as at and for the year ended December 31, 2018 and the notes thereto.

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in note 3 of the Company’s audited consolidated financial statements for the year ended December 31, 2018. All accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those of the previous financial year, with the exception of the changes described in note 2(b).

#### (b) Change in accounting policies

##### IFRS 16, “Leases”

IFRS 16, “*Leases*” was issued in January 2016 to replace IAS 17, “*Leases*”. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. On January 1, 2019 the Company adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as an increase to right-of-use assets with a corresponding increase to lease obligations. Under the modified retrospective approach the comparative information was not restated and continues to be reported in accordance with IAS 17. The details of the Company’s accounting policies under the previous standard were disclosed in the consolidated financial statements for the year ended December 31, 2018.

Certain short-term (less than 12 months) and low-value leases (as defined in the standard) are exempt from the requirements, and the Company continues to treat these leases as expenses. Leases to explore for or use crude oil, natural gas, minerals and similar non-regenerative resources are also exempt from the standard.

The right-of-use assets recognized were measured at amounts equal to the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligations at adoption was approximately 6%. The right-of-use assets and lease obligations recognized largely relate to the Company’s head office lease in Calgary and vehicle leases.

# Highwood Oil Company Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

Three and nine months ended September 30, 2019

(amounts in Canadian dollars)

(unaudited)

As a result of this adoption, the Company has revised the description of its accounting policy for leases as follows:

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether: the contract involves the use of an identified asset; the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and, the Company has the right to direct the use of the asset.

The Company recognizes a lease asset and a lease liability at the commencement date of the lease contract, which is the date that the lease asset is available to the Company. The lease asset is initially measured at cost. The cost of a lease asset includes the amount of the initial measurement of the lease liability, lease payments made prior to the commencement date, initial direct costs and estimates of the decommissioning liability, if any. Subsequent to initial recognition, the lease asset is depreciated using the straight-line method over the earlier of the end of the useful life of the lease asset or the lease term. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date discounted using the rate implicit in the lease or the Company's incremental borrowing rate if the implicit rate is not readily available. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation. Optional renewal periods, or periods which are cancellable by the Company, are included in the lease payments if the Company is reasonably certain to exercise the renewal option or not cancel the lease. The lease liability is measured at amortized costs using the effective interest method. The lease liability is remeasured when there is a change in the Company's assessment of the expected lease term.

The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

### *Judgments*

Judgments are required to determine if a contract is, or contains, a lease. These judgments require an assessment of whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Judgment is required to determine the interest rate used to discount the lease payments.

### *Estimates*

The likelihood of renewal, cancellation or termination of lease contracts is a significant estimate required to determine the lease term of the contract. Estimates are used by management to determine the stand-alone price of the lease and non-lease components of contracts in order to allocate the contracted consideration to the components.

A reconciliation of the operating commitments previously disclosed as at December 31, 2018 is as follows:

IFRS 16 Transition Impact	January 1, 2019
Undiscounted operating commitments <sup>(1)</sup>	\$ 851,000
Discounted operating commitments <sup>(2)</sup>	763,971
Immaterial vehicle leases not previously disclosed	34,611
Variable payments not included in lease liability	(485,852)
Lease liabilities recognized January 1, 2019	\$ 312,730

<sup>(1)</sup> As disclosed in the Company's December 31, 2018 consolidated financial statements

<sup>(2)</sup> Using a 6% weighted average incremental borrowing rate

**Highwood Oil Company Ltd.**  
**Notes to the Condensed Interim Consolidated Financial Statements**

Three and nine months ended September 30, 2019

(amounts in Canadian dollars)

(unaudited)

(c) Management's significant accounting judgments, estimates and assumptions

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of income and expenses during the reporting period. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates, judgments and assumptions made by management in the preparation of these condensed interim consolidated financial statements are consistent with those identified in the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2018 and the notes thereto, except as discussed in note 2(b).

**3. ACCOUNTS RECEIVABLE AND INSURANCE PROCEEDS RECEIVABLE**

Accounts receivable is comprised of the following:

	<b>September 30 2019</b>	December 31 2018
Oil and natural gas marketers	<b>\$ 4,522,288</b>	\$ 691,225
Joint interest partners	<b>2,322,712</b>	3,759,069
Commodity contract receivable	-	347,785
Road use receivable	<b>845,749</b>	997,984
Government sales tax	<b>57,250</b>	1,240,559
Income tax refund	<b>43,776</b>	-
Insurance proceeds <sup>1</sup>	<b>3,530,000</b>	26,630,000
Other <sup>2</sup>	<b>6,377,398</b>	135,218
<b>Balance, end of period</b>	<b>\$ 17,699,173</b>	<b>\$ 33,801,840</b>

<sup>1</sup> Insurance proceeds relates to an insurable event that occurred during the year ended December 31, 2018. The Company had initially accrued an amount in accounts payable and accrued liabilities totalling \$33,050,000 (including a long-term portion of \$1,386,750), less amounts paid by September 30, 2019 for balances owed to third party vendors relating to this event (note 15(b)).

<sup>2</sup> Balance includes \$6,149,509 related to a deposit that was made on a purchase and sale agreement that was terminated by the Company during the three months ended September 30, 2019. The Company terminated the purchase and sale agreement when the operatorship provision of the transaction regarding the operation of the asset was not satisfied. The deposit is held in trust by a law firm and has been reclassified to accounts receivable during the third quarter of 2019. The Company has not received the funds and has commenced legal action to recoup the funds. The Company is confident in its position and anticipates receiving the balance in full. The Company anticipates resolving the claim within the next 12 months and has therefore classified the receivable as current.

**4. REVENUE**

*Oil and natural gas sales:*

The Company sells its production pursuant to variable-price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis. Revenue is recognized when a unit of production is delivered to the customer and control of the product transferred.



# Highwood Oil Company Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

Three and nine months ended September 30, 2019

(amounts in Canadian dollars)

(unaudited)

Revenues are typically collected on the 25<sup>th</sup> day of the month following production.

The following table summarizes the Company's product sales.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Oil	\$ 8,849,696	\$ 7,333,099	\$ 25,440,302	\$ 21,804,576
Natural gas liquids	-	1,708	-	9,473
Natural gas	-	2,007	-	12,314
<b>Total</b>	<b>\$ 8,849,696</b>	<b>\$ 7,336,814</b>	<b>\$ 25,440,302</b>	<b>\$ 21,826,363</b>

*Processing and road use revenues:*

The following table summarizes the Company's processing and road use revenues.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Processing	\$ 540,848	\$ 188,143	\$ 1,354,803	\$ 766,634
Road Use	225,090	76,081	438,388	562,714
<b>Total</b>	<b>\$ 765,938</b>	<b>\$ 264,224</b>	<b>\$ 1,793,191</b>	<b>\$ 1,329,348</b>

## 5. ACQUISITIONS AND DISPOSITIONS

### a) *Predator Blockchain Capital Corp.*

On January 23, 2019, the Company completed an amalgamation transaction with a public shell company, Predator Blockchain Capital Corp. ("Predator Blockchain"). Predator Blockchain was a capital pool company and the transaction was considered a qualifying transaction for Predator Blockchain. The transaction was treated as a reverse takeover ("RTO") for accounting purposes based on the terms within the Amalgamation Agreement. In accordance with the guidelines of IFRS 3, Predator Blockchain does not meet the definition of a business for accounting purposes. Therefore, the RTO does not constitute a business combination but a capital transaction of Highwood in substance with the Company being the continuing entity from an accounting perspective. Shareholders of Predator Blockchain received common shares of the Company at a ratio of 53:1, resulting in 188,679 common shares of the Company being issued to shareholders of Predator Blockchain at a value of \$9.00 per common share. The outstanding stock options and agent options in Predator Blockchain continued into the Company and were revalued based on their estimated value using the Black-Scholes option pricing model (note 13), resulting in contributed surplus and a listing expense of \$150,000 being recognized with respect to the outstanding stock options and agent options. As a result of the transaction, the Company began trading of the TSX Venture Exchange under the symbol "HOCL" on January 30, 2019.

The fair value of the net assets that were acquired by the Company are as follows:

#### **Net assets of Predator Blockchain**

Working capital, including cash of \$557,378	\$ 509,559
Deferred tax asset	9,000
<b>Total net assets of Predator Blockchain</b>	<b>518,559</b>

# Highwood Oil Company Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

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### Consideration for the acquisition:

Shares issued (188,679 common shares at \$9.00)	\$ 1,698,111
Contributed surplus, being stock options and agent options	150,000
<hr/>	
Purchase consideration transferred	1,848,111
Excess of purchase consideration over net assets acquired, being listing expense	\$ 1,329,552

Acquisition related costs totalling \$nil and \$92,881 have been excluded from consideration paid and were recognized as transaction costs on the condensed interim consolidated statement of Loss and Comprehensive Loss for the three and nine month periods ending September 30, 2019, when the costs were incurred.

### b) *Clearwater royalty disposition*

On June 28, 2018, the Company, along with its 50% joint venture partner in the Clearwater area, disposed of a 4% royalty over the jointly held Clearwater mineral rights for gross proceeds of \$12,000,000 (\$6,000,000 being the Company's share). As a condition of the royalty divestiture, the Company and its joint venture partner must drill a minimum of eight wells in the formation prior to March 31, 2020. The gross proceeds of \$12,000,000 will be held in escrow with the legal counsel of the purchaser.

Upon rig release of each applicable well, \$1,500,000 (\$750,000 Company's share), will be released from the escrow account to the Company. Should total drilling, completion and equipping costs be less than \$1,500,000 gross per well, the Company and its joint venture partner will be required to drill additional wells prior to September 30, 2020 or reimburse funds to the purchaser.

At September 30, 2019, the Company had received \$6,000,000 representing the Company's 50% share of the gross proceeds from the eight rig releases.

During the three and nine month periods ended September 30, 2019, the Company recorded a gain on disposition of \$650,000 and \$2,600,000, respectively, being the difference between the proceeds of \$750,000 and \$3,000,000, respectively, earned through drilling activities and received in 2019 and the estimated cost of the divested royalty interests removed from exploration and evaluation assets of \$100,000 and \$400,000, respectively.

To determine the cost base of the Clearwater mineral rights, the Company assessed the total fair value of the Clearwater mineral rights at the date of the acquisition and of the 4% non-deduct royalty based on anticipated future cash flows from the applicable wells to determine a pro-rata factor. The pro-rata factor was applied to the total cost base of the jointly held lands to determine the disposed cost base.

### c) *Saskatchewan Transaction*

On April 29, 2019, the Company closed the acquisition of a private oil and gas company (the "private company") for total consideration of \$5,059,022, comprised of \$3,410,647 cash and \$1,648,375 of common shares (being 65,935 common shares issued at a fair value of \$25.00 per common share based on the trading price of the Company's shares on the date of closing). Consideration was derived from the agreed upon purchase price of \$3,450,000 cash and 65,935 common shares, with the cash component increased by \$560,647 being the working capital surplus at March 31, 2019 plus 50% of the amount by which the working capital on the date of closing was greater than the working capital at March 31, 2019. The acquisition was recognized as a business combination in accordance with IFRS 3 – Business Combinations, as the acquired private company constitutes a business. The values attributable to property, plant and equipment were determined by reference to a discounted cash flow model. The Company acquired the private company for the purpose of producing cash flows. Cash consideration was paid with advances from the Company's credit facility (note 9).

## Highwood Oil Company Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

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The purchase price was reduced by deferred compensation of \$600,000 as the conditions for the vendor to receive these funds was not met under the Workover Program Plan and Production Plan. During the three months ended September 30, 2019, the Company entered into an Amended and Restated Workover Program Plan and Production Plan (the "Workover Plan") whereby the vendor was be responsible for all costs and expenses incurred directly as a result of the Workover Plan. Following the completion of the workover, if the volume of petroleum produced by the well was greater than 5 cubic meters per day for a period of twenty-one days following the consummation of the Workover Plan based on the average value of three well tests with respect to the program well jointly conducted by the vendor and the Company, the vendor will receive compensation of \$600,000. If the volume of petroleum produced by the well was equal to or greater than 2 cubic meters per day but less than 5 cubic meters per day for a period of twenty-one days following the consummation of the Workover Plan based on the average value of three well tests with respect to the program well jointly conducted by the vendor and the Company, the vendor will receive compensation of \$300,000. If the volume of petroleum produced by the well was less than 2 cubic meters per day for a period of twenty-one days following the consummation of the Workover Plan based on the average value of three well tests with respect to the program well jointly conducted by the vendor and the Company, the vendor will not receive any additional compensation. The results of the testing determined the vendor did not receive any additional compensation.

The fair value of the net assets that were acquired by the Company are as follows:

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#### Net assets of private company

Working capital, including cash of \$538,232	\$ 730,327
Property, plant and equipment	5,246,695
Decommissioning liability	(260,000)
Deferred tax liability	(658,000)
<hr/>	
Total net assets acquired	<hr/> 5,059,022

#### Consideration for the acquisition:

Cash consideration	\$ 3,410,647
Shares issued (65,935 common shares at \$25.00)	1,648,375
<hr/>	
Purchase consideration transferred	<hr/> \$ 5,059,022

Acquisition related costs totalling \$nil and \$16,196 have been excluded from consideration paid and were recognized as transaction costs on the condensed interim consolidated statement of loss and comprehensive loss for the three and nine month period ending September 30, 2019, respectively, when the costs were incurred.

If the transaction to acquire the private company had taken place on January 1, 2019, it is estimated that the assets acquired would have contributed incremental revenues of \$nil and \$1,770,913 and net income before taxes of \$nil and \$969,875, respectively, for the three and nine month periods ended September 30, 2019.

## Highwood Oil Company Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

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#### 6. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets is comprised of the following:

Balance, January 1, 2018	\$ 4,992,805
Additions	8,068,701
Change in decommissioning liabilities	127,000
Dispositions	(400,000)
Land lease expiries	(3,000)
Transfers to property, plant and equipment	(4,655,154)
<b>Balance, December 31, 2018</b>	<b>\$ 8,130,352</b>
<b>Additions</b>	<b>4,134,968</b>
<b>Change in decommissioning liabilities (note 10)</b>	<b>174,000</b>
<b>Dispositions (note 5(b))</b>	<b>(400,000)</b>
<b>Land lease expiries</b>	<b>(21,700)</b>
<b>Transfers to property, plant and equipment (note 7)</b>	<b>(1,808,057)</b>
<b>Balance, September 30, 2019</b>	<b>\$ 10,209,563</b>

Exploration and evaluation assets include undeveloped lands, unproved properties and seismic costs where management has not fully evaluated for technical feasibility and commercial viability.

During the nine months ended September 30, 2019, the Company determined that \$1,808,057 of exploration and evaluation assets were technically feasible and commercially viable, resulting in these costs being transferred to plant, property and equipment.

#### 7. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2019	December 31, 2018
Oil and natural gas properties		
COSTS		
Balance, beginning of period	\$ 111,843,108	\$ 89,271,666
Change in decommissioning liabilities (note 10)	4,622,262	1,073,883
Additions	2,919,953	7,270,641
Acquisitions (note 5(c))	5,246,695	10,381,764
Transfers from exploration and evaluation assets (note 6)	1,808,057	4,655,154
Dispositions	-	(810,000)
Balance, end of period	\$ 126,440,075	\$ 111,843,108

# Highwood Oil Company Ltd.

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### ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT

Balance, beginning of period	\$ (29,132,000)	\$ (21,025,000)
Depletion and depreciation	(6,568,000)	(5,838,000)
Impairment loss	-	(2,700,000)
Dispositions	-	431,000
Balance, end of period	\$ (35,700,000)	\$ (29,132,000)

Net book value, end of period	\$ 90,740,075	\$ 82,711,108
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## 8. LEASES

### Adoption of IFRS 16

Upon adoption of IFRS 16 on January 1, 2019, the Company recognized a \$312,730 right-of-use asset and \$312,730 of lease liabilities.

### Right-of-use assets

	Vehicles	Office Premises <sup>(2)</sup>	Total
At January 1, 2019 <sup>(1)</sup>	\$ 34,611	\$ 278,119	\$ 312,730
Additions	31,671	-	31,671
Depreciation	(25,467)	(58,211)	(83,678)
At September 30, 2019	\$ 40,815	\$ 219,908	\$ 260,723

<sup>(1)</sup> The Company adopted IFRS 16 "Leases" on January 1, 2019 using the modified retrospective approach. At December 31, 2018, the Company did not recognize any leased assets in accordance with its previous accounting policy for leases.

<sup>(2)</sup> The office premise lease is a sub-lease from a Company with common shareholders and directors.

### Lease liabilities

Lease liabilities at September 30, 2019 were as follows:

Balance, January 1, 2019 <sup>(1)</sup>	\$ 312,730
Accretion of lease obligations (note 11)	13,310
Additions	31,671
Payments of lease obligations	(90,783)
Balance, September 30, 2019	\$ 269,928
Current portion	117,394
Long term portion	149,534

<sup>(1)</sup> The Company adopted IFRS 16 "Leases" on January 1, 2019 using the modified retrospective approach. At December 31, 2018, the Company did not recognize any lease liabilities in accordance with its previous accounting policy for leases.

## Highwood Oil Company Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

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#### 9. BANK DEBT

	September 30, 2019	December 31, 2018
Balance – short term	\$ -	\$ 33,000,000
Balance – long term	36,600,000	-
Finance fees	(169,000)	-
Amortization of finance fees	59,400	-
Balance – long term, end of period	\$ 36,490,400	\$ -

During the nine month period ended September 30, 2019, the Company entered into a new credit facility agreement for a maximum available draw of \$38,000,000. The credit facility replaced in its entirety the Company's previous credit facility agreement. The credit facility can be used for general corporate purposes including capital expenditures and advances may be made by way of direct advances, bankers acceptances, or standby letters of credit/guarantees. The credit facility bears interest at the Bank's prime rate or bankers acceptance discount rates plus an applicable margin of 100bps to 350bps on prime rate loans and 200bps to 450bps on stamping fees related to bankers acceptances, determined by reference to the Company's net debt to cash flow ratio (as defined in the credit facility agreement). Interest on the credit facility is due monthly. The credit facility is secured by a \$100,000,000 debenture with a fixed and floating charge over all the assets of the Company. The loan facility will revolve until the first scheduled term out date which is May 31, 2020. The end of the revolving period (the "term out date") can be extended for 364 day periods with mutual agreement of the Company and the lender. Should the revolving period not be extended, the maturity date of the facility will be one year from the term out date, resulting in the earliest maturity date under the facility being May 31, 2021, subject to borrowing base reviews by the lender.

The borrowing base, currently set at \$38,000,000, will be reviewed at least semi-annually by the lender, and more frequently 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 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 September 30, 2019, the Company's current ratio was 1.23:1.0 (December 31, 2018 – 1.22:1.0). 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, 2019 and as at the last day of the fiscal quarter for each quarter thereafter. At September 30, 2019, the Company's net debt to cash flow ratio is 2.70:1.0. 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. The Company is also restricted from entering into notional commodity contracts exceeding three years 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. For the period ended September 30, 2019, the Company received a waiver with respect to the permitted hedging as the Company exceeded 60% of gross production. In addition the credit facility agreement was amended to allow the Company to enter into notional commodity contracts exceeding no more than forty two months in term. Subsequent to September 30, 2019, the Company underwent a borrowing base review. As a result of the review, the Company's borrowing base will remain at \$38,000,000. The net debt to cash flow ratio covenant for the quarter ended December 31, 2019 and the quarter ended March 31, 2020 were amended to 5.25:1.0 and 3.5:1.0, respectively. In addition, the Company received consent for a \$3,500,000 Subordinated Credit Facility, subject to a satisfactory Intercreditor Agreement. The Company's next review and borrowing base determination is scheduled on or before May 31, 2020 but may be set at an earlier or later date at the discretion of the bank.

# Highwood Oil Company Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

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Total transaction costs of \$169,000, including processing fees and legal fees have been netted from the original cost of the debt and are being amortized over the estimated term of the credit facility with \$27,400 and \$59,400 in amortization being recorded during the three and nine month periods ended September 30, 2019, respectively, for total recorded amortization of \$59,400 being recorded to date.

### 10. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas properties including well sites and facilities. The total decommissioning liability is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning liabilities to be \$36,214,999 as at September 30, 2019 (December 31, 2018 - \$30,793,999) based on an undiscounted total future liability of \$47,964,000 (December 31, 2018 - \$47,492,000) and discounted using a long-term risk-free rate of 1.53% (December 31, 2018 - 2.18%). The expected timing of decommissioning expenditures extends to 2069.

The following table summarizes changes in the decommissioning liabilities:

	September 30, 2019	December 31, 2018
Balance, beginning of period	\$ 30,793,999	\$ 28,387,999
Change in discount rate	4,636,000	313,000
Change in cash flow estimates	34,772	661,423
Abandonment expenditures	(167,772)	(361,423)
Liabilities assumed in corporate and asset acquisitions (note 5(c))	260,000	1,841,000
Additions	201,000	242,000
Liabilities disposed in asset dispositions	-	(921,000)
Accretion expense	457,000	631,000
Balance, end of period	\$ 36,214,999	\$ 30,793,999

The fair value of certain oil and natural gas properties of the Company is \$nil. Accordingly, the change in discount rate and cash flow estimates related to these properties was recorded as an adjustment to depletion and depreciation expense for the three and nine month periods ended September 30, 2019 of an increase of \$5,671 and \$75,510, respectively (three and nine month periods ended September 30, 2018 - decrease of \$22,000 and \$35,000, respectively).

### 11. FINANCE INCOME AND EXPENSES, NET

Finance income and expenses, net is comprised of:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Interest on bank debt	\$ 221,414	\$ 156,995	\$ 638,879	\$ 376,080
Stamping fees on bank debt	408,493	276,884	904,829	707,774
Financing fees	-	273,500	-	273,500
Amortization of finance fees (note 9)	27,400	-	59,400	-
Accretion of decommissioning liabilities (note 10)	139,000	152,000	457,000	465,000
Accretion of lease liabilities (note 8)	3,656	-	13,310	-
Other interest expense (income)	-	-	21,772	(7,898)
Total	\$ 799,963	\$ 859,379	\$ 2,095,190	\$ 1,814,456

# Highwood Oil Company Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 12. SHARE CAPITAL

#### a) Authorized

Unlimited number of voting common shares and unlimited number of preferred shares issuable in series.

#### b) Issued and outstanding common shares

	Number of Shares	Stated Value
Balance, December 31, 2018	5,744,204	\$ 12,819,650
Shares issued on private placement for cash	7,600	68,400
Shares issued on acquisition of Predator Blockchain (note 5(a))	188,679	1,698,111
Shares issued on exercise of agent options (note 13)	7,547	74,999
Shares issued on Saskatchewan transaction (note 5(c))	65,935	1,648,375
<b>Balance, September 30, 2019</b>	<b>6,013,965</b>	<b>\$16,309,535</b>

During the nine months ended September 30, 2019, the Company completed a private placement, resulting in 7,600 common shares being issued for \$9.00 per share for gross proceeds of \$68,400.

#### c) Loss per share

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Loss	Weighted Average Common shares	Loss per share	Loss	Weighted Average Common shares	Loss
Income - basic	\$ (1,447,053)	6,013,965	\$ (0.24)	\$ (837,471)	5,538,674	\$ (0.15)
Dilutive effect of options	-	-	-	-	-	-
<b>Income - diluted</b>	<b>\$ (1,447,053)</b>	<b>6,013,965</b>	<b>\$ (0.24)</b>	<b>\$ (837,471)</b>	<b>5,538,674</b>	<b>\$ (0.15)</b>

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Loss	Weighted Average Common shares	Loss per share	Loss	Weighted Average Common shares	Loss
Income - basic	\$ (4,430,102)	5,968,379	\$ (0.74)	\$ (3,033,125)	5,538,674	\$ (0.55)
Dilutive effect of options	-	-	-	-	-	-
<b>Income - diluted</b>	<b>\$ (4,430,102)</b>	<b>5,968,379</b>	<b>\$ (0.74)</b>	<b>\$ (3,033,125)</b>	<b>5,538,674</b>	<b>\$ (0.55)</b>

For the three and nine month periods ended September 30, 2019 and 2018 all options and restricted share units were excluded from the calculations as they were anti dilutive.

### 13. SHARE-BASED PAYMENTS

#### Options

The Company adopted a stock option plan during the nine month period ended September 30, 2019 for officers, directors, employees and consultants "the Option Plan". Under the Option Plan, the Board of Directors sets the exercise price, expiry date and vesting terms for each option grant provided that no options will be granted at a discount to market prices and no option will have a term exceeding ten years. The Option Plan limits the total number of Common Shares that may be issued on exercise of options outstanding at any time under the Option Plan to 10% of the number of Common Shares issued and outstanding (less the number of Common Shares reserved for issuance under any other share based compensation arrangement of the Company, including the Restricted Share Unit Plan).



**Highwood Oil Company Ltd.**  
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A summary of the stock options issued and outstanding as at September 30, 2019 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2018	636,000	\$ 2.42
Granted during the year	81,000	3.50
Options cancelled during the year	(717,000)	2.54
Outstanding, December 31, 2018	-	-
Granted during the period	88,100	9.00
Options issued as a result of RTO (note 5(a))	18,868	5.30
Agent options issued as a result of RTO (note 5(a))	7,547	5.30
Agent options exercised	(7,547)	(5.30)
Outstanding, September 30, 2019	106,968	8.35
Exercisable, September 30, 2019	18,868	5.30

The weighted average contractual term of all outstanding options at September 30, 2019 is 4.17 years.

During the three and nine month period ended September 30, 2019, the Company granted nil and 88,100 stock options, respectively at an exercise price of \$9.00 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.

During the three and nine month periods ended September 30, 2019, the Company recorded stock-based compensation expense relating to options of \$72,000 and \$194,000, respectively (three and nine months ended September 30, 2018 - \$192,000 and \$229,000, respectively) with a corresponding increase to contributed surplus.

During the nine month period ended September 30, 2019, 7,547 agent options were exercised at a exercise price of \$5.30 per option for gross proceeds of \$39,999. The associated contributed surplus of \$35,000 was moved to share capital. As a result 7,547 common shares of the Company were issued.

The fair value of the stock options issued and granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Options issued as a result of RTO	Agent options issued as a result of RTO	January 23, 2019
Number of options	18,868	7,547	88,100
Exercise price (\$/share)	\$ 5.30	\$ 5.30	\$ 9.00
Stock price on grant date	\$ 9.00	\$ 9.00	\$ 9.00
Expected life (years)	4.5	1.5	5.0
Risk-free interest rate	1.90%	1.90%	1.90%
Expected volatility	70%	70%	70%
Option fair value (per option)	\$ 6.08	\$ 4.71	\$ 5.28
Estimated forfeiture rate	0%	0%	0%
Expected dividend yield	0%	0%	0%

A forfeiture rate of 0% was used when recording stock-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period, and or, all options will be exercised. Stock price on date of grant was determined by the price of Common Shares issued on the date of grant and based on publicly available information. Expected volatility was determined based on an average of volatilities of similar publicly traded entities in Company's peer group.

## Highwood Oil Company Ltd.

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#### Restricted Share Units (“RSU’s”)

The Company adopted a RSU plan, during the nine month period ended September 30, 2019, for officers, directors, employees and consultants “the RSU Plan”. The RSU Plan is administered by the Board of Directors (or a committee thereof) which has the power, subject to the limits imposed by the RSU Plan, to: (i) award RSUs; (ii) determine the terms under which RSUs are granted; (iii) interpret the RSU Plan and adopt, amend and rescind such administrative guidelines and other rules and regulations relating to the RSU Plan; and (iv) make all other determinations and take all other actions in connection with the implementation and administration of the RSU Plan. The RSU Plan is a fixed plan which reserves for issuance a maximum of 240,000 Common Shares (being approximately 4% of the currently issued and outstanding Common Shares).

	Number of RSU’s
Outstanding, January 1, 2019	-
Granted during the period	88,100
Outstanding, September 30, 2019	88,100
Exercisable, September 30, 2019	-

During the three and nine month period ended September 30, 2019, the Company granted nil and 88,100, respectively, RSU’s exercisable for nominal consideration. The RSU’s granted vest 1/3 on each of December 31, 2019, December 31, 2020 and December 31, 2021 and expire on December 31, 2022.

During the three and nine month periods ended September 30, 2019, the Company recorded stock-based compensation expense relating to RSU’s of \$122,000 and \$331,000, respectively (three and nine months ended September 30, 2018 - \$nil) with a corresponding increase to contributed surplus.

The fair value of the RSU’s issued and granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	January 23, 2019
Number of RSU’s	88,100
Exercise price (\$/share)	\$ -
Stock price on grant date	\$ 9.00
Expected life (years)	3.9
Risk-free interest rate	1.90%
Expected volatility	70%
Option fair value (per option)	\$ 9.00
Estimated forfeiture rate	0%
Expected dividend yield	0%

A forfeiture rate of 0% was used when recording stock-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period, and or, all options will be exercised. Stock price on date of grant was determined by the price of Common Shares issued on the date of grant and based on publicly available information. Expected volatility was determined based on an average of volatilities of similar publicly traded entities in Company’s peer group.

# Highwood Oil Company Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 14. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

Source/(use) of cash	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Accounts receivable and insurance proceeds receivable	\$ (7,620,378)	\$ (9,418,609)	\$ 16,670,108	\$ (21,354,072)
Deposits and prepaid expenses	520,595	105,991	(940,971)	(828,808)
Accounts payable and accrued liabilities	2,766,005	4,753,311	(14,992,478)	20,197,551
Commodity contract premium payable	(3,500,000)	-	-	-
Changes in non-cash working capital	\$ (7,833,778)	\$ (4,559,307)	\$ 736,659	\$ (1,985,329)

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
The above figure relates to:				
Operating activities	\$ 1,005,619	\$ (2,991,203)	\$ 8,343,905	\$ (3,839,760)
Investing activities	(8,839,397)	(1,568,104)	(7,607,246)	1,854,431
Changes in non-cash working capital	\$ (7,833,778)	\$ (4,559,307)	\$ 736,659	\$ (1,985,329)
Interest paid	\$ 629,907	\$ 707,379	\$ 1,543,708	\$ 1,357,354
Taxes paid (recovered)	\$ -	\$ -	\$ -	\$ -

Non-cash transactions:

During the nine months ended September 30, 2018 the Company disposed of equipment with a net book value of \$nil in exchange for a reduction in long-term accounts payable and accrued liabilities of \$100,000

### 15. COMMITMENTS AND CONTINGENCIES

#### (a) Commitments

At September 30, 2019, the Company had the following commitments in addition to the leases described in note 8:

#### (i) Physical delivery electricity services contract:

	Average monthly contracted kW	Term	Fixed Price
Electricity	405 kW	January 1, 2020 to December 31, 2020	5.046¢/kWh

#### (ii) Drilling Commitment

During the three and nine months ended September 30, 2019, the Company, along with its 50% joint venture partner in the Clearwater area, entered into an Overriding Royalty Purchase and Sale Agreement (the "Royalty Agreement") whereby the Company will potentially dispose of a 4% royalty over certain jointly held Clearwater mineral rights for deferred gross proceeds of \$1,296,296 (\$648,148 being the Company's share). As a condition of the royalty divestiture, the Company and its joint venture partner must drill one well in the Craighend formation prior to March 31, 2020. The gross proceeds will be due within five business days of the Company notifying the purchaser that the qualifying well has been completed. In the event that the qualifying well is not completed the Royalty Agreement shall immediately terminate, without penalty to the Company.

# Highwood Oil Company Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

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### (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 Company anticipates that this event is insurable and has made or will be making 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 \$33,050,000 pipeline release related costs will be paid out from anticipated insurance proceeds of \$32,530,000 which are expected to be received prior to December 31, 2019. In relation to the pipeline release the Company has initially recorded \$32,530,000 of accounts receivable for the anticipated insurance proceeds, \$33,050,000 of accounts payable and accrued liabilities in relation to the estimated costs of the remediation work and \$520,000 in operating costs during 2018 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 September 30, 2019, \$3,530,000 and \$3,648,566 were included in insurance proceeds receivable and accounts payable and accrued liabilities, respectively.

## 16. FINANCIAL RISK MANAGEMENT

The Board of Directors has the overall responsibility for the establishment and oversight and execution of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor those risks.

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- market risk; and
- liquidity risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. There have been no changes to the Company's risk management policies or processes since December 31, 2018.

### (a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk at year end is as follows:

	September 30, 2019	December 31, 2018
Accounts receivable and insurance proceeds receivable	\$ 17,699,173	\$ 33,801,840
Commodity contracts	106,000	1,316,000
Deposits	132,478	132,478
Acquisition deposits	150,000	150,000
Reclamation deposits	141,300	141,300
Total	\$ 18,228,951	\$ 35,541,618

# Highwood Oil Company Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

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(amounts in Canadian dollars)

(unaudited)

### *Cash:*

Cash consist of amounts on deposit with Canadian chartered banks and undeposited funds. The Company manages credit exposure of cash, if any, by selecting financial institutions with high credit ratings.

### *Accounts receivable:*

Substantially all of the Company's oil and natural gas production is marketed under standard industry terms. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit worthy purchasers. Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs.

The Company manages credit exposure of insurance proceeds receivable by maintaining insurance coverage with reputable brokers with high credit ratings.

The Company has a balance due from a joint interest partner that is facing financial difficulties. The Company has taken action to recover the amounts that are owed, including, taking revenue in-kind for properties which the joint interest partner has a working interest in, which is agreed to by both parties. Management believes the entire amount due from the joint interest partner will be received and is expected to be received in the next twelve months.

The Company has a balance of \$6,149,509, which is held a trust account by a law firm, related to a deposit that was made on a purchase and sale agreement that was terminated by the Company. The Company terminated the purchase and sale agreement when the operatorship provision of the transaction regarding the operation of the asset was not satisfied. The Company has commenced legal action in order to collect the funds. The Company is confident in its position and anticipates receiving the balance in full within the next 12 months.

The Company's accounts receivable are aged as follows:

	<b>September 30, 2019</b>	December 31, 2018
Current (less than 90 days)	<b>\$ 16,476,966</b>	\$ 32,842,293
Past due (more than 90 days)	<b>1,222,207</b>	959,547
Total	<b>\$ 17,699,173</b>	\$ 33,801,840

As at September 30, 2019, management believes all receivables net of provision for expected credit losses will be collected.

### *Reclamation deposits and other deposits:*

Reclamation deposits consist of amounts on deposit with the Provinces of Alberta, Saskatchewan and British Columbia. The Company believes the credit risk associated with these deposits and other deposits is minimal.

The acquisition deposit of \$150,000 at September 30, 2019 consists of an amount held in trust by law firm. Subsequent to September 30, 2019 the acquisition closed and the \$150,000 was applied to the purchase price.

### *Commodity contracts:*

The Company manages the credit risk exposure related to commodity contracts, if in an asset position, by selecting investment grade counterparties and by not entering into contracts for trading or speculative purposes. At September 30, 2019, the counterparty was the Company's lending institution, which is a financial institution with a strong credit rating.

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**(b) Market risk**

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates, will affect the Company's cash flow, income or the value of its financial instruments. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return. There have been no changes to the Company's policies for managing foreign currency risk, interest rate risk and commodity price risk.

*Foreign currency risk*

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rates between the Canadian and United States dollar.

*Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not subject to interest rate risk related to amounts due from related party as the interest rates are on a fixed basis. The Company is subject to interest rate risk related to its exposure to interest rate fluctuations on its credit facility, which bears a floating rate of interest. At September 30, 2019 the total amount drawn on the credit facility under a bankers' acceptance ("BA") was \$36,600,000 which is at a fixed rate basis, therefore not subject to interest rate risk until renewal of the BA's. A 1% interest rate increase or decrease on the full \$36,600,000 outstanding would decrease or increase net income by approximately \$200,000 for the nine months ending September 30, 2019.

*Commodity price risk*

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also North American and global economic events that dictate the levels of supply and demand. The nature of the Company's operations results in exposure to fluctuations in commodity prices. The Company's production is sold using "spot" pricing with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company currently has the following commodity contracts outstanding at September 30, 2019.

CAD Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	100bbls/day	October 1, 2019 to December 31, 2019	\$ 89.09	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2020 to March 31, 2020	\$ 72.10	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2020 to March 31, 2020	\$ 76.04	WTI - NYMEX
Crude Oil	50bbls/day	January 1, 2020 to June 30, 2020	\$ 77.16	WTI - NYMEX
Crude Oil	75bbls/day	May 1, 2019 to December 31, 2019	\$ 84.71	WTI - NYMEX
Crude Oil	100bbls/day	April 1, 2020 to December 31, 2020	\$ 69.00	WTI - NYMEX
Crude Oil	250bbls/day	January 1, 2021 to December 31, 2021	\$ 65.40	WTI - NYMEX
Crude Oil	500bbls/day	September 1, 2019 to December 31, 2019	\$ 49.30	WCS - BLENDED
Crude Oil	250bbls/day	July 1, 2019 to December 31, 2019	\$ 49.01	WCS - BLENDED
Crude Oil	250bbls/day	July 1, 2019 to December 31, 2020	\$ 43.75	WCS - BLENDED
Crude Oil	250bbls/day	July 1, 2019 to December 31, 2020	\$ 44.20	WCS - BLENDED
Crude Oil	100bbls/day	July 1, 2019 to December 31, 2020	\$ 45.50	WCS - BLENDED
Crude Oil	250bbls/day	January 1, 2020 to December 31, 2020	\$ 42.50	WCS - BLENDED
Crude Oil	250bbls/day	January 1, 2020 to December 31, 2020	\$ 43.95	WCS - BLENDED

# Highwood Oil Company Ltd.

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### CAD Collars:

Product	Notional Volume	Term	Collar Cap (CAD/bbl)	Collar floor (CAD/bbl)	Index
Crude Oil	100bbls/day	October 1, 2019 to December 31, 2019	\$ 69.00	\$ 59.00	WTI - NYMEX

### Differential:

Product	Notional Volume	Term	Fixed Price Differential (USD/bbl)	Index
Crude Oil	50bbls/day	January 1, 2019 to December 31, 2019	\$ (13.50)	Edmonton Light vs. WTI - NYMEX
Crude Oil	50bbls/day	January 1, 2019 to December 31, 2019	\$ (13.35)	Edmonton Light vs. WTI - NYMEX
Crude Oil	50bbls/day	February 1, 2019 to December 31, 2019	\$ (12.50)	Edmonton Light vs. WTI - NYMEX
Crude Oil	50bbls/day	February 1, 2019 to December 31, 2019	\$ (10.50)	Edmonton Light vs. WTI - NYMEX
Crude Oil	50bbls/day	January 1, 2019 to December 31, 2019	\$ (21.00)	WCS vs. WTI - NYMEX
Crude Oil	50bbls/day	February 1, 2019 to December 31, 2019	\$ (18.10)	WCS vs. WTI - NYMEX

The commodity contracts had a total fair value at September 30, 2019 of a net liability of \$1,784,000 (December 31, 2018 – asset of \$1,316,000). The corresponding unrealized gain(loss) for the three and nine month periods ended September 30, 2019 were \$(1,325,000) and \$(3,100,000), respectively (three and nine months ended September 30, 2018 – \$305,000 and \$(1,859,000), respectively) and is included in the statement of Loss and Comprehensive Loss. Total realized losses for the three and nine month periods ended September 30, 2019 were \$1,003,719 and \$5,143,170, respectively (three and nine months ended September 30, 2018 - \$817,395 and \$1,461,337, respectively) and are also included in the statement of Loss and Comprehensive Loss. The realized loss for the nine months ended September 30, 2019 includes a \$3,514,100 premium paid related to commodity contract entered into in anticipation of the acquisition described in note 19 of the June 30, 2019 interim financial statements.

For the three month period ended September 30, 2019, a \$0.10/bbl increase/decrease in oil prices would have a negative/positive impact on net income of approximately \$29,000.

Subsequent to September 30, 2019, the Company entered into the following commodity contracts:

### 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

### (c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities as they become due. The Company's financial liabilities consist of bank overdraft, accounts payable and accrued liabilities and bank debt, all of which are due within a year. The Company also maintains and monitors a certain level of cash flow which is used to partially finance all operating and capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas sales on the 25th of each month.

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At September 30, 2019, the Company had a working capital surplus (defined as current assets less current liabilities) of \$420,907. In addition, the Company is required to make certain minimum payments under other commitments (note 15). 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. The Company also has a credit facility (note 9) to facilitate the management of liquidity risk. At September 30, 2019, \$1,400,000 was available under the credit facility. The Company's credit facility matures in more than twelve months and is therefore classified as long-term.

At September 30, 2019, the Company was in compliance with all financial covenants related to the credit facility and the Company received a waiver for the permitted hedging. The Company may need to conduct equity issues or issue debt if liquidity risk increases in a given period. Liquidity risk may increase as a result of a change in the amounts settled monthly from the commodity contracts (note 16(b)), among other items. 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.

In relation to the remediation work described in 15(b) the Company has estimated its full exposure for the pipeline release to be \$520,000, being the self insured portion of \$520,000 in relation to the pipeline release. The Company expects to pay these expenses through operational cashflows and the Company's credit facility.

### 17. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities; and
- To maximize shareholder return through enhancing share value.

The Company considers its capital employed to be bank debt and shareholders' equity:

	<b>September 30, 2019</b>	December 31, 2018
Bank debt	\$ 36,490,400	\$ 33,000,000
Shareholder's equity	24,279,335	24,579,552

The Company monitors capital based adjusted working capital, defined as current assets less current liabilities (excluding bank loan and commodity contracts).

#### *Adjusted working capital*

	<b>September 30, 2019</b>	December 31, 2018
Adjusted current assets	\$ 19,058,283	\$ 34,096,679
Adjusted current liabilities	(16,747,376)	(32,043,138)
Adjusted working capital (deficit)/surplus	\$ 2,310,907	\$ 2,053,541

The Company makes adjustments to capital employed by monitoring economic conditions and investment opportunities. The Corporation generally relies on credit facilities and cash flows from operations in excess of dividends to fund capital requirements. To maintain or modify its capital structure, the Company may issue new common or preferred shares, issue new subordinated debt, renegotiate existing debt terms, or repay existing debt. The Company is not currently subject to any externally imposed capital requirements, other than covenants on its bank debt (note 9).



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Adjusted working capital was in a surplus position at September 30, 2019, mainly due to the receivable of \$6,149,509 relating to the terminated transaction being classified as a current receivable (note 3).

The Company also monitors capital structure based on net debt to cash flow. The definition of net debt to cash flow for capital management purposes is the same measure used in the calculation of the Company's financial covenants on its credit facility (note 9). The Company's strategy is to monitor the ratio and the ratio can, and will, fluctuate based on the timing of commodity prices and the mix of exploratory and development drilling.

### 18. RELATED PARTY TRANSACTIONS

Except as discussed elsewhere, the Company had the following transactions with related parties:

- During the three and nine month periods ended September 30, 2019, the Company incurred charges of \$62,134 and \$135,743, respectively (three and nine months ended September 30, 2018 –\$59,368 and \$80,460, respectively) from a company with common directors for management fees, office space, subscriptions and supplies of which \$31,945 and \$45,176, respectively, was recorded as an increase in general and administrative expense and \$30,189 and \$90,567, respectively, was recorded as a reduction to lease liabilities. In addition, the Company was charged \$124,013 and \$330,334, respectively (three and nine months ended September 30, 2018 - \$242,859 and \$320,890, 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 nine month periods ended September 30, 2019, the Company was also charged \$168,811 and \$1,032,101, respectively (three and nine months ended September 30, 2018 - \$92,173 and \$794,136, respectively) for propane purchases and distribution from this company which is included in operating and transportation expenses on the statement of Loss and Comprehensive Loss. As at September 30, 2019, \$3,559 (December 31, 2018 - \$nil) is included within accounts receivable and \$746,364 (December 31, 2018 - \$314,263) is included within accounts payable with respect to these charges.

### 19. SUBSEQUENT EVENTS

Subsequent to September 30, 2019, the Company granted 29,500 stock options at an exercise price of \$18.00 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. The Company also granted 29,500 RSU's exercisable for nominal consideration. The RSU's granted vest 1/3 on June 30, 2020, 1/3 on June 30, 2021, 1/3 on June 30, 2022 and expire on December 31, 2022.