HIGHWOOD OIL COMPANY LTD. ANNOUNCES THE STRATEGIC ACQUISITION OF A PREMIER OIL RESOURCE PLAY AT PEACE RIVER

May 16, 2019

CALGARY, ALBERTA – Highwood Oil Company Ltd., ("**HOCL**", "**Highwood**" or the "**Company**") (TSXV: HOCL) is pleased to announce that it has entered into an agreement with a publicly traded oil and gas exploration and production company (the "**Vendor**") to purchase high quality oil assets in the Peace River Oil region of Northern Alberta for a total transaction value of $93.8 million, comprised of cash considerations of $88.8 million and equity consideration of $5.0 million prior to customary closing adjustments (the "**Acquisition**"). The Acquisition includes a 55% operated working interest ("**WI**") in the Peace River Oil Partnership (the "**PROP**") (8,000 boe/d gross production, 4,400 boe/d net production to HOCL, 89% oil and liquids). The PROP asset (the "**Assets**") is a world-class resource with a large drilling inventory in the conventional Bluesky and emerging Clearwater oil plays where significant low risk development opportunities exist. The Assets also include access to a large 2D / 3D seismic database license, and extensive egress and infrastructure in place to facilitate self-sustaining operations.

The Acquisition will be funded with $61.5 million of cash, $19.0 million in deferred payment / vendor take-back consideration, $3.0 million of oil price escalator provisions, $5.3 million of assumed working capital deficit and $5.0 million of HOCL equity. Closing of the Acquisition is expected to occur prior to July 31, 2019, subject to the satisfaction of customary closing conditions, and the Acquisition will be deemed effective February 1, 2019.

STRATEGIC RATIONALE

The Acquisition is a continuation of the Company's strategy to position itself as an area consolidator within oil-weighted resource plays where its management team has the experience and technical expertise to drive significant operating synergies. The Acquisition adds size and scale that will transition HOCL to become a strong intermediate oil weighted growth company. The Acquisition, which is being purchased at an attractive 2.9x multiple of operating funds flow and 3.8x multiple of free operating funds flow, is >160% accretive to HOCL's estimated funds flow per share, while adding lower decline production with high netbacks and compelling new-drill capital efficiencies.

The base Bluesky production requires minimal capital investment to maintain production volumes allowing HOCL to generate highly sustainable free funds flow that will provide non-dilutive funding for its existing exploration portfolio and/or complementary strategic acquisitions. Furthermore, the Acquisition adds >50 sections of prospective Clearwater inventory to HOCL's existing >225 sections of undeveloped Clearwater lands. The Acquisition, in combination with the Company's other core assets, provides HOCL with diversified exposure to high quality upstream and midstream assets that deliver strong economic returns at lower commodity price levels and significant self-funded growth potential at current strip prices.

Based on annualized second half 2019 internal estimates, pro forma the Acquisition, HOCL is set to deliver 6,100 boe/d (93% oil and liquids) with operating funds flow of $55 million. Highwood's balance sheet remains strong with a projected debt to funds flow ratio of approximately 2.3x assuming the Acquisition is financed with debt.

ASSET OVERVIEW

The PROP was formed in 2010 when the non-operating partner purchased a 45% WI in the Assets to develop what was mutually heralded as a "world-class oil resource" in the Peace River area. The Peace River area has a large drilling inventory, considerable secondary recovery potential, a moderate base decline, strong operating netbacks and capital efficiencies; collectively, providing a stable base for HOCL to grow from for decades to come. Operationally, over the past year, the PROP partners and industry have drilled 19 multi-lateral Bluesky horizontal wells (with 8-16 legs); the IP30 rates from those wells range from 180 bbl/d to >800 bbl/d.

PROP is anticipated to provide a multi-year source of free operating funds flow to fund sustainable growth and carries meaningful near and long-term development opportunities:

- PROP has an extensive land position of >420 sections (incl. >50 with Clearwater potential) and an internally identified drilling inventory of >360 locations (incl. >215 in the Clearwater)
    - Recent industry results validate improved Bluesky economics at PROP using open-hole multi-lateral exploitation like HOCL's technique for its existing Clearwater play
    - Further potential Bluesky upside exists in re-drilling existing producers as 8-legs (from single-leg) & 38m (from 200m) inter-well spacing
    - Industry has recently drilled two significant Clearwater step-outs (a six-leg producer and a vertical well) just 5-15 miles north and northeast of PROPs existing Nampa lands
- Extensive secondary EOR potential: polymer / thermal application validated by two pilots
- Strong Bluesky / Clearwater pad well economics deliver an IRR of ~157% / ~86% with payout achieved in 0.9 years / 1.3 years, respectively
- Valuable infrastructure: a stake in the Harmon valley plant (non-op, PROP 50% WI). Total estimated gross replacement cost of $500-600 MM
- Seismic: access to 985 km of 2D and 359 km^2 of 3D data
- The Acquisition carries an attractive Liability Management Rating of 6.6x

In summary, based on internal estimates of H2 2019E projections, the key benefits to Highwood's shareholders pro forma the Acquisition are as follows:

- Accretion per share: 163% on funds flow, 185% on production, 166% and 123% on proved developed producing and total proved plus probable reserves, 31% on net asset value
- Improved sustainability ratio / free funds flow yield: 53% (from 96%) / 14% (from 1%)

- Improved LMR Rating: 4.7x (from 1.3x)

SUMMARY OF THE TRANSACTION

The Acquisition has the following key characteristics:

Transaction value	$93.8 million
Current production	4,400 boe/d (89% liquids)
Base production decline	24%
Proved developed producing reserves(1)	6,191 Mboe
Proved developed producing NPV10(1)(2)	$80 million
Proved plus probable reserves(1)	12,245 Mboe
Proved plus probable NPV10(1)(2)	$137 million
Operating netback(3)	$20/boe

Notes:

(1) Gross reserves are the total working interest reserves before the deduction of any royalties and including any royalty interests receivable. Estimated total proved and proved plus probable reserves attributable to the PROP assets as evaluated by Sproule Associates Limited ("Sproule") in a report with an effective date of December 31, 2018, in accordance with the COGE Handbook and National Instrument 51-101 – Standards for Disclosure for Oil and Gas Activities of the Canadian Securities Administrators, using the Sproule December 31, 2018 price forecast.

(2) Before tax net present value based on a 10 percent discount rate and Sproule's December 31, 2018 forecast prices. Estimated values of future net revenues do not represent the fair market value of the reserves.

(3) Refer to the non-GAAP measures section of this press release for additional disclosures and assumptions.

Acquisition metrics are as follows:

Production	$21,000/boe/d
H2 2019E operating funds flow multiple(1)	2.9x
Proved developed producing reserves(2)	$15/boe
Proved plus probable reserves(2)	$8/boe
Recycle ratio(3)	2.7x
Free operating funds flow yield(4)	26%

Notes:

(1) Calculated as $93.8 million transaction value / (current production of 4,400 boe/d x $20.39/boe x 365 days).

(2) Calculated as transaction value divided by the proved developed producing or proved plus probable reserves.

(3) Calculated as operating netback of $20.39/boe divided by the cost of proved plus probable reserves of $7.66/boe.

(4) Calculated as ($32.7 million of operating funds flow – $7.9 million of sustaining capital expenditures) / $93.8 million transaction value.

INCREASED H2 2019E ESTIMATES

The following is HOCL's change in the company's annualized internal estimates for the second half of 2019, after giving effect to the Acquisition:

	Pre-Acquisition(1)	Post-Acquisition(1)	% Change
Average production (boe/d)	2,060	6,100	196%

% Liquids	100%	93%	(7)%
Operating funds flow(2)	$28 million	$55 million	100%
Operating netback(2)	$37/boe	$25/boe	(33)%
Funds flow(2)	$16 million	$44 million	173%
Funds flow netback(2)	$21/boe	$20/boe	(8)%
Free funds flow yield(2)	1%	15%	14%
Net debt(2)	$33 million	$102 million	210%
Net debt / Funds flow(2)	2.0x	2.3x	13%
Proved developed producing reserves(3)(4)	3,505 mboe	9,696 mboe	177%
Proved developed producing NPV10%(3)(4)	$85 million	$166 million	95%
Proved plus probable reserves(3)(4)	9,318 mboe	21,563 mboe	131%
Proved plus probable NPV10%(3)(4)	$192 million	$329 million	71%

Notes:

(1) Pricing assumptions: WTI US$62/bbl, WCS differential US$19/bbl, Edmonton par differential C$8/bbl, C$/US$ exchange rate $0.75, AECO C$1.35/Mcf; the pricing assumptions do not apply to before tax reserve evaluation of net present value discounted at 10 percent.

(2) Refer to the non-GAAP measures section of this press release for additional disclosures and assumptions.

(3) Gross reserves are the total working interest reserves before the deduction of any royalties and including any royalty interests receivable. Pre-Acquisition estimated total proved and proved plus probable reserves attributable to the Highwood assets are derived from: the reserve report as evaluated by GLJ Petroleum Consultants Ltd., in a report with an effective date of December 31, 2018, in accordance with the COGE Handbook and National Instrument 51-101 – Standards for Disclosure for Oil and Gas Activities of the Canadian Securities Administrators, using the GLJ December 31, 2018 price forecast, and the recent Saskatchewan acquisition reserve report as evaluated by GLJ Petroleum Consultants Ltd., in a report with an effective date of March 31, 2019, in accordance with the COGE Handbook and National Instrument 51-101 – Standards for Disclosure for Oil and Gas Activities of the Canadian Securities Administrators, using the GLJ March 31, 2019 price forecast. Estimated total proved and proved plus probable reserves attributable to the PROP assets as evaluated by Sproule Associates Limited in a report with an effective date of December 31, 2018, in accordance with the COGE Handbook and National Instrument 51-101 – Standards for Disclosure for Oil and Gas Activities of the Canadian Securities Administrators, using the Sproule December 31, 2018 price forecast.

(4) Pro forma before tax net present value based on a 10 percent discount rate and Sproule's December 31, 2018 forecast prices and GLJ's December 31, 2018 forecast prices. Estimated values of future net revenues do not represent the fair market value of the reserves.

ADVISOR

National Bank Financial Inc. is acting as financial advisor to Highwood with respect to the Acquisition. Cormark Securities Inc. is acting as strategic advisor to Highwood with respect to the Acquisition.

FURTHER INFORMATION

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Oil and Gas Measures

Barrels of Oil Equivalent – This news release discloses certain production information on a barrels of oil equivalent ("boe") basis with natural gas converted to barrels of oil equivalent using a conversion factor of six thousand cubic feet of gas (Mcf) to one barrel (bbl) of oil (6 Mcf:1 bbl). Condensate and other NGLs are converted to boe at a ratio of 1 bbl:1 bbl. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based roughly on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at sales point. Although the 6:1 conversion ratio is an industry-accepted norm, it is not reflective of price or market value differentials between product types.

Based on current commodity prices, the value ratio between crude oil, NGLs and natural gas is significantly different from the 6:1 energy equivalency ratio. Accordingly, using a conversion ratio of 6 Mcf:1 bbl may be misleading as an indication of value.

Mcfe Conversions: Thousands of cubic feet of gas equivalent ("Mcfe") amounts have been calculated by using the conversion ratio of one barrel of oil (1 bbl) to six thousand cubic feet (6 Mcf) of natural gas. Mcfe amounts may be misleading, particularly if used in isolation. A conversion ratio of 1 bbl to 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of natural gas as compared to oil is significantly different from the energy equivalent of 1:6, utilizing a conversion on a 1:6 basis may be misleading as an indication of value.

Non-GAAP Measures

The flowing definitions do not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable with the calculation of similar measures by other companies.

“Free funds flow” is calculates as funds flow less capital expenditures.

“Free funds flow yield” is calculated as free funds flow / market capitalization.

“Funds flow” is calculated as operating funds flow less general and administrative expenses and interest expenses.

“Funds flow netback” is calculated as revenues net of royalties, less transportation and processing charges, operating expenses, general and administrative expenses and interest expenses and then divided by BOE of Mcf sold.

“Net debt” is calculated as total debt less current assets plus current liabilities (excluding any amounts included in total debt), and includes transaction costs and the completed debt and equity financings. Total debt is calculated as long-term debt, long-term debt due within one year and short-term debt.

“Operating free funds flow” is calculated as revenues net of royalties, less transportation and processing charges and operating expenses less capital expenditures.

“Operating free funds flow yield” is calculated as operating free funds flow divided by transaction value.

“Operating funds flow” is calculated as revenues net of royalties, less transportation and processing charges and operating expenses.

“Operating netback” is calculated as revenues net of royalties, less transportation and processing charges and operating expenses and then divided by BOE or Mcf sold.

“Sustainability ratio” is calculated as Capital Expenditures / Funds Flow.

Forward Warning

Certain statements included or incorporated by reference in this press release may constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements or information in this press release may include, but are not limited to:

- *the anticipated closing date of the Acquisition;*
- *the actual amount of debt assumed upon closing of the Acquisition;*
- *the number of Highwood shares issued upon closing of the Acquisition;*
- *the sources of existing production and future development drilling locations and opportunities;*
- *the annual decline rate of the Assets;*
- *the number and classification of future development drilling locations and opportunities;*
- *the pricing received for production, and resulting operating and after-tax cash flow netbacks for the Assets;*
- *the estimate of annualized 2019 fund flows from operations;*
- *the anticipated acquisition metrics;*

- *the expectation that fiscal and regulatory policies in Alberta remain supportive of continued investment;*
- *exploration and development capital expenditure expectations for 2019; and*
- *development plans and strategic objectives.*

This news release contains estimates of the net present value of the future net revenue from the reserves to be acquired pursuant to the Acquisition. The estimated values of future net revenue disclosed in this press release do not represent fair market value. There is no assurance that the forecast prices and cost assumptions used in the reserve evaluations will be attained and variances could be material.

Estimates of reserves for individual properties may not reflect the same confidence level as estimates of reserves for all properties due to the effects of aggregation.

Statements relating to reserves are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Such forward-looking statements or information are based on a number of assumptions all or any of which may prove to be incorrect. In addition to any other assumptions identified in this document, assumptions have been made regarding, among other things:

- *satisfaction of all conditions to the proposed Acquisition and receipt of all necessary approvals;*
- *availability of credit facilities for the completion of the Acquisition;*
- *the non-operating partner's intention to maintain its status quo interest in respect of its rights of tag along or first refusal contained in the PROP partnership agreement;*
- *the ability of Highwood to obtain equipment, services and supplies in a timely manner to carry out planned development activities;*
- *the ability of Highwood to market oil and natural gas successfully to current and new customers;*
- *the timely receipt of required regulatory approvals;*
- *currency, exchange and interest rates;*
- *future oil and natural gas prices; and*
- *management's expectations relating to the timing and results of development activities.*

Although Highwood believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because Highwood can give no assurance that such expectations will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Highwood and described in the forward looking statements or information. These risks and uncertainties include but are not limited to:

- *the ability of management to execute its business plan or realize anticipated synergies or cost savings from the Acquisition;*
- *the risks of not obtaining court, shareholder, regulatory and other approvals for the Acquisition;*
- *the risks of the oil and gas industry, both domestically and internationally, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;*
- *risks and uncertainties involving geology of oil and natural gas deposits;*
- *risks inherent in Highwood's marketing operations, including credit risk;*
- *the uncertainty of reserves estimates and reserves life;*
- *the uncertainty of estimates and projections relating to production, costs and expenses;*

- *potential delays or changes in plans with respect to proposed acquisitions (including the Acquisition), exploration or development projects or capital expenditures;*

- *Highwood's ability to enter into or renew leases;*

- *fluctuations in oil and natural gas prices, foreign currency exchange rates and interest rates;*

- *health, safety and environmental risks;*

- *uncertainties as to the availability and cost of financing;*

- *the ability of Highwood to add production and reserves through development and exploration activities;*

- *general economic and business conditions;*

- *the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;*

- *uncertainty in amounts and timing of royalty payments;*

- *risks associated with existing and potential future law suits and regulatory actions against Highwood; and*

- *other risks and uncertainties described elsewhere in this document or in Highwood's other filings with Canadian securities regulatory authorities.*

The forward-looking statements or information contained in this document are made as of the date hereof and Highwood undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.