HIGHWOOD

OIL COMPANY LTD.

MANAGEMENT DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020

April 29, 2021

Management's Discussion and Analysis

This management's discussion and analysis (MD&A) of operating and financial results of Highwood Oil Company Ltd. ("Highwood" or the "Company") is dated April 29, 2021 and is based on currently available information. It should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended December 31, 2020 and 2019. Unless otherwise noted, all financial information is presented in Canadian dollars, and is in accordance with International Financial Reporting Standards (IFRS) as set out in Part 1 of the Chartered Professional Accountants Canada Handbook – Accounting. Additional information can be found at www.sedar.com and www.highwoodoil.com.

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

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

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

Description of Business

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

Q4 2020 Corporate Highlights and Outlook

- Highwood closed the divestiture of its Clearwater assets for gross cash consideration of $40.75 million on December 21, 2020, prior to customary closing adjustments. The transaction resulted in a gain on disposition of $20.59 million for the year ended December 31, 2020. Highwood began accumulating the Clearwater assets in 2017 and drilled 19 gross wells prior to disposing of the assets. In addition to the $40.75 million the Company received for the disposition, the Company also received net proceeds of $6.0 million through the sale of a 4% non-deduct royalty over the Clearwater lands executed in 2018 and a further $648 thousand for an additional 4% non-deduct royalty over certain Clearwater lands in 2020.

- Highwood announced the signing of a definitive agreement on November 13, 2020 to vend the Red Earth assets to an Alberta producer for cash consideration of $2.0 million. The transaction subsequently closed on March 25, 2021 following regulatory approval and license transfers. The disposition removed $36.0 million of balance sheet decommissioning liabilities as of December 31, 2020, or approximately 92% of the Company's decommissioning obligations. The transaction did not include an interest in the Company's Wabasca River Pipeline midstream asset.

- As announced on March 25, 2021, the Company intends to transition into an asset management entity to drive its focus on shareholder return. The asset management structure will oversee various operations including ESG and other clean energy transition subsectors, which may include industrial metals and minerals (Lithium, Iron, Vanadium, Cobalt, Gold, Silver, Palladium, Scandium etc), clean energy technologies, upstream and midstream oil & gas production & processing.

- Within the industrial metals and minerals business unit, the Company has already amassed industrial metallic and mineral permits of over 2,500,000 acres in Alberta and British Columbia and it has engaged a third-party resource evaluator to prepare a 43-101 technical report on the permitted acreage.

- Within the upstream and midstream oil & gas production & processing business unit, the Company delivered average production of 1,908 bbl/d of oil in the fourth quarter of 2020, a 21% increase from 1,585 bbl/d in the third quarter of 2020. Current net production from Highwood is approximately 125 bbl/d of oil subsequent to the Red Earth disposition.

- Corporately, net debt at December 31, 2020 was $1.13 million, a 97% decrease from net debt outstanding at December 31, 2019 of $41.99 million.

2020 Fourth Quarter Operations

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

Highwood reduced executive and employee salaries and reduced staff throughout 2020 to help mitigate the financial impact of the COVID-19 Global Pandemic. The Company has received support from government grants including the Canada Emergency Wage Subsidy ("CEWS") and the Canadian Emergency Rent Subsidy ("CERS") to help mitigate the financial impact of COVID-19 and continues to evaluate any programs available that could provide support to the Company.

Outlook and Update to Metallic and Industrial Mineral Permits

As announced on March 25, 2021, the Company intends to transition into an asset management entity overseeing various operations including ESG and other clean energy transition subsectors, which may include industrial metals and minerals (Lithium, Iron, Vanadium, Cobalt, Gold, Silver, Palladium, Scandium etc), clean energy technologies, upstream and midstream oil & gas production & processing, and potentially other business ventures. The transition is subject to shareholder and exchange approval.

Within the industrial metals and minerals business unit, the company has engaged a third-party resource evaluator to prepare a 43-101 technical report over the 2,500,000 permitted acres within 133 blocks in Alberta and British Columbia.

In the energy sector, the Company has, and will continue to evaluate acquisition opportunities in the M&A market but will remain disciplined to pursue only those opportunities that are accretive with low to moderate asset retirement obligations.

Corporately, the Company intends to build a growing profile of recurring free funds flow that will provide maximum flexibility for growth and / or other strategic M&A opportunities in a non-dilutive fashion.

Given its clean balance sheet which provides considerable financial and operational flexibility, the Company expects that it will be able to complete several accretive acquisition to catalyze material organic growth in 2021. The Company is currently engaged in several encouraging dialogues regarding various acquisitions and partnership opportunities. Global optimism around mitigating COVID-19 and restoring previous economic and industrial activities has created positive market and investment sentiment both within and outside oil & gas space.

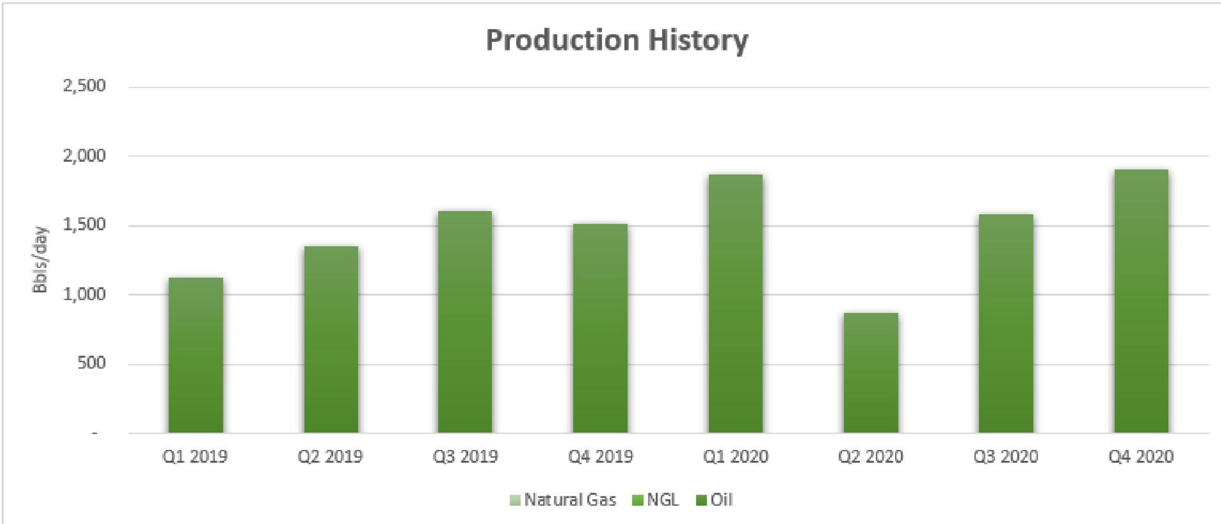
Highwood Oil Company Ltd. – Financial and Operating Highlights

	Three months ended December 31, 2020	Three months ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2019
Financial				
Oil and natural gas sales	**$ 6,686**	$ 7,908	**$ 20,719**	$ 33,348
Transportation pipeline revenues	**1,021**	1,228	**3,740**	5,276
Total revenues, net of royalties and commodity contracts [(1)]	**6,122**	6,114	**29,418**	25,910
Income (Loss)	**18,347**	(6,583)	**(9,284)**	(11,013)
Cash flows from operating activities	**1,236**	274	**9,114**	11,667
Capital expenditures	**228**	4,895	**4,710**	11,950
Proceeds from dispositions	**39,777**	-	**40,425**	3,000
Working capital surplus (deficit), excluding current bank debt *(end of period)* [(2)]			**5,759**	(8,111)
Net debt [(3)]			**(1,132)**	(41,990)
Shareholders' equity *(end of period)*			**9,763**	17,967
Shares outstanding *(end of period)*			**6,014**	6,014
Options outstanding *(end of period)*			**173**	136
Restricted share units outstanding *(end of period)*			**155**	118
Weighted-average basic shares outstanding	**6,014**	6,014	**6,014**	5,980
Operations [(4)]				
Production				
Crude oil *(bbls/d)*	**1,908**	1,515	**1,560**	1,493
Total *(boe/d)*	**1,908**	1,515	**1,560**	1,493
Benchmark prices				
Crude oil				
Canadian Light *(Cdn$/bbl)*	**41.91**	59.33	**38.12**	62.53
Average realized prices [(5)]				
Crude oil *(per bbl)*	**38.08**	56.74	**36.29**	61.17
Operating netback *(per boe)* [(6)]	**12.81**	10.88	**3.82**	18.28

(1) Includes unrealized gain and losses on commodity contracts
(2) Working capital surplus (deficit) includes commodity contract liability of $109 thousand , (December 31, 2019 – commodity contract liability of $3.02 million). Excluding this, the working capital surplus would be $5.86 million (December 31, 2019 – deficit of $5.1 million). Working capital surplus (deficit) also excludes bank debt of $7 million (December 31, 2019 - $36.89 million).
(3) Net debt consists of bank debt and working capital surplus (deficit) excluding commodity contract assets and/or liabilities.
(4) For a description of the boe conversion ratio, see "Basis of Barrel of Oil Equivalent".
(5) Before hedging.
(6) See "Non-GAAP measures".

Financial and Operating Results

Production



	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
Daily average volume				
Crude oil *(bbls/d)*	**1,908**	1,515	**1,560**	1,493
Total sales *(boe/d)*	**1,908**	1,515	**1,560**	1,493
Total sales *(boe)*	**175,561**	139,360	**570,923**	545,125
Production weighting				
Crude oil	**100%**	100%	**100%**	100%

Production for the year ended December 31, 2020 were consistent with the comparative period. The fourth quarter of 2020 saw in increase in production of 21% from the third quarter of 2020. The increase in production during the fourth quarter was primarily due to the Company restoring production that was voluntarily shut in late in the first quarter of 2020 as a result of the historic collapse in oil prices. The Company restored the majority of production in the fourth quarter of 2020.

Sales

Oil sales

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
Crude oil	**6,686**	7,908	**20,719**	33,348
Total	**6,686**	7,908	**20,719**	33,348
Average realized prices before hedging				
Crude oil *($/bbl)*	**38.08**	56.74	**36.29**	61.17
Combined average *($/boe)*	**38.08**	56.74	**36.29**	61.17

Oil sales for the fourth quarter of 2020 decreased significantly from the fourth quarter of 2019, despite an increase in production, mainly due to the decrease in realized commodity prices from $56.74/bbl in 2019 to $38.08/bbl in 2020, a decrease of 33%. The fourth quarter of 2020 started to see a gradual increase in oil prices, but still remaining well below 2019 realized pricing. Over the short term, the Company anticipates continued price volatility. With respect to oil prices, a significant factor is the unknown impact of transportation constraints in Alberta, demand levels, as well as global inventory levels. The Company anticipates that there will be continued price volatility for at least the next several quarters as various dynamics play out. There have been significant declines in oil prices and the stock markets worldwide for various reasons linked to the COVID-19 pandemic and other conditions impacting worldwide oil prices. The Company continues to monitor current and forecasted pricing.

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

Transportation pipeline revenues

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Total	**1,021**	1,228	**3,740**	5,276

Transportation pipeline revenues relate to the Wabasca River Pipeline System that the Company has a 100% working interest in. Revenues are generated from a tariff charged to vendors who transport product on the pipeline. Revenue decreased for the three months and year ended December 31, 2020 compared to the three months and year ended December 31, 2019 due to a decrease in pipeline throughput as producers reduced production due to uneconomic commodity prices. The Company is optimistic that the recovery in commodity prices in early 2021, which has seen benchmark prices improve by more than 30% since December 31, 2020, will result additional volumes being restored or added to the line. Despite the decrease in volumes the Wabasca River pipeline system produced net operating income of approximately $2.85 million for the year ended December 31, 2020. The Company is also reviewing whether it is economic to restore segments of the Wabasca River pipeline system that were previously shut in which would result in additional volumes and revenues being added to the system.

Royalties

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Royalties	**561**	1,022	**1,870**	4,264
Per boe	**3.19**	7.33	**3.27**	7.82
Percentage of oil and natural gas sales	**8.4%**	12.9%	**9.0%**	12.8%

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

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

Operating and Transportation Expense

	Three months ended December 31, 2020	Three months ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2019
	$	$	**$**	$
Operating and transportation	**3,877**	5,370	**16,670**	19,117
Per boe	**22.08**	38.53	**29.20**	35.07

Overall, operating and transportation expenses decreased by 28% in the fourth quarter of 2020 compared to comparative period due to cost saving initiatives the Company has undertaken. The significant decrease in overall operating and transportation expenses is despite a 26% increase in production between the fourth quarter of 2020 compared to the fourth quarter of 2019. For the year ended December 31, 2020, operating and transportation expenses decreased by 13% due to cost saving initiatives.

Operating and transportation expenses decreased on a per boe basis by 43% for the three months ended December 31, 2020, compared to the prior period, mainly due to the increase in production along with cost cutting measures that have been implemented in 2020. The decrease in operating and transportation expense per boe for the three months and year ended December 31, 2020 is also due to increased production from the Clearwater CGU which provided a lower cost per boe than other areas. The year ended December 31, 2020 included approximately $929 thousand in non-cash expenses related to changes in estimates for future remediation obligations at specific sites.

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

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

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

	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020	Mar 31, 2020	Dec. 31, 2019	Sept. 30, 2019	June 30, 2019	Mar. 31, 2019
	$	$	$	$	$	$	$	$
Total operating and transportation per boe	22.08	31.01	37.37	31.19	38.53	37.40	28.84	35.96
Adjusting items per boe								
Wabasca River Pipeline System	(1.13)	(1.30)	(3.68)	(1.19)	(2.61)	(6.31)	(1.97)	(1.35)
Turnarounds	(0.41)	(0.54)	-	-	(0.09)	(1.16)	-	-
Workovers	(0.04)	(0.19)	(0.17)	(0.91)	(5.60)	(0.04)	(0.74)	(3.90)
Undeveloped Clearwater lands	-	-	-	-	-	-	-	-
Pipeline release	-	(12.42)	(10.74)	-	-	-	-	-
Adjusted operating and transporation per boe	20.50	16.55	22.78	29.10	30.23	29.89	26.13	30.71

Adjusted operating and transportation expense is adjusted in order to present what the operating and transportation expense per boe would be for the Company's producing assets, assuming no unusual or non-recurring expenditures. Pipeline release includes estimates for future clean up obligations that were adjusted during the third quarter of 2020 after reviewing results of the initial sampling phases, which is non-cash in nature. The future costs are included in the decommissioning liabilities.

Netback Analysis

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**38.08**	56.74	**36.29**	61.17
Royalties	**(3.19)**	(7.33)	**(3.27)**	(7.82)
Operating and transportation	**(22.08)**	(38.53)	**(29.20)**	(35.07)
Operating netback	**12.81**	10.88	**3.82**	18.28

The main reason for the decrease in operating netback for the year ended December 31, 2020 compared to year ended December 31, 2019 is due to the reduction in average realized sales price. For the three month period ended December 31, 2020, the Company saw a slight increase in netback due to the significant decrease in operating and transportation costs which was mostly offset by the decrease in realized commodity prices. The average realized price for the three months and year ended December 31, 2020 were approximately 33% and 41%, respectively, lower than the three months and year ended December 31, 2019. Management continues to look at ways to maximize the operating netback.

Risk Management

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

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

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

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

At December 31, 2020 Highwood had the following commodity contracts, with a total mark-to-market liabiltiy of $109 thousand.

CAD Sell Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	50bbls/day	January 1, 2021 to June 30, 2021	$ 57.15	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2021 to June 30, 2021	$ 55.64	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2021 to June 30, 2021	$ 55.20	WTI - NYMEX
Crude Oil	150bbls/day	January 1, 2021 to June 30, 2021	$ 65.40	WTI - NYMEX
Crude Oil	250bbls/day	July 1, 2021 to December 31, 2021	$ 65.40	WTI - NYMEX

Participating Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	150bbls/day	January 1, 2021 to June 30, 2021	$ 50.50 with a 50 % participation above $50.50	WTI - NYMEX

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

	Three months ended December 31,		**Year ended December 31,**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Realized gain (loss) on commodity contracts	**166**	(783)	**2,473**	(5,926)
Unrealized gain (loss) on commodity contracts	**(1,312)**	(1,658)	**3,333**	(4,758)

The realized gain on commodity contracts during the three month and year ended December 31, 2020 was due to oil commodity prices being lower than the contract price. The realized loss on commodity contracts during the three months and year ended December 31, 2019 was due to oil commodity prices being higher than the contract price.

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

Subsequent to December 31, 2020, the Company entered into the following commodity contracts:

CAD Buy Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	275bbls/day	April 1, 2021 to June 30, 2021	$ 81.30	WTI - NYMEX
Crude Oil	125bbls/day	July 1, 2021 to December 31, 2021	$ 77.85	WTI - NYMEX

General and Administrative (G&A)

	Three months ended December 31,		**Year ended December 31,**	
	2020	2019	**2020**	2019
	$	$	**$**	$
G&A	**2,396**	1,552	**6,551**	5,529
G&A expense per boe	**13.65**	11.13	**11.48**	10.14

G&A expenses and G&A expenses per boe increased for the three months ended December 31, 2020 compared to the prior period mainly due to several one-time expenditures that were incurred during the quarter, including advisory costs and other significant costs associated with the strategic alternatives process that occurred in the fourth quarter of 2020 - resulting in the successful disposition of the Company's Clearwater and Red Earth assets that transformed the Company's financial position. Due to the impact of COVID-19 and the collapse in commodity prices, cost cutting measures implemented during the second quarter of 2020, including a reduction in staff, reduction of executive and office salaries by 20%, receipt of government subsidies such as the Canadian Emergency Wage Subsidy and Canadian

Emergency Rent Subsidy, is working with vendors to find additional cost savings. G&A expenses increased for the year ended December 31, 2020 compared to the prior period mainly due the one time expenditures incurred in the fourth quarter and also due to an increase in risk mitigation expenditures, increase in director and officer insurance caused by the uncertainty in the energy market, reduced overhead recoveries due to reduced capital activity and additional one-time costs associated with a reduction in staff due to the market conditions caused by COVID-19 and the volatility in commodity prices. G&A expense per boe for the year ended December 31, 2020 was significantly impacted by the Company shutting in the majority of production capacity during the second quarter due to the collapse in oil prices. Risk mitigation expenditures for the three months and year ended December 31, 2020 was $859 thousand and $3.37 million, respectively ($4.89 per boe and $5.9 per boe, respectively), compared to $801 thousand and $3.07 million, respectively ($5.75 per boe and $5.64 per boe, respectively) in the comparative period.

Stock-Based Compensation

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Stock-based compensation	**389**	300	**1,050**	825

The increase in stock-based compensation for the three months and year ended December 31, 2020 from the comparative three months ended December 31, 2019 is due an additional option and RSU grant that occurred during 2020.

At December 31, 2020 the Company had 173,000 options and 155,000 RSU's outstanding.

Depletion and Depreciation ("D&D")

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
D&D	**152**	1,913	**5,898**	8,640
Per boe	**0.86**	13.73	**10.33**	15.85

During the fourth quarter of 2020, the Company classified it's Red Earth CGUs as assets held for sale. These assets represent more than 50% of the production in the fourth quarter of 2020. In accordance with IFRS 5, assets held for sale are not subject to depletion, therefore, no depletion was recorded during the fourth quarter of 2020 on the Red Earth CGUs.

The decrease in D&D for the year ended December 31, 2020, compared to the prior periods, has also been impacted by a significant decrease in the depletable base due to the impairment expense recognized in the first and third quarters of 2020.

Impairment

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Impairment of property, plant and equipment	**-**	-	**27,486**	-
Impairment of exploration and evaluation assets	**-**	-	**1,254**	-
Impairment expense	**-**	-	**28,740**	-

Impairment of property, plant and equipment

The Company assesses many factors when determining if an impairment test should be performed. For the years ended December 31, 2020, and December 31, 2019, the Company conducted an assessment of impairment indicators for the Company's CGUs. In performing the review, management determined that the continued depressed commodity pricing and the impact this has on the economic performance of the Company's CGUs justified calculation of the recoverable amounts of all CGUs. The recoverable amounts were estimated at the value in use on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by external engineers. The future net cash flows were discounted at a rate of 15% (2019 – 15%).

There was no impairment loss required for any of the Company's CGUs for the year ended December 31, 2020, other than those recorded in the first and third quarter of 2020. Key assumptions used in the determination of the recoverable amounts of each CGU includes commodity prices and discount rates applied to cash flows from proved and probable reserves. A 1% increase in the assumed discount rate over the life of the reserves independently would not have resulted in any impairment loss at December 31, 2020.

As at September 30, 2020, the Company recorded an impairment of $16.6 million on the Red Earth CGUs representing the amount the carrying value exceeded the fair value less costs to dispose of $2.0 million. The recoverable value was determined based on the consideration that will be received on the anticipated disposition of the Red Earth area CGUs, after factoring in all assets and liabilities that will comprise the transaction.

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

During the first quarter of 2020, the Company determined that the following CGUs were impaired:

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

1 CGUs are part of the Red Earth area

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

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

The impairment expense for the three month period ended March 31, 2020 was primarily a result of lower forecasted benchmark commodity prices resulting in a downward revision to the Company's reserve base and lower future cash flows.

Impairment of exploration and evaluation assets

During the third quarter of 2020, due to the Company reaching an agreement to dispose of the Red Earth CGUs, the Company recognized an impairment loss relating to the Red Earth CGUs of $1.06 million, representing the full carrying value of the Red Earth CGUs exploration and evaluation assets, due to the carrying value exceeding its recoverable amount of $nil. The recoverable amount was determined to be $nil as the consideration to be received for the Red Earth CGUs was determined on current production.

During the first quarter of 2020, due to depressed commodity pricing and the impact this had on the economic performance of the Company's CGUs required determination of the recoverable amounts of all CGUs. The recoverable amounts were estimated at fair value less costs to sell based on recent land sales in the areas surrounding the Company's lands. During the three month period ended March 31, 2020, the Company determined that, Viking, one of its non-core CGUs would no longer be pursued and the Company intended to allow the leases to expire. The Company recognized an impairment loss relating to the non-core CGU of $198 thousand, representing the full carrying value of this non-core CGU, due to the carrying value exceeding its recoverable amount of $nil.

Finance Income and Expenses, Net

	Three months ended December 31,		**Year ended December 31,**	
	2020	2019	**2020**	2019
	$	$	**$**	$
Interest on bank debt	**525**	192	**$ 1,274**	831
Stamping fees on bank debt	**223**	275	**1,280**	1,179
Finance fees	**-**	-	**25**	-
Other interest expense (income)	**-**	-	**(43)**	22
Cash finance income and expenses	**748**	467	**2,536**	2,032
Finance fees	**-**	29	**106**	88
Accretion of decommissioning liabilities	**106**	133	**429**	590
Other expense	**2**	3	**10**	17
Non-cash finance expense	**108**	165	**545**	695
Total finance income and expenses	**856**	632	**3,081**	2,727

Interest on bank debt and stamping fees relates to interest and fees paid to Highwood's bankers to service the bank debt and bank overdraft. Interest on bank debt and stamping fees three month and year ended December 31, 2020 compared to 2019 was increased due to the increase in amount drawn and increase in interest rates in 2020 that occurred in the fourth quarter of 2020. In conjunction with the disposition of the Clearwater assets that closed on December 21, 2020, the Company reduced the amounts drawn by over $30 million which will result in significantly lower finance costs in the first quarter of 2021.

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

Deferred Income Tax

Deferred income tax was an expense of $468 thousand and a recovery of $2.44 million, respectively, for the three months and year ended December 31, 2020, compared to a recovery of $737 thousand and $2.47million for the three months and year ended December 31, 2019. The deferred tax expense in the fourth quarter of 2020 is mainly due to the disposition of assets during the fourth quarter for proceeds that were significantly greater than the tax basis of the assets. The deferred tax recovery for the year ended December 31, 2020 was mainly due to the impairment expense incurred during the year.

Income (Loss)

The Company incurred a income of $18.35 million and a loss of $9.28 million, respectively, for the three months and year ended December 31, 2020, compared to a loss of $6.58 million and $11.01 million, respectively, for the comparative three months and year ended December 31, 2019. Income for the three months ended December 31, 2020 was mainly due a gain on the disposition of the Clearwater assets for more than $20 million that closed on December 21, 2020. The loss for the year ended December 31, 2020 was primarily a result of a non-cash $28.74 million impairment loss along with the collapse in oil prices and impact of COVID-19 and other market conditions. For the year ended December 31, 2019, the Company's loss was partially a result of a non-cash $1.3 million listing expense related to the Company's acquisition and amalgamation of Predator Blockchain Capital Corp. The listing expense represents the difference between the compensation paid by the Company and the net assets the Company acquired. The listing expense was incurred in order for the Company to begin trading on the TSX Venture Exchange. In addition, the three months and year ended December 31, 2019 include a non-cash charge to allowance on deposit for $3.08 million relating to a $6.15 million disputed deposit as disclosed in note 8 of the consolidated financial statements. For the three months and year ended December 31, 2019, the Company also incurred a one-time expense of $3.51 million relating to a premium to acquire hedges as part of the transaction that was ultimately terminated. This extraordinary and non-recurring expense is not anticipated to be realized in future periods.

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Income (Loss)	**18,348**	(6,583)	**(9,284)**	(11,013)
Per share, basic	**3.05**	(1.09)	**(1.54)**	(1.84)
Per share, diluted	**2.97**	(1.09)	**(1.54)**	(1.84)

Selected Annual Information

Years ended December 31,	2020	2019	2018
	$	$	$
Oil and natural gas sales	20,719	33,348	24,986
Royalties	(1,870)	(4,264)	(4,135)
Transportation pipeline revenues	3,740	5,276	3,949
Processing and other income	1,023	2,234	1,960
Realized gain (loss) on commodity contracts	2,473	(5,926)	(1,019)
Unrealized gain (loss) on commodity contracts	3,333	(4,758)	1,939
Total revenue, net of royalties and commodity contracts	29,418	25,910	27,680
Cash flows from operating activities	9,114	11,667	(2,512)
Loss	(9,284)	(11,013)	(1,810)
Per share, basic	(1.54)	(1.84)	(0.32)
Per share, diluted	(1.54)	(1.84)	(0.32)
Total assets	65,650	114,187	126,545
Total non-current financial liabilities (1)	49	1,708	1,387

(1) Excludes decommissioning liabilities and deferred tax liabilities.

Supplemental Information

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

Cash Flows from Operating Activities

	Three months ended December 31,		Year ended December 31,	
	2020	2019	**2020**	2019
	$	$	**$**	$
Income (loss)	**18,348**	(6,583)	**(9,284)**	(11,013)
Non-cash items:				
Unrealized (gain) loss on commodity contracts	**1,312**	1,658	**(3,333)**	4,758
Exploration and evaluation expenditures	**15**	397	**15**	419
Depletion and depreciation expense	**152**	1,913	**5,898**	8,640
Impairment loss	**-**	-	**28,740**	-
Finance expense	**108**	165	**545**	695
Deferred income tax expense (recovery)	**468**	(737)	**(2,437)**	(2,466)
Stock-based compensation	**389**	300	**1,050**	825
Gain on disposal of assets	**(20,613)**	-	**(21,199)**	(2,600)
Non-cash operating and transportation expense	**-**	-	**929**	-
Listing expense	**-**	-	**-**	1,330
Allowance on deposit	**-**	3,075	**-**	3,075
Cash abandonment expenditures	**(18)**	-	**(18)**	(168)
Changes in long-term accounts payable and accrued liabilities	**(1,145)**	16	**(1,145)**	(242)
Change in non-cash working capital	**2,221**	70	**9,353**	8,414
	1,237	274	**9,114**	11,667

Selected Quarterly Information

Three months ended	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Financial ($000s, except per share amounts and share numbers)								
Oil and natural gas sales	6,686	5,752	1,737	6,545	7,908	8,850	9,662	6,929
Transportation pipeline revenues	1,021	790	769	1,160	1,228	1,316	1,498	1,234
Income (loss)	18,347	(20,074)	(3,837)	(3,724)	(6,583)	(1,447)	(475)	(2,508)
Capital expenditures	228	67	223	4,191	4,895	2,382	595	4,077
Total assets *(end of quarter)*	65,650	87,108	103,782	106,906	114,187	120,543	119,614	119,065
Working capital surplus (deficit), excluding commodity contracts and bank debt *(end of quarter)*	5,868	(6,028)	(9,089)	(4,064)	(8,811)	2,311	(1,594)	1,333
Shareholders' equity *(end of quarter)*	9,763	(8,977)	10,860	14,544	17,997	24,279	25,532	24,167
Weighted-average basic shares outstanding *(000s)*	6,014	6,014	6,014	6,014	6,014	6,014	5,994	5,890
Operations								
Production								
Crude oil *(bbls/d)*	1,908	1,585	870	1,872	1,515	1,495	1,608	1,354
Total *(boe/d)*	1,908	1,585	870	1,872	1,515	1,495	1,608	1,354
Average realized prices *($)*								
Crude oil *(per bbl)*	38.08	39.44	21.94	38.42	56.74	64.32	66.04	56.85

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

Capital Activity

	Three months ended December 31, 2020	2019	Year ended December 31, 2020	2019
	$	$	**$**	$
Land	**-**	6	**4**	501
Seismic and other pre-drilling costs	**8**	102	**135**	323
Production equipment and facilities	**22**	1,193	**1,087**	3,089
Drilling and completions	**198**	3,594	**2,954**	7,383
Recompletions	**-**	-	**530**	654
	228	4,895	**4,710**	11,950

At December 31, 2020, the Company had E&E assets of $1.24 million (December 31, 2019 – $7.57 million). This amount is primarily made up of undeveloped land.

At December 31, 2020, the Company had gross property and equipment of $19.68 million (December 31, 2019 - $128.56 million). This included developed land and costs associated with the wells the Company has drilled and acquired to date and the transportation pipelines the Company acquired in 2018.

During the year ended December 31, 2020, the Company closed the disposition of the Clearwater assets for cash proceeds of $39.75 million being the agreed upon purchase price of $40.75 million adjusted for net revenues and other customary items from the effective date of November 1, 2020 to close of $1.0 million. The disposed properties had a net book value in property, plant and equipment of $15.02 million, exploration and evaluation assets of $5.12 million and decommissioning liabilities of $1.64 million. As a result of the disposition, the Company recognized a gain on disposal of asset of $20.59 million during the year ended December 31, 2020.

During the year ended December 31, 2020, the Company drilled nil and 5 gross wells (2.5 net), all in the Clearwater area that the Company disposed of on December 21, 2020. In total, the Company drilled 19 gross wells (9.5 net) it its Clearwater area since 2018 prior to the disposition. The first eight drills in the Clearwater core area were primarily funded by the proceeds from the sale of the 4% non-deduct royalty and the remaining funded from cash flows. One of the wells drilled in the first quarter of 2020 was funded by proceeds from the sale of an additional non-deduct royalty of 4% on additional lands.

The Company, along with its 50% joint venture partner in the Clearwater area, disposed of a 4% royalty over certain jointly held Clearwater mineral rights, in the Craigend area, for gross proceeds of $1.3 million ($648 thousand being the Company's share). As a condition of the royalty divestiture, the Company and its joint venture partner were required drill a well in the Craigend formation prior to March 31, 2020. Upon rig release of the applicable well in February, 2020, $648 thousand, was paid to the Company.

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

Share Capital and Option Activity

As at December 31, 2020 the Company had 6,014,000 common shares, 173,000 options and 155,000 RSU's outstanding.

During the year ended December 31, 2020, the Company granted 45,000 options at an exercise price of $16.50 per option. The options granted vest 1/3 on each of the twelve, twenty-four and thirty-six month anniversaries from the grant date and have a five year term.

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

As at the date of this MD&A the Company had 6,014,000 common shares, 167,000 options and 149,000 RSU's outstanding.

Liquidity, Capital Resources and Going Concern

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities as they become due. The decrease in commodity prices as a result of the COVID-19 impact reducing will negatively impact the Company's financial performance and position, which increases the liquidity risk of the Company. The Company conducted a strategic alternatives process during the fourth quarter of 2020 which significantly decrease the liquidity risk of the Company as the disposition resulted in gross proceeds of $40.75 million. In addition, subsequent to December 31, 2020 the Company closed the disposition of its Red Earth assets for gross proceeds of $2.0 million. This transaction significantly reduced the Company's decommissioning liabilities, which will result in increased access to capital.

At December 31, 2020, the Company was in a positive working capital position, excluding bank debt, of $5.76 million The Company is required to make certain minimum payments under other commitments. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows and through deleveraging transactions. The Company also has a credit facility to facilitate the management of liquidity risk. At December 31, 2020, approximately $3.0 million was available under the credit facility. The bank facility is currently at $10.0 million and matures May 31, 2021, subject to the annual bank review.

The lending facility, currently set at $10.0 million, will be reviewed at least semi-annually by the lender. The lending facility can be determined at the sole discretion of the lender and any amount outstanding under the credit facility in excess of a newly established borrowing base must be repaid in full within 30 days. The Company's next review and lending facility determination is scheduled on or before May 31, 2021 but may be set at an earlier or later date at the discretion of the bank.

The Company is required to maintain an adjusted working capital 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 to (ii) current liabilities, excluding financial derivatives, any amounts drawn under the credit facility and any current liabilities related to lease contracts. At December 31, 2020, the Company's current ratio was 1.13:1.0 (December 31, 2019 – 0.80:1:00). 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 December 31, 2020 and no greater than 2.0:1.0 for each quarter thereafter. As December 31, 2020, the Company's net debt to cash flow ratio is 0.87:1.0 (December 31, 2019 – 4.54:1.0). 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 as cash flow from operating activities before changes in non-cash working capital normalized for extraordinary and nonrecurring earnings, gains, and losses. Cashflows are determined as i) trailing four quarters for the quarter ended December 31, 2020, ii) the most recent quarter annualized for the quarter ended March 31, 2021, iii) the most recent six months annualized for the quarter ended June 30, 2021, iv) the most recent nine months annualized for the quarter ended September 30, 2021 and v) the trailing four quarters for the quarter ended December 31, 2021 and all quarters thereafter. 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 thirty-six months in term and cannot exceed 60% of gross production volumes (by commodity) for the three month trailing period, at the time the contracts are entered into. The Company's next review and borrowing base determination is scheduled on or before May 31, 2021 but may be set at an earlier or later date at the discretion of the bank.

The bank facility has financial and hedging covenants as outlined in note 14 of the financial statements. The Company was in compliance with all its financial covenants and December 31, 2020. At planned production rates and forward prices for crude oil being traded in the futures market, management is forecasting it will be in compliance with financial covenants for the next 12 months. The Company forecasts that it can continue to meet its obligations including interest payments, general & administrative expenses and operating expenses within its internally generated cash flows. However, there are no assurances that the lender will maintain the borrowing base at the current level, which may result in a borrowing base shortfall. If the Company cannot generate sufficient funds to meet the borrowing base shortfall it would constitute an event of default under the loan agreement and the bank could demand immediate repayment of the outstanding loan amount. However, as of the date of this MD&A, the Company is only drawn $1.5 million on the operating facility and the Company believes it would be able to settle its bank facility if it were required.

With the sale of the Red Earth CGUs in March of 2021, the Company has more notional volumes under forward contracts than current oil production, so is exposed to greater degree of cash flow uncertainty should oil prices rise.

The Company has reduced accounts payable and accrued liabilities by approximately $13.07 million during year ended December 31, 2020 from December 31, 2019, including amounts classified as liabilities associated with assets held for sale. The main reason for the decrease is due to the proceeds received on the disposition of the Clearwater assets along with collecting insurance proceeds and cost cutting measures implemented in the second quarter of 2020, including the suspension of capital activity.

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

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

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

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

Off-Balance-Sheet Arrangements

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

Environmental Initiatives Affecting Highwood

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

Commitments and Contingencies

Contingencies

By nature of its oil and gas operations in Northern Alberta, the Company is subject to numerous safety and environmental regulations, with which non-compliance may result in adverse financial impact. The Company mitigates these risks through the adherence to formal safety and environmental policies, as well as adequate insurance coverage. The Company is currently remediating three environmental pipeline releases at Red Earth, Alberta, all relating to the same segment of pipeline. While the Company believes it has recorded its best estimate of the impact of this contingency in these financial statements, the ultimate outcome is uncertain. The event was insured and the Company has made payments on the majority of remediation work in 2018 and 2019. There will be ongoing monitoring costs which the Company anticipates paying over the next several years subject to the overview and approval of the provincial regulatory bodies. In relation to the pipeline release the Company, as at December 31, 2020 has recorded $3.9 million of liabilities associated with assets held for sale in relation to the estimated costs of the remediation work. Subsequent to December 31, 2020, these liabilities were disposed of along with the related assets.

Related-Party Transactions

During the year ended December 31, 2020, the Company incurred charges of $264 thousand (2019 – $197 thousand) from a company with common directors, Tidewater Midstream and Infrastructure Ltd., for management fees, office space, subscriptions and supplies of which $143 thousand (2019 - $76 thousand), was recorded as an increase in general and administrative expense and $121 thousand (2019 - $121 thousand), was recorded as interest expense and a reduction to lease liabilities. In addition, the Company was charged $93 thousand (2019 - $499 thousand) for net non-operated gas sales, butane purchases and gas processing fees which is included in operating and transportation expense. During the year ended December 31, 2020, the Company was also charged $573 thousand (2019 - $1.41 million) for propane purchases and distribution from this related party which is included in operating and transportation expenses on the statement of loss and comprehensive loss. As at December 31, 2020, $4 thousand (2019 - $4 thousand) is included within accounts receivable and $249 thousand (2019 - $1.0 million) is included within accounts payable with respect to these charges.

Hedging

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

Critical Accounting Judgments, Estimates and Policies

The Company's critical accounting judgements, estimates and policies are described in notes 2 and 3 to the December 31, 2020 annual consolidated financial statements. Certain accounting policies are identified as critical because they require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain, and because the estimates are of material magnitude to revenue, expenses, funds flow from operations, income or loss and/or other important financial results. These accounting policies could result in materially different results should the underlying conditions change or the assumptions prove incorrect.

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

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

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

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

A full list of significant estimates and judgments can be found in note 2(d) of the Company's annual financial statements for the year ended December 31, 2020.

New accounting standards and policies issued but not yet applied

Changes in accounting policies

Business Combinations

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

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

The optional 'concentration test' permits a simplified assessment that results in as asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or group of similar identifiable assets. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the sets of activities and assets is determined to not be a business and no further assessment is needed. The amendment to IFRS 3 had no effect to the Company for the period ended December 31, 2020.

Non-GAAP Measures

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

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

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

Basis of Barrel of Oil Equivalent

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

Forward-Looking Statements

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

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

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

Abbreviations

The following summarizes the abbreviations used in this document:

Crude Oil and Natural Gas Liquids

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

Natural Gas

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

Other

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

Corporate Information

BOARD OF DIRECTORS

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

STEPHEN HOLYOAKE
CEO, Fireweed Energy Ltd.
Calgary, Alberta

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

ARIF SHIVJI
Independent Businessman
Calgary, Alberta

OFFICERS

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President & Chief Executive Officer

GRAYDON GLANS
Chief Financial Officer

KELLY McDONALD
Vice President, Exploration

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