HIGHWOOD
OIL COMPANY LTD.

MANAGEMENT DISCUSSION & ANALYSIS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2021

May 28, 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 May 28, 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). 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.

Q1 2021 Corporate Highlights and Outlook

- 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 statement of financial position decommissioning liabilities, 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, Rare Earth Elements including Scandium & Gadolinium, Vanadium, Silica, Alumina, etc), clean energy technologies, upstream and midstream oil & gas production & processing. Shareholder approvals to begin the transition to Highwood Asset Management will be undertaken at the Company’s AGM on June 17, 2021.

- Within the industrial metals and minerals business unit, the Company has already amassed industrial metallic and mineral permits of over 3,100,000 acres in Alberta and British Columbia and it has engaged a third-party resource evaluator to prepare a National Instrument 43-101 – Standards of Disclosure for Mineral Projects technical report (“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 1,008 bbl/d of oil in the first quarter of 2021. Current net production from Highwood is approximately 125 bbl/d of oil subsequent to the Red Earth disposition

- Corporately, net debt at March 31, 2021 was $1.9 million.

2021 First Quarter Operations

Highwood's focus in the first quarter of 2021 was to amass a sizeable position of industrial mines and minerals permits throughout Western Canada to evaluate for purposes of creating a 43-101 technical report.

While Highwood sold the majority of its producing oil assets in the first quarter of 2021, the Company has, and will continue to evaluate opportunities in the M&A market but will remain disciplined to pursue only those opportunities that are accretive with low to moderate liability profiles.

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.

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, Rare Earth Elements including Scandium & Gadolinium, Vanadium, Silica, Alumina, 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 3,100,000 permitted acres within 195 blocks in Alberta and British Columbia.

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

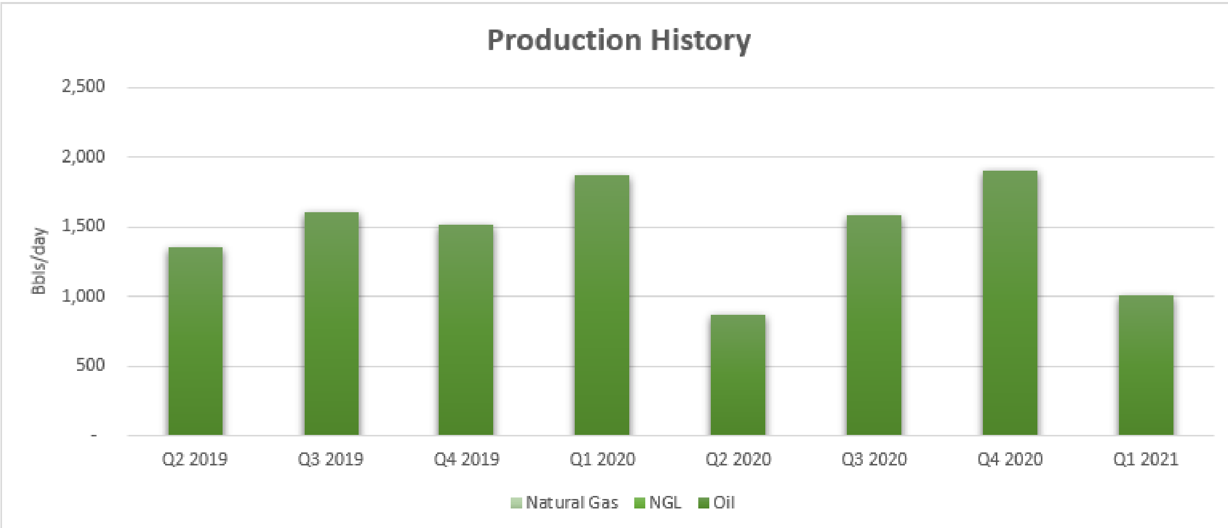
(all tabular amounts expressed in thousands of Canadian dollars)

		Three months ended March 31,	
		2021	2020
Financial			
Oil and natural gas sales	**$**	**5,158**	$ 6,545
Transportation pipeline revenues		**969**	1,160
Total revenues, net of royalties and commodity contracts [1]		**4,175**	16,265
Income (Loss)		**(778)**	(3,724)
Funds flow from operations[6]		**726**	1,076
Capital expenditures		**117**	4,191
Proceeds from dispositions		**1,981**	648
Working capital surplus (deficit), excluding current bank debt *(end of period)* [2]		**(361)**	(4,064)
Net debt [3]		**(544)**	(44,623)
Shareholders' equity *(end of period)*		**9,228**	14,544
Shares outstanding *(end of period)*		**6,014**	6,014
Options outstanding *(end of period)*		**167**	137
Restricted share units outstanding *(end of period)*		**149**	118
Weighted-average basic shares outstanding		**6,014**	6,014
Operations [4]			
Production			
Crude oil *(bbls/d)*		**1,008**	1,872
Total *(boe/d)*		**1,008**	1,872
Benchmark prices			
Crude oil			
Canadian Light *(Cdn$/bbl)*		**64.67**	44.61
Average realized prices [5]			
Crude oil *(per bbl)*		**56.87**	38.42
Operating netback *(per boe)* [6]		**15.93**	2.95

(1) Includes unrealized gain and losses on commodity contracts
(2) Working capital surplus (deficit) includes commodity contract liability of $1.32 million , (March 31, 2020 – commodity contract asset of $3.56 million). Excluding this, the working capital surplus would be $959 thousand (March 31, 2020 – deficit of $7.62 million). Working capital surplus (deficit) also excludes bank debt of $1.5 million (March 31, 2020 - $37 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 March 31,	
	2021	2020
Daily average volume		
Crude oil *(bbls/d)*	**1,008**	1,872
Total sales *(boe/d)*	**1,008**	1,872
Total sales *(boe)*	**90,713**	170,371
Production weighting		
Crude oil	**100%**	100%

The decrease is production from the comparative period is primarily due to the disposition of the Clearwater assets in December 2020 and the Red Earth assets on March 25, 2021. The Clearwater assets represented approximately 66 thousand boe of production in the first quarter of 2020. Production from other areas is consistent with the comparative period. The first quarter of 2021 includes approximately 80,000 boe of production relating to the disposed Red Earth assets.

Sales

Oil sales

	Three months ended March 31,	
	2021	2020
Crude oil	**5,158**	6,545
Total	**5,158**	6,545
Average realized prices before hedging		
Crude oil *($/bbl)*	**56.87**	38.42
Combined average *($/boe)*	**56.87**	38.42

Oil sales for the first quarter of 2021 decreased slightly from the first quarter of 2020 primarily due to the decrease in production. This decrease in production was partially offset by the increase in realized commodity prices from $38.42/bbl in 2020 to $56.87/bbl in 2021, an increase of 48%. The second quarter of 2021 has continued to see improvement in commodity prices as demand starts to return. 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 fluctuations 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 March 31,	
	2021	2020
	$	$
Total	**969**	1,160

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 March 31, 2021 compared to the three months and year ended March 31, 2020 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 2021 will result in 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 $709 thousand for the three month period ended March 31, 2021. 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 March 31,	
	2021	2020
	$	$
Royalties	**364**	728
Per boe	**4.01**	4.28
Percentage of oil and natural gas sales	**7.1%**	11.1%

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 oil sales in 2021. The decrease in royalty rate as a percentage of sales in 2021 compared to 2020 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 March 31,	
	2021	2020
	$	$
Operating and transportation	**3,350**	5,314
Per boe	**36.93**	31.19

Overall, operating and transportation expenses decreased by 38% in the first quarter of 2021 compared to comparative period primarily due to the disposition of the Clearwater assets and cost saving initiatives the Company has undertaken.

Operating and transportation expenses increased on a per boe basis by 15% for the three months ended March 31, 2021, compared to the prior period, mainly due to the disposition of the Clearwater assets which had a lower operating cost per boe compared to other areas, particularly the Red Earth CGUs which had operating and transportation expenses of more than $40/boe for the first quarter of 2021. The Red Earth CGUs incurred increased costs in the first quarter due to workovers that were performed and seasonal expenses which are often higher in the first quarter of year due to colder temperatures.

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:

	Mar 31, 2021	**Dec. 31, 2020**	**Sept. 30, 2020**	**June 30, 2020**	**Mar 31, 2020**	**Dec. 31, 2019**	**Sept. 30, 2019**	**June 30, 2019**
	$	$	$	$	$	$	$	$
Total operating and transportation per boe	36.93	22.08	31.01	37.37	31.19	38.53	37.40	28.84
Adjusting items per boe								
Wabasca River Pipeline System	(2.87)	(1.13)	(1.30)	(3.68)	(1.19)	(2.61)	(6.31)	(1.97)
Turnarounds	-	(0.41)	(0.54)	-	-	(0.09)	(1.16)	-
Workovers	(1.61)	(0.04)	(0.19)	(0.17)	(0.91)	(5.60)	(0.04)	(0.74)
Pipeline release	-	-	(12.42)	(10.74)	-	-	-	-
Adjusted operating and transporation per boe	32.46	20.50	16.55	22.78	29.10	30.23	29.89	26.13

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 March 31, 2021	2020
	$/boe	$/boe
Average sales price	**56.87**	38.42
Royalties	**(4.01)**	(4.28)
Operating and transportation	**(36.93)**	(31.19)
Operating netback	**15.93**	2.95

The main reason for the increase in operating netback for the year ended March 31, 2021 compared to year ended March 31, 2020 is due to the improvement in average realized sales price. The average realized price for the three months ended March 31, 2021 was approximately 48% higher than the three months ended March 31, 2020. 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 improved in recent months but continue to be volatile.

During the first quarter of 2021, oil prices have started to recover from the historic low prices that were realized in the first half 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 had been a significant demand shock worldwide which created downward pressure on oil prices. With the emergence of vaccines in late 2020 and early 2021, demand has slowly started to recover resulting in increasing prices.

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 statement of financial position 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 March 31, 2021 Highwood had the following commodity contracts, with a total mark-to-market liability of $1.32 million.

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 March 31, 2021	$ 65.40	WTI - NYMEX
Crude Oil	250bbls/day	January 1, 2021 to March 31, 2021	$ 65.40	WTI - NYMEX

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

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 statement of financial position, with the unrealized gain or loss being recorded on the statement of loss and comprehensive loss.

	Three months ended March 31,	
	2021	2020
	$	$
Realized gain (loss) on commodity contracts	**(649)**	868
Unrealized gain (loss) on commodity contracts	**(1,208)**	7,898

The realized loss on commodity contracts during the three months ended March 31, 2021 was due to oil commodity prices being higher than the contract price. The realized gain on commodity contracts during the three months ended March 31, 2020 was due to oil commodity prices being lower than the contract price.

The unrealized loss for the three months ended March 31, 2021 was a result of an increase in future strip prices from the previous reporting period of December 31, 2020. The unrealized gain for the three months ended March 31, 2020 was a result of decreased future strip prices during the period from when the contracts were entered into.

General and Administrative (G&A)

	Three months ended March 31,	
	2021	2020
	$	$
G&A	**1,321**	1,409
G&A expense per boe	**14.56**	8.27

G&A expenses per boe increased for the three months ended March 31, 2021 compared to the prior period mainly due to the decrease in production during the first quarter of 2021 along with some one-time expenditures that were incurred during the quarter, including severance costs as staff levels were reduced late in the first quarter of 2021. In order to reduce costs, the Company continues to applyfor government subsidies such as the Canadian Emergency Wage Subsidy and Canadian Emergency Rent Subsidy and is working with vendors to find additional cost savings. The largest expenditures in G&A relate to risk mitigation expenditures which for the three months ended March 31, 2021 was $718 thousand ($7.92 per boe) and $791 thousand ($4.64 per boe) in the comparative period. The Company anticipates significant reduction in risk mitigation expenditures going forward due to the disposition of the Red Earth assets which carried a significantly higher risk profile than the Company's remaining assets.

Stock-Based Compensation

	Three months ended March 31,	
	2021	2020
	$	$
Stock-based compensation	**243**	271

The decrease in stock-based compensation for the three months ended March 31, 2021 from the comparative three months ended March 31, 2020 is due the reversal of unvested portions of grants related to options and RSU's that were forfeited during the first quarter of 2021.

At March 31, 2021 the Company had 167,000 options and 149,000 RSU's outstanding.

Depletion and Depreciation ("D&D")

	Three months ended March 31,	
	2021	2020
	$	$
D&D	**205**	2,484
Per boe	**2.26**	14.58

During the fourth quarter of 2020, the Company classified it's Red Earth CGU's as assets held for sale. In accordance with IFRS 5, assets held for sale are not subject to depletion, therefore, no depletion was recorded during the first quarter of 2021 on the Red Earth CGUs.

The decrease in D&D for the three months ended March 31, 2021, compared to the prior period, is mainly due to the classification of the Red Earth CGUs to assets held for sale and the disposition in the fourth quarter of 2020 of the Clearwater assets. The Red Earth CGUs and Clearwater assets made up $2.18 million of the D&D for the quarter ended March 31, 2020. D&D is consistent with the fourth quarter of 2020 of $152 thousand which did not include the Red Earth CGUs or Clearwater assets.

Impairment

	Three months ended March 31,	
	2021	2020
	$	$
Impairment of property, plant and equipment	**-**	10,926
Impairment of exploration and evaluation assets	**-**	198
Impairment expense	**-**	11,124

Impairment of property, plant and equipment

The Company assesses many factors when determining if an impairment test should be performed. For the period ended March 31, 2021, the Company conducted an assessment of impairment indicators for the Company's CGU's. The Company determined there were no indicators of impairment or reversal of prior impairments present, therefore no impairment test was performed at March 31, 2021.

During the period ended March 31, 2020, management determined that the continued depressed commodity pricing and the impact this has on the economic performance of the Company's CGUs justified calculation of the recoverable amounts of all CGUs. The recoverable amounts were estimated at the value in use based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by external engineers at December 31, 2020 and internally updated by Company engineers at March 31, 2020. The future net cash flows were discounted at a before tax rate of 15%. The calculation resulted in impairment of $10.93 million being recognized in the three months ended March 31, 2020.

Impairment of exploration and evaluation assets

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

Finance Income and Expenses, Net

	Three months ended March 31,	
	2021	2020
	$	$
Interest on bank debt	**23**	178
Stamping fees on bank debt	**26**	277
Cash finance income and expenses	**49**	455
Finance fees	**-**	105
Accretion of decommissioning liabilities	**11**	137
Other expense	**2**	3
Non-cash finance expense	**13**	245
Total finance income and expenses	**62**	700

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 months ended March 31, 2021 compared to 2020 decreased due to the significant decrease in amount drawn and decrease in interest rates in 2021. At March 31, 2021 the Company was drawn $1.5 million on its bank facility compared to $37 million at March 31, 2020.

Decrease in accretion of decommissioning liabilities was due to the disposition of the Company's Red Earth CGUs which removed approximately $36 million of liability associated with those assets.

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 recovery of $166 thousand for the three months ended March 31, 2021, compared to a recovery of $841 thousand for the three months ended March 31, 2020.

Loss

The Company incurred a loss of $778 thousand for the three months ended March 31, 2021, compared to a loss of $3.72 million for the comparative three months ended March 31, 2020. Loss for the three months ended March 31, 2021 was mainly a result of non-cash unrealized loss of commodity contracts of $1.21 million. Loss for the three months ended March 31, 2020 was mainly a result of non-cash impairment loss of $11.12 million offset but a non-cash unrealized gain of commodity contracts of $7.9 million.

	Three months ended March 31,	
	2021	2020
	$	$
Income (Loss)	**(778)**	(3,724)
Per share, basic and diluted	**(0.13)**	(0.62)

Supplemental Information

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

Cash Flows from (used in) Operating Activities

	Three months ended March 31,	
	2021	2020
	$	$
Income (loss)	**(778)**	(3,724)
Non-cash items:		
Unrealized (gain) loss on commodity contracts	**1,208**	(7,898)
Depletion and depreciation expense	**205**	2,484
Impairment loss	**-**	11,124
Finance expense	**13**	246
Deferred tax recovery	**(166)**	(841)
Stock-based compensation	**243**	271
(Gain) Loss on disposal of assets	**2**	(586)
Cash abandonment expenditures	**(1)**	-
Change in non-cash working capital	**(2,058)**	2,712
	(1,332)	3,788

Selected Quarterly Information

Three months ended	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019
Financial ($000s, except per share amounts and share numbers)								
Oil and natural gas sales	5,158	6,685	5,752	1,737	6,545	7,908	8,850	9,662
Transportation pipeline revenues	969	1,021	790	769	1,160	1,228	1,316	1,498
Income (loss)	(778)	18,348	(20,074)	(3,837)	(3,724)	(6,583)	(1,447)	(475)
Capital expenditures	117	228	67	223	4,191	4,895	2,382	595
Total assets *(end of quarter)*	21,861	65,650	87,108	103,782	106,906	114,187	120,543	119,614
Working capital surplus (deficit), excluding commodity contracts and bank debt *(end of quarter)*	956	5,868	(6,028)	(9,089)	(4,064)	(8,811)	2,311	(1,594)
Shareholders' equity *(end of quarter)*	9,228	9,763	(8,977)	10,860	14,544	17,997	24,279	25,532
Weighted-average basic shares outstanding *(000s)*	6,014	6,014	6,014	6,014	6,014	6,014	6,014	5,994
Operations								
Production								
Crude oil *(bbls/d)*	1,008	1,908	1,585	870	1,872	1,515	1,495	1,608
Total *(boe/d)*	1,008	1,908	1,585	870	1,872	1,515	1,495	1,608
Average realized prices *($)*								
Crude oil *(per bbl)*	56.87	38.08	39.44	21.94	38.42	56.74	64.32	66.04

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 March 31, 2021	2020
	$	$
Mineral permits	**92**	-
Land	**-**	4
Seismic and other pre-drilling costs	**-**	40
Production equipment and facilities	**3**	1,015
Drilling and completions	**-**	2,606
Recompletions	**22**	527
	117	4,191

At March 31, 2021, the Company had E&E assets of $1.33 million (December 31, 2020 – $1.24 million). This amount is primarily made up of undeveloped land and industrial metals and minerals permit. For the three months ended March 31, 2021, all E&E capital activity related to industrial metals and mineral permits.

At March 31, 2021, the Company had gross property and equipment of $19.51 million (December 31, 2020 - $19.68 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 three months ended March 31, 2021, the Company closed the disposition of the Company's Red Earth CGUs to an arm's-length company for gross proceeds of $2.0 million cash, prior to customary closing adjustments. The transaction was effective on the date of closing. The disposed properties had a net book value in assets held for sale of $38.52 million and liabilities associated with assets held for sale of $35.95 million. As a result of the disposition, the Company recognized a gain on disposal of asset of $4 thousand during the three month period ended March 31, 2021. Transaction costs totalling $14 thousand have reduced the gain recorded.

Share Capital and Option Activity

As at March 31, 2021 and 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 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, during the three months ended March 31, 2021 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 March 31, 2021, the Company had negative working capital of $361 thousand, excluding bank debt. 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 bank facility to facilitate the management of liquidity risk and is in compliance with all associated financial covenants at March 31, 2021. At March 31, 2021, $8.5 million was available under the bank facility. The bank facility is currently at $10.0 million and matures July 15, 2021, subject to the annual bank review.

The borrowing base, currently set at $10.0 million, will be reviewed at least semi-annually by the lender, and more frequent under certain circumstances. The borrowing base can be determined at the sole discretion of the lender and any amount outstanding under the bank facility in excess of a newly established borrowing base must be repaid in full within 30 days. The Company's next review and borrowing base determination is scheduled on or before July 15, 2021 but may be set at an earlier or later date at the discretion of the bank. The lender has sole discretion on the determination of the borrowing base which is based predominantly on the Company's cash flows forecast from proved developed producing oil and natural gas reserves and midstream assets. The current state of the Western Canadian energy sector coupled with the suppressed global oil and natural gas commodity price environment has negatively impacted the availability for credit within the industry. While prices have began to recover in early 2021, the unknowns regarding COVID-19 and other factors continue to impact the availability for credit.

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 bank facility and any current liabilities related to lease contracts. At March, 2021, the Company's current ratio was 2.51:1.0 (December 31, 2020 – 1.13:1:00). The Company is required to maintain a net debt to cash flow ratio no greater than 2.0:1.0 for each quarter beginning with the fiscal quarter ended March 31, 2021. As at March, 2021, the Company's net debt to cash flow ratio is 0.15:1.0 (December 31, 2020 – 0.87:1.0). 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)the most recent quarter annualized for the quarter ended March 31, 2021, ii) the most recent six months annualized for the quarter ended June 30, 2021, iii) the most recent nine months annualized for the quarter ended September 30, 2021 and iv) the trailing four quarters for the quarter ended December 31, 2021 and all quarters thereafter. The Company is also 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 was amended to be on or before July 15, 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 10 of the financial statements. The Company was in compliance with all its financial covenants and March 31, 2021. 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 $1.0 million on the operating facility and the Company believes it would be able to settle its bank facility if it were required.

The Company has reduced accounts payable and accrued liabilities by approximately $2.07 million during three months ended March 31, 2021 from December 31, 2020. The main reason for the decrease is due to the proceeds received on the disposition of the Red Earth assets along with cash flows generated by the Company's assets.

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 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 bank 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 was significantly worse with the COVID-19 outbreak and the resulting global oversupply of oil until early in 2021 when prices began to recover.

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 statement of financial position.

Environmental Initiatives Affecting Highwood

In October 2020, 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 2020, 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.

Related-Party Transactions

During the three month period ended March 31, 2021, the Company incurred charges of $86 thousand (three month period ended March 31, 2020 – $86 thousand) from a company with common officers and directors, Tidewater Midstream and Infrastructure Ltd., for management fees, office space, subscriptions and supplies of which $56 thousand (three month period ended March 31, 2020 – $56 thousand) was recorded as an increase in general and administrative expense and $30 thousand (three month period ended March 31, 2020 – $30 thousand) was recorded as a reduction to lease liabilities. In addition, the Company was charged $nil (three month period ended March 31, 2020 - $93 thousand) for net non-operated gas sales, butane purchases and gas processing fees which is included in operating and transportation expense. During the three-month period ended March 31, 2021, the Company was also charged $nil (three-month period ended March 31, 2020 - $573 thousand) 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 March 31, 2021, $nil (December 31, 2020 - $4 thousand) is included within accounts receivable and $135 thousand (December 31, 2020 - $249 thousand) 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 as well as included in the Company's annual MD&A as at December 31, 2020. 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. There have been no changes to the critical accounting judgments, estimates and policies during the three months ended March 31, 2021.

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.

The term "funds flow from operations" is not defined under IFRS, and may not be comparable with similar measures presented by other companies. Funds flow from operations is included to show what the cash flow from operating activities would be prior to changes in working capital.

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

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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

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