

FORM 51-102F3

MATERIAL CHANGE REPORT

1. **Name and Address of Company**

Highwood Oil Company Ltd. (“Highwood” or the “Company”)
Suite 900, 222 - 3rd Street SW
Calgary, AB T2P 0B4

2. **Date of Material Change**

May 16, 2019

3. **News Release**

A press release was disseminated on May 16, 2019 via News File Corp.

4. **Summary of Material Change**

Highwood Oil Company Ltd. Announces Agreement for a Strategic Acquisition

5.1 **Full Description of Material Change**

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

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

Cautionary Notes

Oil and Gas Measures

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

accepted norm, it is not reflective of price or market value differentials between product types. Based on current commodity prices, the value ratio between crude oil, NGLs and natural gas is significantly different from the 6:1 energy equivalency ratio. Accordingly, using a conversion ratio of 6 Mcf:1 bbl may be misleading as an indication of value.

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

Forward Warning

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

- the anticipated closing date of the Acquisition;*
- the actual amount of debt assumed upon closing of the Acquisition;*
- the number of Highwood shares issued upon closing of the Acquisition;*
- the sources of existing production and future development drilling locations and opportunities;*
- the annual decline rate of the Assets;*
- the number and classification of future development drilling locations and opportunities;*
- the pricing received for production, and resulting operating and after-tax cash flow netbacks for the Assets;*
- the estimate of annualized 2019 fund flows from operations;*
- the anticipated acquisition metrics;*
- the expectation that fiscal and regulatory policies in Alberta remain supportive of continued investment;*
- exploration and development capital expenditure expectations for 2019; and*
- development plans and strategic objectives.*

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

- satisfaction of all conditions to the proposed Acquisition and receipt of all necessary approvals;*
- availability of credit facilities for the completion of the Acquisition;*
- the non-operating partner's intention to maintain its status quo interest in respect of its*

- *rights of tag along or first refusal contained in the PROP partnership agreement;*
- *the ability of Highwood to obtain equipment, services and supplies in a timely manner to carry out planned development activities;*
- *the ability of Highwood to market oil and natural gas successfully to current and new customers;*
- *the timely receipt of required regulatory approvals;*
- *currency, exchange and interest rates;*
- *future oil and natural gas prices; and*
- *management's expectations relating to the timing and results of development activities.*

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

- *the ability of management to execute its business plan or realize anticipated synergies or cost savings from the Acquisition;*
- *the risks of not obtaining court, shareholder, regulatory and other approvals for the Acquisition;*
- *the risks of the oil and gas industry, both domestically and internationally, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;*
- *risks and uncertainties involving geology of oil and natural gas deposits;*
- *risks inherent in Highwood's marketing operations, including credit risk;*
- *the uncertainty of reserves estimates and reserves life;*
- *the uncertainty of estimates and projections relating to production, costs and expenses;*
- *potential delays or changes in plans with respect to proposed acquisitions (including the Acquisition), exploration or development projects or capital expenditures;*
- *Highwood's ability to enter into or renew leases;*
- *fluctuations in oil and natural gas prices, foreign currency exchange rates and interest rates;*
- *health, safety and environmental risks;*
- *uncertainties as to the availability and cost of financing;*
- *the ability of Highwood to add production and reserves through development and exploration activities;*
- *general economic and business conditions;*
- *the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;*
- *uncertainty in amounts and timing of royalty payments;*
- *risks associated with existing and potential future law suits and regulatory actions against Highwood; and*
- *other risks and uncertainties described elsewhere in this document or in Highwood's other filings with Canadian securities regulatory authorities.*

The forward-looking statements or information contained in this document are made as of the date hereof and Highwood undertakes no obligation to update publicly or revise any forward-

looking statements or information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.

5.2 **Disclosure for Restructuring Transactions**

Not Applicable.

6. **Reliance on Section 7.1(2) or (3) of National Instrument 51-102**

Not Applicable.

7. **Omitted Information**

None

8. **Executive Officer**

The name of the executive officer of the Corporation who is knowledgeable about the material change and this report is:

Greg Macdonald
President and CEO
Email: investorrelations@highwoodoil.com

9. **Date of Report**

May 27, 2019