HIGHWOOD ASSET MANAGEMENT LTD.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2023
(unaudited)

Highwood Asset Management Ltd.
Condensed Interim Consolidated Statement of Financial Position

(all tabular amounts expressed in thousands of Canadian dollars)

(unaudited)

As at	Note	March 31, 2023	December 31, 2022
Assets			
Current assets			
Cash		$ -	$ 6
Accounts receivable	3, 14(a)	**2,847**	2,493
Deposits and prepaid expenses		**428**	198
Reclamation deposits		**123**	123
Total current assets		**3,398**	2,820
Reclamation deposits		**18**	18
Exploration and evaluation assets	4	**938**	951
Property, plant and equipment	5	**13,537**	13,033
Right-of-use assets		**13**	19
Total assets		**$ 17,904**	$ 16,841
Liabilities			
Current liabilities			
Bank overdraft		**$ 252**	$ -
Accounts payable and accrued liabilities		**2,836**	2,390
Bank debt	6	**350**	-
Current portion of decommissioning liabilities	7	**100**	-
Current portion of lease liabilities		**13**	19
Total current liabilities		**3,551**	2,409
Accounts payable and accrued liabilities	14(c)	**557**	666
Decommissioning liabilities	7	**2,326**	2,358
Deferred tax liability		**741**	711
Total liabilities		**7,175**	6,144
Shareholders' Equity			
Share capital	8	**16,564**	16,564
Contributed surplus	11	**2,988**	2,929
Deficit		**(8,823)**	(8,796)
Total equity		**10,729**	10,697
Total liabilities and shareholders' equity		**$ 17,904**	$ 16,841

Commitments and contingencies (note 13)

Subsequent events (note 6, 11, 18)

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Approved by the Board:

"Signed", Stephen J Holyoake, Director

"Signed", Ryan Mooney, Director

Highwood Asset Management Ltd.

Condensed Interim Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

(unaudited)

	Note	**Three Months Ended March 31, 2023**	Three Months Ended March 31, 2022
Revenue			
Oil sales	9	**$ 958**	$ 1,151
Royalties		**(305)**	(353)
Transportation pipeline revenues	9	**748**	797
Royalty and other income	9	**390**	-
		1,791	1,595
Unrealized gain on commodity contracts		**-**	23
Total revenue, net of royalties and commodity contracts		**1,791**	1,618
Expenses			
Operating and transportation		**662**	535
General and administrative		**839**	565
Depletion and depreciation		**236**	94
Stock-based compensation	11	**59**	80
Total expenses		**1,796**	1,274
Operating income (loss)		**(5)**	344
Other income (expenses)			
Gain on disposal of assets		**54**	107
Gain on debt modification		**-**	122
Finance expenses	10	**(46)**	(54)
Total other income (expenses)		**8**	175
Income before taxes		**3**	519
Deferred tax expense		**30**	63
Income (loss) and comprehensive income (loss) for the period		**$ (27)**	$ 456
Income (loss) per share			
Basic	8(c)	**$ 0.00**	$ 0.08
Diluted	8(c)	**$ 0.00**	$ 0.07

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Highwood Asset Management Ltd.
Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

(all tabular amounts expressed in thousands of Canadian dollars)

(unaudited)

	Note	Share capital	Contributed surplus	Deficit	Total equity
Balance, January 1, 2022		$ 16,310	$ 2,692	$ (11,009)	$ 7,993
Stock-based compensation	11	-	80	-	80
Income and comprehensive income for the period		-	-	456	456
Balance, March 31, 2022		$ 16,310	$ 2,772	$ (10,553)	$ 8,529
Balance, January 1, 2023		**$ 16,564**	**$ 2,929**	**$ (8,796)**	**$ 10,697**
Stock-based compensation	**11**	**-**	**59**	**-**	**59**
Loss and comprehensive loss for the period		**-**	**-**	**(27)**	**(27)**
Balance, March 31, 2023		**$ 16,564**	**$ 2,988**	**$ (8,823)**	**$ 10,729**

See the accompanying notes to the Condensed Interim Consolidated Financial Statements

Highwood Asset Management Ltd.
Condensed Interim Consolidated Statement of Cash Flows

(all tabular amounts expressed in thousands of Canadian dollars)
(unaudited)

	Note	**Three Months Ended March 31, 2023**	Three Months Ended March 31, 2022
Cash provided by (used in):			
Operating activities			
Income (loss) for the period		**$ (27)**	$ 456
Items not involving cash:			
Unrealized gain on commodity contracts		**-**	(23)
Depletion and depreciation expense	5, 7	**236**	94
Finance expense	10	**34**	34
Deferred tax expense		**30**	63
Stock-based compensation	11	**59**	80
Gain on disposal of assets		**(54)**	(107)
Gain on debt modification		**-**	(122)
Cash abandonment expenditures	7	**(6)**	-
Change in long-term accounts payable and accrued liabilities		**(126)**	400
Change in non-cash working capital	12	**(470)**	(896)
Net cash used in operating activities		**(324)**	(21)
Financing activities			
Payments of lease obligations		**(6)**	(27)
Bank debt, net of repayments	6	**350**	-
Net cash from (used in) financing activities		**344**	(27)
Investing activities			
Additions to property, plant and equipment	5	**(677)**	(138)
Additions to exploration and evaluation assets	4	**(8)**	-
Proceeds on dispositions of property, plant and equipment	5	**-**	107
Proceeds on disposition of exploration and evaluation assets	4	**75**	-
Change in non-cash working capital	12	**332**	45
Net cash from investing activities		**(278)**	14
Change in cash		**$ (258)**	$ (34)
Cash (bank overdraft), beginning of period		**6**	(124)
Cash (bank overdraft), end of period		**$ (252)**	$ (158)
Supplemental cash flow information	12		

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

1. REPORTING ENTITY

Highwood Asset Management Ltd. (the "Company") is a public company engaged in the ownership & oversight of various operations including metallic minerals, oil production & midstream energy operations. The Company incorporated in Alberta, Canada on August 24, 2012. The Company conducts its operations in Western Canada, primarily in the province of Alberta. The Company's principal place of business is located at Suite 202, 221 10th Avenue SE, Calgary, Alberta, T2G 0V9.

The Company's common shares trade on the TSX Venture Exchange under the symbol "HAM".

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries at March 31, 2023, Cataract Creek Environmental Ltd., Renewable EV Battery Cleantech Corp. and 2339364 Alberta Ltd.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 30, 2023.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2022 and the notes thereto.

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2022. All accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those of the previous financial year.

(b) Use of estimates and judgments

The timely preparation of the Condensed Interim Consolidated Financial Statements requires management to make judgments, estimates and assumptions based on currently available information that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of income and expenses during the reporting period. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

A full list of significant estimates and judgments can be found in note 2(d) of the Company's annual consolidated financial statements for the year ended December 31, 2022. There have been no changes during the three month period ended March 31, 2023 related to significant estimates and judgments used in the preparation of the financial statements.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	March 31, 2023	December 31, 2022
Oil marketers	**$ 763**	$ 754
Joint interest partners	**922**	977
Road use receivable	**409**	409
Royalty and other income	**78**	143
Other	**675**	210
Balance, end of period	**$ 2,847**	$ 2,493

4. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets is comprised of the following:

	March 31, 2023			December 31, 2022		
	Upstream	**Metallic Minerals**	**Total**	Upstream	Metallic Minerals	Total
Balance, beginning of period	**$ 758**	**$ 193**	**$ 951**	$ 540	$ 198	$ 738
Additions	**8**	**-**	**8**	403	-	403
Dispositions	**(21)**	**-**	**(21)**	(185)	-	(185)
Land lease expiries	**-**	**-**	**-**	-	(5)	(5)
Balance, end of period	**$ 745**	**$ 193**	**$ 938**	$ 758	$ 193	$ 951

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

At March 31, 2023, there were no indicators of impairment.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

5. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2023			
COSTS	**Oil and natural gas properties (Upstream)**	**Midstream**	**Corporate**	**Total**
Balance, January 1, 2022	**$ 10,860**	**$ 8,942**	**$ 1,182**	**$ 20,984**
Change in decommissioning liabilities (note 11)	**27**	**3**	**-**	**30**
Additions	**-**	**677**	**-**	**677**
Balance, March 31, 2023	**$ 10,887**	**$ 9,622**	**$ 1,182**	**$ 21,691**
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT				
Balance, January 1, 2022	**$ (6,470)**	**$ (1,451)**	**$ (30)**	**$ (7,951)**
Depletion and depreciation	**(106)**	**(82)**	**(15)**	**(203)**
Balance, March 31, 2023	**$ (6,576)**	**$ (1,533)**	**$ (45)**	**$ (8,154)**
Net book value, March 31, 2023	**$ 4,311**	**$ 8,089**	**$ 1,137**	**$ 13,537**

	December 31, 2022			
COSTS	Oil and natural gas properties (Upstream)	Midstream	Corporate	Total
Balance, January 1, 2022	$ 11,104	$ 8,535	$ -	$ 19,639
Change in decommissioning liabilities (note 11)	(268)	(29)	-	(297)
Additions	24	436	1,182	1,642
Balance, December 31, 2022	$ 10,860	$ 8,942	$ 1,182	$ 20,984
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT				
Balance, January 1, 2022	$ (6,016)	$ (1,152)	$ -	$ (7,168)
Depletion and depreciation	(454)	(299)	(30)	(783)
Balance, December 31, 2022	$ (6,470)	$ (1,451)	$ (30)	$ (7,951)
Net book value, December 31, 2022	$ 4,390	$ 7,491	$ 1,152	$ 13,033

Future development costs of $3.19 million (December 31, 2022 - $3.19 million) associated with the development of the Company's proved plus probable reserves were included in the calculation of depletion for the period ended March 31, 2023. Future development costs are only included for CGUs with production.

The Company assesses many factors when determining if an impairment test should be performed. At March 31, 2023, the Company conducted an assessment of impairment indicators for the Company's CGUs. In performing the review, management determined that the continued strength in commodity pricing from December 31, 2022 to March 31, 2023, and the impact this has on the economic performance of the Company's CGUs resulted in no indicators of impairment at March 31, 2023.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

6. BANK DEBT

The Company has a $2.92 million operating facility which could be drawn to a maximum of $1.0 million. This operating facility bears interest at the Bank's prime rate of bankers acceptance discount rates plus an applicable margin of 300bps to 550bps on prime rate loans and 400bps to 650bps on stamping fees related to bankers acceptances, determined by reference to the Company's net debt to cash flow ratio (as defined in the credit facility agreement). Interest on the credit facility is due monthly. This credit facility is secured by a $100.0 million debenture with a fixed and floating charge over all the assets of the Company. The operating facility matured January 31, 2023, at which time it was subject to customary reviews by the lenders. During the first quarter of 2023, the maturity was extended to February 28, 2023, March 31, 2023 and then April 30, 2023. In addition the operating facility was reduced to $1.0 million. Subsequent to March 31, 2023, the maturity date was extended to October 31, 2023.

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 31, 2023, the Company's current ratio was 1.27:1.0 (December 31, 2022 – 2.40:1:00). The Company is required to maintain a net debt to cash flow ratio no greater than 2.0:1.0 for each quarter. At March 31, 2023 the Company's net debt to cash flow ratio is 0.51:1.0 (December 31, 2022 – 0.16:1.0). 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 the trailing four quarters. The Company is allowed to enter into notional commodity contracts whose terms do not extend more than one month past the operating facility maturity date of October 31, 2023 and cannot exceed 60% of gross production volumes (by commodity) for the three month trailing period, at the time the contracts are entered into.

7. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas properties including well sites and facilities. The total decommissioning liability is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning liabilities to be $2.43 million as at March 31, 2023 (December 31, 2022 - $2.36 million) based on an undiscounted total future liability of $3.94 million (December 31, 2022 - $4.04 million) and discounted using a long-term risk-free rate of 3.02% (December 31, 2022 – 3.28%) and an inflation rate of 2.00% (December 31, 2022 – 2.09%). The expected timing of decommissioning expenditures extends to 2053.

The following table summarizes changes in the decommissioning liabilities:

	March 31, 2023	December 31, 2022
Balance, beginning of period	**$ 2,358**	$ 3,059
Change in discount rate	**76**	(564)
Change in cash flow estimates	**(19)**	(63)
Government subsidy for abandonment expenditures	**-**	420
Abandonment expenditures	**(6)**	(536)
Accretion expense (note 10)	**17**	42
Balance, end of period	**$ 2,426**	$ 2,358

The carrying value of certain oil and natural gas properties of the Company is $nil. Accordingly, the change in discount rate and cash flow estimates related to these properties was recorded as an increase to depletion and depreciation expense for the period ending March 31, 2023 of $27 thousand (March 31, 2022 – reduction of $130 thousand).

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

8. SHARE CAPITAL

a) Authorized

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

b) Issued and outstanding common shares

	Number of Shares (000's)	Stated Value
Balance, December 31, 2022 and March 31, 2023	6,037	$ 16,564

c) Loss per share

	Three Months Ended March 31, 2023			Three Months Ended March 31, 2022		
	Net loss	**Common shares (000's)**	**Net income per share**	Net income	Common shares (000's)	Net Income per share
Loss - basic	**$ (27)**	**6,037**	**$ 0.00**	$ 456	6,014	$ 0.08
Dilutive effect of options		**-**			156	
Loss - diluted	**$ (27)**	**6,037**	**$ 0.00**	$ 456	6,170	$ 0.07

For the three month period ended March 31, 2023 all options and RSU's were excluded as they were anti dilutive.

9. REVENUE

Oil sales:

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

Revenues are typically collected on the 25th day of the month following production.

The following table summarizes the Company's product sales.

	Three Months Ended March 31,	
	2023	2022
Oil	**$ 958**	$ 1,151

Transportation pipeline revenues:

The Company charges a tariff on oil that is sold through the Company's crude transmission pipeline. The transaction price is fixed and based on a publicly posted tariff. Revenue is recognized when a unit of production is delivered to the customer and control of the product transferred.

Revenues are typically collected on the 25th day of the month following production.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

The following table summarizes the Company's transportation pipeline revenues.

	Three Months Ended March 31, 2023	2022
Transportation pipeline revenues	**$ 748**	$ 797

Royalty and other income:

The following table summarizes the Company's royalty and other income.

	Three Months Ended March 31, 2023	2022
Butane Blending	**$ 202**	$ -
Royalty Income	**136**	-
Other Income	**52**	-
Total	**$ 390**	$ -

10. FINANCE EXPENSES

Finance expenses is comprised of:

	Three Months Ended March 31, 2023	2022
Interest on bank debt	**$ 12**	$ 20
Accretion of decommissioning liabilities (note 7)	**17**	12
Accretion of lease liabilities	**-**	1
Accretion of long-term accounts payable and accrued liabilities	**17**	21
Total	**$ 46**	$ 54

11. SHARE-BASED PAYMENTS

Options

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

A summary of the stock options issued and outstanding as at March 31, 2023 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2022 and March 31, 2023	176	$ 11.58
Exercisable, March 31, 2023	146	$ 11.24

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

The weighted average contractual term of all outstanding options at March 31, 2023 is 1.66 years.

Below is a summary of outstanding stock options:

Grant Date	Term	Number of Options ('000)	Exercise Price
January 23, 2019	5 Years	72	$ 9.00
April 6, 2018	5 Years	19	$ 5.30
October 31, 2019	5 Years	21	$ 18.00
August 27, 2020	5 Years	37	$ 16.50
May 30, 2022	5 Years	27	$ 11.00

During the three-month period ended March 31, 2023, the Company recorded stock-based compensation expense relating to options of $22 thousand (three months ended March 31, 2022 - $29 thousand) with a corresponding increase to contributed surplus.

Subsequent to March 31, 2023, 19,000 options expired unexercised.

Restricted Share Units ("RSU's")

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

	Number of RSU's
Outstanding, December 31, 2022 and March 31, 2023	61
Exercisable, March 31, 2023	32

The weighted average contractual term of all outstanding RSU's at March 31, 2023 is 1.19 years.

Below is a summary of outstanding RSU's.

Grant Date	Expiry Date	Number of RSU's (000's)
August 27, 2020	December 31, 2023	34
May 30, 2022	December 31, 2024	27

During the three month period ended March 31, 2023, the Company recorded stock-based compensation expense relating to RSUs of $37 thousand (three months ended March 31, 2022 - $51 thousand) with a corresponding increase to contributed surplus.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

12. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

	Three Months Ended March 31,	
Source/(use) of cash	**2023**	2022
Accounts receivable	**$ (354)**	$ (118)
Deposits and prepaid expenses	**(230)**	33
Accounts payable and accrued liabilities	**446**	(766)
Changes in non-cash working capital	**$ (138)**	$ (851)
The above figure relates to:		
Operating activities	**$ (470)**	$ (896)
Investing activities	**332**	45
Changes in non-cash working capital	**$ (138)**	$ (851)
Interest paid	**$ 12**	$ 20
Taxes paid	**$ -**	$ -

13. COMMITMENTS

At March 31, 2023, the Company had the following commitments with respect to accounts payable and accrued liabilities with long-term payment plans:

Minimum future payments for accounts payable and accrued liabilities with long-term payment plans:

	Within 1 year	After 1 year but not more than 5 years	Total
Accounts payable and accrued liabilities	$ 438	$ 590	$ 1,028

14. FINANCIAL RISK MANAGEMENT

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

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

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

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. There were no changes to the Company's risk management policies or processes since the year ended December 31, 2022.

(a) Credit risk

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

	March 31, 2023	December 31, 2022
Cash	**$ -**	$ 6
Accounts receivable	**2,847**	2,493
Deposits	**93**	93
Reclamation deposits	**141**	141
Total	**$ 3,081**	$ 2,733

Accounts receivable:

Substantially all of the Company's oil production and pipeline transportation revenues are marketed under standard industry terms. Receivables from oil marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit worthy purchasers. Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner.

The Company's accounts receivable are aged as follows:

	March 31, 2023	December 31, 2022
Current (less than 90 days)	**$ 1,485**	$ 1,111
Past due (more than 90 days)	**1,362**	1,382
Total	**$ 2,847**	$ 2,493

As at March 31, 2023, management believes all receivables net of provision for expected credit losses will be collected.

(b) Market risk

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

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is subject to interest rate risk related to its exposure to interest rate fluctuations on its credit facility, which bears a floating rate of interest. At March 31, 2023 the total amount drawn on the credit facility under prime loans was $350 thousand. A 1% interest rate increase or decrease on the full $350 thousand outstanding would decrease or increase net income by approximately $1 thousand for the three months ended March 31, 2023.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

Commodity price risk

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

The Company has no commodity contracts outstanding at March 31, 2023.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities as they become due. The Company's financial liabilities consist of bank overdraft, accounts payable and accrued liabilities and bank debt, all of which are due within a year and lease liabilities. A portion of accounts payable and accrued liabilities is being paid on a long term payment plan as disclosed in note 13. The Company also maintains and monitors a certain level of cash flow which is used to partially finance all operating and capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas sales on the 25th of each month.

At March 31, 2023, the Company had a working capital surplus of $197 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 credit facility (note 6) to facilitate the management of liquidity risk. At March 31, 2023, approximately $0.4 million was available under the credit facility. Subsequent to March 31, 2023, the maturity date on the operating facility was extended to October 31, 2023. At March 31, 2023, the Company has classified $557 thousand of accounts payable and accrued liabilities as long term (December 31, 2022 - $666 thousand) as the vendor has agreed to a payment plan that extends beyond 12 months.

The Company may need to conduct asset sales, equity issues or issue debt if liquidity risk increases in a given period. Liquidity risk may increase as a result of potential revisions to the Company's lending facility (note 6). The Company believes it has sufficient funds to meet foreseeable obligations by actively monitoring its credit facilities through use of the revolving debt, asset sales, coordinating payment and revenue cycles each month.

15. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

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

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

	March 31, 2023	December 31, 2022
Bank debt	**$ 350**	$ -
Shareholder's equity	**10,729**	10,697
Capital Employed	**$ 11,079**	$ 10,697

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

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

Adjusted working capital

	March 31, 2023	December 31, 2022
Adjusted current assets	**$ 3,398**	$ 2,820
Adjusted current liabilities	**(3,201)**	(2,409)
Adjusted working capital surplus	**$ 197**	$ 411

The Company makes adjustments to capital employed by monitoring economic conditions and investment opportunities. The Corporation generally relies on credit facilities and cash flows from operations to fund capital requirements. To maintain or modify its capital structure, the Company may issue new common or preferred shares, issue new subordinated debt, renegotiate existing debt terms, or repay existing debt. The Company is not currently subject to any externally imposed capital requirements, other than covenants on its bank debt (note 6).

The Company also monitors capital structure based on its net debt to cash flow ratio. The definition of net debt to cash flow for capital management purposes is the same measure used in the calculation of the Company's financial covenants on its credit facility (note 6). The Company's strategy is to monitor the ratio and the ratio can, and will, fluctuate based on the timing of commodity prices and the mix of exploratory and development drilling.

16. RELATED PARTY TRANSACTIONS

(a) Transactions

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

The Company received legal advisory from a company where a partner is a director of the Company. During the three months ended March 31, 2023, the legal expenses incurred were $31 thousand (three month period ended March 31, 2022 - $nil). As at March 31, 2023, $39 thousand (December 31, 2022 - $51 thousand) is included within accounts payable with respect to these charges.

17. SEGMENT INFORMATION

The Company has the following four reportable operating segments based on the nature of its business activities: Upstream, Midstream, Metallic Minerals and Corporate and Other.

Major Customers
The Company derives a majority of its midstream segment revenues from two major customers. These customers are reputable multi-national entities with nominal credit risk. For the three month period ended March 31, 2023, the two major customers accounted for $469 thousand of transportation pipeline revenues (three month period ended March 31, 2022 - $564 thousand). All revenues from these major customers are collected on or about the 25th of the following month after services are provided.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

The following tables shows the income (loss) and comprehensive income (loss) for each of the segments.

Three months ended March 31, 2023	Upstream	Midstream	Metallic Minerals	Corporate and Other	Total
Revenue					
Oil Sales	$ 958	$ -	$ -	$ -	$ 958
Royalties	(305)	-	-	-	(305)
Transportation pipeline revenues	-	748			748
Royalty and other income	188	202	-	-	390
Total revenue, net of royalties and commodity contracts	841	950	-	-	1,791
Expenses					
Expenses excluding items listed separately below	243	419	-	944	1,606
Gain on disposal of assets	(54)	-	-	-	(54)
Depletion and depreciation	139	82	-	15	236
Total expenses	328	501	-	959	1,788
Income (loss) before taxes	$ 513	$ 449	$ -	$ (959)	$ 3

Three months ended March 31, 2022	Upstream	Midstream	Metallic Minerals	Corporate and Other	Total
Revenue					
Oil Sales	$ 1,151	$ -	$ -	$ -	$ 1,151
Royalties	(353)	-	-	-	(353)
Transportation pipeline revenues	-	797	-	-	797
	798	797	-	-	1,595
Unrealized gain on commodity contracts	23	-	-	-	23
Total revenue, net of royalties and commodity contracts	821	797	-	-	1,618
Expenses					
Expenses excluding items listed separately below	267	247	21	699	1,234
Gain on disposal of assets	(107)	-	-	-	(107)
Gain on debt modification	-	-	-	(122)	(122)
Depletion and depreciation	19	75	-	-	94
Total expenses	179	322	21	577	1,099
Income (loss) before taxes	$ 642	$ 475	$ (21)	$ (577)	$ 519

The following tables shows assets and liabilities for each of the segments.

As at March 31, 2023	Upstream	Midstream	Metallic Minerals	Corporate and Other	Total
Current assets	$ 3,036	$ 319	$ -	$ 43	$ 3,398
Non-current assets	5,075	8,089	193	1,149	14,506
Current liabilities	2,013	991	-	547	3,551

As at December 31, 2022	Upstream	Midstream	Metallic Minerals	Corporate and Other	Total
Current assets	$ 2,332	$ 406	$ -	$ 82	$ 2,820
Non-current assets	5,166	7,491	193	1,171	14,021
Current liabilities	2,094	132	-	183	2,409

18. SUBSEQUENT EVENTS

On May 19, 2023, the Company filed a Short Form Base Shelf Prospectus in the provinces of Manitoba and New Brunswick and an Amended and Restated Short Form Base Shelf Prospectus ("A&R prospectus", collectively the "Prospectuses") in the provinces of Alberta, British Columbia, Saskatchewan and Ontario. The A&R prospectus is amending and restating the short form base shelf prospectus filed on December 19, 2022. The short form base shelf prospectus and A&R prospectus increased the offering maximum to $80.0 million unit offering.