HIGHWOOD
ASSET MANAGEMENT LTD.

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023

August 28, 2023

Management's Discussion and Analysis

This management's discussion and analysis (MD&A) of operating and financial results of Highwood Asset Management Ltd. ("Highwood" or the "Company") is dated August 28, 2023, 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, 2022 and 2021 and the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2023. 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.highwoodmgmt.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 ownership and oversight of various operations with a primary focus on oil and gas production, with operations also in midstream energy operations and metallic minerals. The Company's current focus is the advance the exploration of its oil and gas properties in Alberta.

Q2 2023 Corporate Highlights and Outlook

- The focus of the second quarter of 2023 for the Company was on the transformational acquisitions that the Company announced early in the third quarter of 2023 and the corresponding financing. Subsequent to June 30, 2023, the Company closed the acquisitions of Castlegate Energy Ltd., Boulder Energy Ltd. and Shale Petroleum Ltd. (collectively, the "Acquisitions") for a gross purchase price of approximately $145 million.

- The Acquisitions being a combined ~4,500 boe/d (approximately 75% oil and natural gas liquids ("NGLs") of expected average production of the 12-month period commencing July 1, 2023 ("Next Twelve Months" or "NTM") with before tax Proved Developed Producing ("PDP") net present value discounted at a rate of 10% ("NPV 10") of $166 million[1], NTM field operating net operating income ("NTM Field NOI")[2] of $64 million (2.3x), and 97 net drilling locations (67 booked and 30 unbooked) to sustain the acquired production for over 10 years[3].

- Highwood is focusing on employing multilateral and stage fracking technologies to extract resources from conventional oil plays to drive approximately 25% anticipated production growth to approximately 5,200 boe/d in 2024 on an expected capital program of approximately $13 million in the fourth quarter of 2023 and $40 million in 2024, while expecting to reduce Net Debt / 2024 EBITDA to under 0.8x in the next twelve months.

- Pursuant to the Acquisitions, Highwood is positioned as a growth focused oil-weighted producer with insider ownership of more than 50%, where insiders remain committed to supporting the Company's long-term growth trajectory and prudent use of debt capital.

- Highwood is pleased it was able to lock in hedges that are approximately $10/bbl greater than the forecasted realized crude oil pricing versus the forecasted pricing on the announcement of the transaction on July 5th with the average hedge price at over $100 CAD/bbl WTI. The improved commodity forecast and related hedges are not included in the current forecast providing additional upside to the NTM operating income.

- Highwood plans to commence drilling in the coming weeks and plans to start with two direct offset multi-lateral open hole ("MLOH") wells to the 12-09-48-14W5 ("12-09") MLOH well, which continues to be one of the most prolific MLOH oil wells in Western Canada. The 12-09 well continues to see minimal decline over its production history and continues to produce over 260 bbls/d of oil in its 20th month of production — having produced over 160,000 bbls of high netback, light oil to date and has paid out approximately twice over 20 months.

- Highwood is pleased to have a pro forma liability management rating of greater than 3 with no required deposits with the Alberta Energy Regulator.

Notes to Highlights:

(1) Gross reserves information as at January 1, 2023 and is derived from the Acquisition Reserves Reports, in accordance with NI 51-101 and the COGE Handbook. See "Caution Respecting Reserves Information".

(2) NTM Field NOI is forecasted for the twelve-month period commencing July 1, 2023 at an average production of 4,500 boe/d. Based on Management's projections (not forecasts set forth in the Acquisition Reserves Reports) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. See "Non-GAAP and other Specified Financial Measures".

(3) See "Caution Respecting Reserves Information" and "Non-GAAP and other Specified Financial Measures".

(4) Based on Management's projections (not Independent Qualified Reserves Evaluators' forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of Independent Qualified Reserves Evaluators' forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company. Cash flow figures assume completion of the Acquisitions on July 1, 2023 and illustrative hedges for total of 65% of net after royalty Proved Developed Producing reserves production. See "Caution Respecting Reserves Information" and "Non-GAAP and other Specified Financial Measures".

2023 Second Quarter Operations

With the continued strong commodity prices and increased interest in Canadian energy, the Company's primary focus in the second quarter was reviewing and assessing several potential acquisitions for its upstream operations. Subsequent to June 30, 2023, the Company successfully closed the Acquisitions as described above. The Company will continue to review and assess opportunities which are accretive to the Company as Highwood seeks to grow this segment of its operations. The Company will also assess land offerings in strategic areas where the Company sees significant growth opportunities.

Outlook

The primary focus over the near term is the execution of the Company's capital program and growth strategy while reducing debt the Company's Net Debt/EBITDA ratio below 0.8x in the next 12 months.

As of today, the Company is drawn approximately $75 million on its new credit facility and has a working capital surplus, which provides considerable financial and operational flexibility. As the Company continues to see generational opportunity to acquire high quality producing assets at cyclically low valuations, which have considerable unbooked upside that can be unlocked using horizontal multi-lateral well technology, it remains dedicated to pursuing accretive acquisitions through the balance of the year and into 2024. The Company is currently engaged in several encouraging dialogues regarding various other acquisitions and potential strategic partnership opportunities.

Corporately, the Company is dedicated to building a growing profile of Free Cash Flow, on a per share basis, while using prudent leverage never to eclipse more than 1.7x Debt / EBITDA, to provide it maximum flexibility for organic growth and / or other strategic M&A opportunities

Highwood is continuing to evaluate its undeveloped lands for drilling opportunities and is planning to actively drill while commodity prices support the capital.

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

ORGANIZATION OF THE MD&A

PART 1 – OUR BUSINESS AND STRATEGY

Overview

Highwood is a junior asset manager with a current focus primarily in upstream oil and gas space, as well as midstream oil and gas space and early-stage resource evaluation in the mining sector. Highwood's intention is to eventually oversee various operations including ESG and other clean energy transition subsectors, which include metallic minerals, clean energy technologies, upstream and midstream oil & gas production & processing.

- ✓ **Shareholder Return Focus**

  Steering future acquisition and growth opportunities will be the pursuit of shareholder returns through accretive acquisitions and organic growth.

- ✓ **Prudent Debt Adjusted Cashflow per Share Growth**

  Highwood will focus on growing production through a combination of executing capital plans and acquisitions. Focus of the capital plan will be on developing the assets acquired in the Acquisitions and focusing on locations with strong rates of return and payouts of less than a year.

- ✓ **Debt Reduction**

  Committed to reducing Highwood's leverage profile with an aim to be below 0.8x Net Debt/EBITDA in the next 12 months.

- ✓ **Sustainability**

  Committed to having a positive impact in the communities in which we operate – setting partnerships up for long term successes.

PART 2 – SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

Highwood Asset Management Ltd. – Consolidated Financial and Operating Highlights

(all tabular amounts expressed in thousands of Canadian dollars)

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Financial				
Oil and natural gas sales	**$ 728**	$ 1,125	**$ 1,686**	$ 2,276
Transportation pipeline revenues	**681**	847	**1,429**	1,644
Total revenues, net of royalties and commodity contracts [(1)]	**1,460**	1,453	**3,251**	3,071
Income (Loss)	**(600)**	1,487	**(627)**	1,943
Funds flow from (used in) operations[(6)]	**(128)**	127	**144**	601
Capital expenditures	**428**	19	**1,113**	157
Proceeds from dispositions		2,239	**75**	2,346
Working capital surplus (deficit), excluding current bank debt *(end of period)* [(2)]			**(1,206)**	1,468
Net debt [(3)]			**(1,653)**	-
Shareholders' equity *(end of period)*			**10,190**	10,128
Shares outstanding *(end of period)*			**6,037**	6,014
Options outstanding *(end of period)*			**157**	176
Restricted share units outstanding *(end of period)*			**61**	160
Weighted-average basic shares outstanding			**6,037**	6,014
Weighted-average diluted shares outstanding			**6,037**	6,196
Operations [(4)]				
Production				
Crude oil *(bills/d)*	**95**	97	**109**	108
Total *(boe/d)*	**95**	97	**109**	108
Benchmark prices				
Crude oil				
Canadian Light *(Cdn$/bbl)*	**95.04**	135.70	**97.41**	126.90
Average realized prices [(5)]				
Crude oil *(per bbl)*	**83.93**	127.37	**85.58**	116.13
Upstream Operating netback *(per boe)* [(6)]	**34.36**	50.38	**35.94**	49.85

(1) Includes unrealized gain and losses on commodity contracts

(2) Working capital surplus/deficit includes commodity contract liability of $nil (June 30, 2022- $44 thousand). Excluding this, the working capital surplus would be at June 30, 2022 - $1.51 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".

PART 3 – OPERATING SEGMENTS RESULTS

Basis of Presentation

The Company has three operating groups and a corporate and other segment, which collectively represent four operating segments for internal and external reporting purposes.

Our operating segments include:

- Upstream Operations
- Midstream Operations
- Metallic Minerals
- Corporate and Other

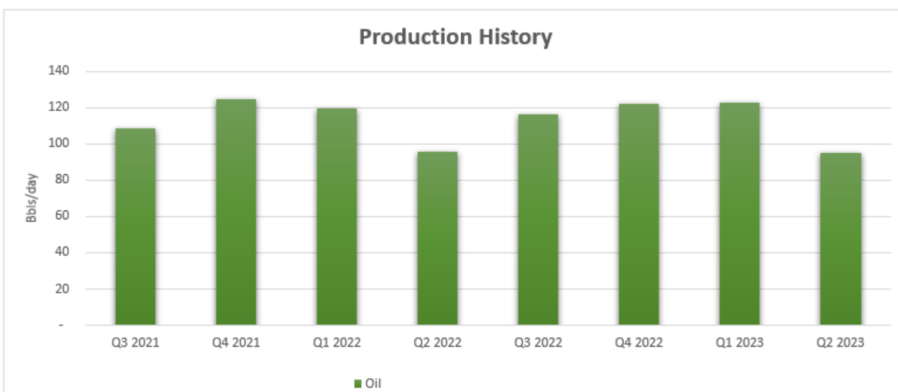
The corporate and other segment includes corporate functions of the Company, such as general and administrative expenses and are included in the select consolidated operating disclosures.

Summary of Results

Upstream Operations

The upstream segment includes oil production with the upstream assets located in the Western Canada Sedimentary Basin.

Production



	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
Daily average volume				
Crude oil *(bbls/d)*	**95**	97	**109**	108
Total sales *(boe/d)*	**95**	97	**109**	108
Total sales *(boe)*	**8,674**	8,832	**19,701**	19,598
Production weighting				
Crude oil	**100%**	100%	**100%**	100%

Production for the first half of 2023 is consistent with the first half of 2022. The majority of the production in the first and second quarter of 2023 came from the Company's Saskatchewan CGU, which has remained consistent with prior periods.

Sales

Oil sales

	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
Crude oil	**$ 728**	$ 1,125	**$ 1,686**	$ 2,276
Average realized prices before hedging				
Crude oil *($/bbl)*	**83.93**	127.37	**85.58**	116.13

The decrease in oil sales from the three and six months ended June 30, 2023 to the comparative period in 2022 is primarily a lower realized price during the second quarter and first half of 2023. While production remained fairly consistent, realized pricing was approximately 34% lower in the second quarter of 2023 and 26% lower in the first half of 2023 and compared to the second quarter and first half of 2022, respectively. The decrease in pricing 2023 was mainly driven by concerns over recessions and the impact of bank failures that occurred early in 2023. 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. The Company continues to monitor current and forecasted pricing.

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

Royalties

	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
	$	$	**$**	$
Royalties	**213**	377	**518**	730
Per boe	**24.56**	42.68	**26.29**	37.25
Percentage of oil sales	**29.3%**	33.5%	**30.7%**	32.1%

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

The decrease in royalties from the three and six months ended June 30, 2023 to the comparative period in 2022 is primarily driven by lower commodity pricing. The majority of the royalties come from the Saskatchewan CGU which is burdened by several gross over-riding royalties which results in a higher royalty percentage of oil sales. Royalties as a percentage of revenue are consistent and in line with expectations.

Upstream Operating and Transportation Expense

	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
	$	$	**$**	$
Operating and transportation	**213**	303	**460**	569
Per boe	**25.02**	34.31	**23.35**	29.03

Overall, total operating and transportation expense and on a per boe basis for the upstream segment are down slightly in the three and six months ended June 30, 2023 compared to the comparative period in 2022. The Company has been actively working to reduce costs, mainly by conducting abandonment and reclamation work on the non-producing properties, which would reduce costs such as surface and mineral rentals.

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

Netback Analysis

	Three months ended	June 30,	Six months ended	June 30,
	2023	2022	**2023**	2022
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**83.93**	127.37	**85.58**	116.13
Royalties	**(24.56)**	(42.68)	**(26.29)**	(37.25)
Upstream Operating and transportation	**(25.02)**	(34.31)	**(23.35)**	(29.03)
Operating netback	**34.36**	50.38	**35.94**	49.85

The main reason for the decrease in operating netback for the three and six months ended June 30, 2023 compared to the three and six months ended June 30, 2022 is due to a decrease in average realized sales pricing as previously discussed. This was partially offset by a decrease in upstream operating and transportation costs. Management continues to look at ways to maximize the operating netback.

Royalty Income

	Three months ended	June 30,	Six months ended	June 30,
	2023	2022	**2023**	2022
	$	$	**$**	$
	62	-	**198**	-

During the third quarter of 2022, a producer drilled a successful well on a property where the Company holds a royalty interest. As a result, the Company received royalty income during the three and six months ended June 30, 2023 of $62 thousand and $198 thousand, respectively.

Midstream Operations

The midstream segment consists of the Company's Wabasca River Sales Pipeline and EVI Terminal. 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. The EVI Terminal has a butane blending operation that generates revenues from the purchase and sale of butane. The EVI Terminal also has a heavy oil trucking facility which is currently not operational. However, the Company is assessing reactivating this portion of the terminal.

The Company's crude transmission line averaged 9,666 m3/month of throughput for the second quarter of 2023. Volumes were down slightly in the second quarter compared to the first quarter of 2023, but volumes are expected to increase. The volumes were impacted in the second quarter of 2023 by wildfires in Alberta that resulted in producers temporarily shutting in production. The Company anticipates additional volumes coming onto the pipeline as area producers continue to revive capital activity in the continued strong price environment. The Company is encouraged by the capital activity in the second quarter of 2023 and expected capital activity in 2023 by producers in the area. The Company is also assessing reactivating the heavy oil trucking terminal at its EVI Terminal which would bring additional volumes onto the pipeline.

Revenue for the three and six months ended June 30, 2023 was $681 thousand, and $1.4 million, respectively compared to $847 thousand and $1.6 million, respectively, for the three and six months ended June 30, 2022.

Butane Blending Income

	Three months ended	June 30,	Six months ended	June 30,
	2023	2022	**2023**	2022
	$	$	**$**	$
	167	-	**369**	-

During the fourth quarter of 2022, the Company reactivated the butane blending facility at the EVI terminal.

Metallic Minerals

The metallic minerals segment includes industrial metal and mineral assets. During 2021, the Company amassed industrial metallic and mineral permits covering over 3.9 million acres in Alberta and British Columbia and issued its first National Instrument 43-101 Technical Report on Lithium from Brine on July 16, 2021 and an additional 43-101 Technical Report over the Ironstone prospective permits held by the Company on September 21, 2021. The Company also engaged the third-party resource evaluator to compile a 43-101 Resource Assessment specific to Drumheller, Alberta over the Lithium Brine prospective permits, which was completed February 21, 2022.

The 43-101 Resource Assessment specific to Drumheller, Alberta was released on February 28, 2022, and the results were encouraging to Highwood as the combined total initial inferred lithium-brine resource estimate at its Drumheller asset is 18.14Mt LCE.

As the metallic minerals segment entails early-stage exploration projects, there was no revenue and minimal expenses associated with the segment for the three and six months ended June 30, 2023.

Expenditures of $56 thousand was deployed within the metallic minerals segment for the three and six months ended June 30, 2023 (three and six months ended June 30, 2022 - $21 thousand and $42 thousand, respectively). As Highwood assesses additional information on its lithium Sub-properties, Highwood will continue to evaluate value maximization paths for its lithium assets including a potential public pure play, low carbon intensity lithium company spinout. In the event that the Company, or a spinout of the Company, is successful in raising funds through an equity raise that is being contemplated, the Company plans, and may be required, under the equity raise to outlay significant exploration capital in the near future.

Extraction technologies continue to be evaluated as well as potential go forward technology parties whom Highwood may elect to partner with moving forward.

PART 4 – SELECT CONSOLIDATED OPERATING DISCLOSURES

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 remained fairly consistent in recent months but continue to be volatile.

Through most of 2022 and 2023, commodity prices have significantly recovered from the low prices of 2021 due to a combination of factors including, but not limited to, increasing worldwide demand for commodities and decreasing oil inventories. The Russia-Ukraine conflict in early 2022 has further added to the unpredictability of global markets and commodity prices. The impact of the Russia-Ukraine conflict continues to have a major impact of global markets and commodity prices today. During the first half of 2023, the failure of several banks in the United States and Switzerland along with fears of recessions have had a negative impact on commodity prices. However, they still remain well above the pricing seen during the COVID-19 pandemic. Subsequent to June 30, 2023, prices have started to increase as fears of recessions have subsided slightly.

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 June 30, 2023 Highwood had no commodity contracts in place.

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 income (loss) and comprehensive income (loss).

	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
	$	$	**$**	$
Realized loss on commodity contracts	**-**	(75)	-	(75)
Unrealized loss on commodity contracts	**-**	(67)	-	(44)

Subsequent to June 30, 2023, and as a result of the increased production from the completion of the Acquisitions, the Company entered into the following commodity contracts:

Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/GJ)	Index
Natural Gas	4,600GJ/day	Sept 1, 2023 to March 31, 2025	$ 3.00 - $3.05	AECO

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	1,050bbls/day	September 1, 2023 to September 30, 2023	$ 107.50 - $108.20	WTI - NYMEX
Crude Oil	1,000bbls/day	October 1, 2023 to December 31, 2023	$ 106.00 - $106.60	WTI - NYMEX
Crude Oil	900bbls/day	January 1, 2024 to March 31, 2024	$ 103.55 - $104.40	WTI - NYMEX
Crude Oil	850bbls/day	April 1, 2024 to June 30, 2024	$ 101.40 - $102.45	WTI - NYMEX
Crude Oil	800bbls/day	July 1, 2024 to September 30, 2024	$ 99.30 - $100.50	WTI - NYMEX
Crude Oil	750bbls/day	October 1, 2024 to December 31, 2024	$ 97.45 - $98.80	WTI - NYMEX
Crude Oil	670bbls/day	January 1, 2025 to March 31, 2025	$ 95.50 - $97.05	WTI - NYMEX

General and Administrative (G&A)

	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
	$	$	**$**	$
G&A	**899**	825	**1,738**	1,390

G&A expenses increased during the three and six months ended June 30, 2023, compared to the respective period in 2022 mainly due to increased compensation to employees and consultants, along with increased costs associated with regulatory filings. The Company has added additional employees and consultants in conjunction with the anticipated growth of the Company. The increase is also due to inflationary pressures which have increased costs of goods and services.

Stock-Based Compensation

	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
	$	$	**$**	$
Stock-based compensation	**61**	112	**120**	192

The decrease in stock-based compensation for the three month period ended June 30, 2023 from the comparative periods of 2022 is mainly due to the forfeiture of options and RSU's during 2022 along with options and RSU's issued in previous years fulling vesting before the first quarter of 2023.

At June 30, 2023 the Company had 159,000 options and 61,000 RSU's outstanding.

Depletion and Depreciation ("D&D")

	Three months ended	**June 30,**	**Six months ended**	**June 30,**
	2023	2022	**2023**	2022
	$	$	**$**	$
D&D	**217**	67	**453**	161

The increase in D&D for the three and six months ended June 30, 2023, compared to the prior period, is mainly due to the impact on change in discount rate related to decommissioning liabilities for certain oil and gas properties that have a carrying value of $nil. D&D related to the producing assets is consistent with the prior periods.

For the three and six months ended June 30, 2023, D&D related to producing upstream assets was $87 thousand and $193 thousand, respectively, compared to $102 thousand and $226 thousand, respectively, for the three and six months and year ended June 30, 2022. The slight decrease in 2023 is mainly due to increases in reserves associated with these assets.

For the three and six months ended June 30, 2023, D&D related to midstream assets was $99 thousand and $181 thousand, respectively, compared to $74 thousand and $149 thousand, respectively, for the three and six months ended June 30, 2022. The slight increase being as a result of additions in late 2022 and during 2023.

For the three and six months ended June 30, 2023, D&D related to corporate assets was $15 thousand and $30 thousand, respectively, compared to $nil for the three and six months ended June 30, 2022.

Impairment

Impairment of property, plant and equipment

<u>2023</u>

The Company assesses many factors when determining if an impairment test should be performed. At June 30, 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 and the impact this has on the economic performance of the Company's CGUs resulted in no indicators of impairment at June 30, 2023.

Finance Expenses

	Three months ended	**June 30,**	**Six months ended**	**June 30,**
	2023	2022	**2023**	2022
	$	$	**$**	$
Interest on bank debt	**13**	23	**25**	44
Cash finance expenses	**13**	23	**25**	44
Accretion of decommissioning liabilities	**14**	13	**31**	24
Accretion of long-term accounts payable and accrued liabilities	**16**	21	**33**	42
Other expense	**-**	-	**-**	1
Non-cash finance expense	**30**	34	**64**	67

Total finance expenses	**43**	57	**89**	111

Interest on bank debt relates to interest and fees paid to Highwood's bankers to service the bank debt and bank overdraft. Interest on bank debt for the three and six month periods ended June 30, 2023, compared to the three and six month periods ended June 30, 2022, is mainly due to the reduction in the overall draw on the credit facility which is partially offset by higher interest rates.

Accretion of decommissioning liabilities for the three and six months ended June 30, 2023 is consistent with the comparative period of 2022.

Accretion of long-term accounts payable and accrued liabilities relates to a payment plan the Company entered into during 2022 with a vendor that expended the payments beyond 12 months.

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 a recovery of $171 thousand and $141 thousand, respectively, for the three and six months ended June 30, 2023, compared to an expense of $491 thousand and $554 thousand, respectively, for the three and six months ended June 30, 2022. The recovery in the three and six months ended June 30, 2023 was mainly due to increase in non-capital losses available to the Company.

Income (Loss)

The Company incurred a loss of $600 thousand and $627 thousand, respectively, for the three and six months ended June 30, 2023, compared to income of $1.5 million and $1.9 million, respectively, for the comparative three and six months ended June 30, 2022. Loss for the three and six months ended June 30, 2023 was driven by a combination of lower commodity prices, wildfire impact on midstream revenues and transaction costs associated with the Acquisitions that the Company completed subsequent to June 30, 2023. Income for the three and six months ended June 30, 2022 was mainly a result of a gain on disposal of assets.

	Three months ended June 30,		**Six months ended June 30,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Income (Loss)	**(600)**	1,487	**(627)**	1,943
Per share, basic	**(0.10)**	0.25	**(0.10)**	0.32
Per share, diluted	**(0.10)**	0.24	**(0.10)**	0.31

Supplemental Information

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

Cash Flows used in Operating Activities

	Three months ended,		Six months ended,	
	June 30, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Cash provided used in				
Operating activities				
Income (loss) for the period	**$ (600)**	$ 1,487	**$ (627)**	$ 1,943
Items not involving cash:				
Unrealized loss on commodity contracts	**-**	67	**-**	44
Exploration and evaluation expenditures	**-**	109	**-**	109
Depletion and depreciation expense	**217**	67	**453**	161
Finance expense	**30**	34	**64**	67
Deferred tax expense (recovery)	**(171)**	491	**(141)**	554
Stock-based compensation	**61**	112	**120**	192
Gain on disposal of assets	**-**	(2,240)	**(54)**	(2,347)
Gain on debt modification	**-**	-	**-**	(122)
Transaction costs	**371**	-	**371**	-
Cash abandonment expenditures	**(36)**	-	**(42)**	-
Change in long-term accounts payable and accrued liabilities	**(126)**	(125)	**(252)**	276
Change in non-cash working capital	**1,328**	5	**858**	(891)
Net cash from (used in) operating activities	**1,074**	7	**750**	(14)

Selected Quarterly Information

Three months ended	June 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sept. 30, 2022	June 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021
Financial ($000s, except per share amounts and share numbers)								
Oil sales	728	958	1,027	1,135	1,125	1,151	966	721
Transportation pipeline revenues	681	748	769	842	847	797	718	905
Income (loss)	(600)	(27)	62	241	1,487	456	(951)	150
Capital expenditures	428	685	362	1,526	19	138	3	79
Total assets *(end of quarter)*	20,530	17,904	16,841	16,718	16,274	15,746	15,883	16,389
Working capital surplus (deficit), excluding commodity contracts and bank debt *(end of quarter)*	(1,206)	197	411	531	1,512	340	(486)	(1,588)
Shareholders' equity *(end of quarter)*	10,190	10,729	10,697	10,508	10,128	8,529	7,993	8,836
Weighted-average basic shares outstanding *(000s)*	6,037	6,037	6,014	6,014	6,014	6,014	6,014	6,014
Operations								
Production								
Crude oil *(bbls/d)*	95	123	119	116	97	120	125	108
Total *(boe/d)*	95	123	119	116	97	120	125	108
Average realized prices *($)*								
Crude oil *(per bbl)*	83.93	86.88	93.44	106.27	127.37	106.92	84.06	72.26

Inherent to the nature of the energy industry, fluctuations in Highwood's quarterly oil sales, transportation pipeline revenues, 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 Operating Segment Results and Select Consolidated Operating Disclosures sections above for an explanation of changes.

Capital Activity

	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
	$	$	**$**	$
Upstream operations				
Land	**419**	14	**419**	14
Seismic and other pre-drilling costs	**-**	-	**8**	-
Midstream Operations				
Production equipment and facilities	**9**	5	**686**	143
	428	19	**1,113**	157

At June 30, 2023, the Company had E&E assets of $1.36 million (December 31, 2022 – $951 thousand). This amount is primarily made up of undeveloped land and metallic minerals permits. During the first quarter of 2023 the Company sold two sections of lands with a cost base of $21 thousand for proceeds of $75 thousand, resulting in a gain on disposal of assets of $54 thousand during the three and six months ended June 30, 2023. The Company acquired undeveloped lands during the second quarter of approximately $419 thousand, mainly in the Viking Kinsella area.

At June 30, 2023, the Company had gross property and equipment of $21.69 million (December 31, 2022 - $20.99 million). This included developed land and costs associated with the wells the Company has drilled and acquired to date, the transportation pipelines the Company acquired in 2018, the EVI terminal that was recommissioned in 2022 and the office space and furniture the Company purchased in the third quarter of 2022.

PART 5 – CAPITALIZATION

Share Capital and Option Activity

As at June 30, 2023, the Company had 6,037,298 common shares, 157,000 options and 60,600 RSUs outstanding.

As at the date of this MD&A, the Company had 15,114,323 common shares, 3,150,000 warrants, 222,056 options, 119,979 RSUs and 20,000 DSUs outstanding.

Liquidity and Capital Resources

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 accounts payable and accrued liabilities, commodity contracts and bank debt, most 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. 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 June 30, 2023, the Company had a working capital deficit of $1.2 million. 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 available capacity on the Company's New Credit Facilities. The Company also had a credit facility (note 6) to facilitate the management of liquidity risk. The Company also received proceeds of $2.8 million from the issuance of a promissory note which was used to facilitate near term liquidity and fund a deposit on the Acquisitions subsequent to June 30, 2023. At June 30, 2023, the Company was in violation of the adjusted working capital ratio covenant. However, subsequent to June 30, 2023, the operating facility was repaid and extinguished, and the Company entered into the New Credit Facilities in the aggregate principal amount up to $100 million. At June 30, 2023, the Company has classified $447 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.

At June 30, 2023 the Company has a $1.0 million operating facility, of which no amounts were drawn at June 30, 2023. 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 October 31, 2023, however, subsequent the June 30, 2023 the operating facility was extinguished and replaced by the New Credit Facility.

The New Credit Facilities have a revolving period of 364 days, extendible annually at the request of the Company, subject to approval of the lenders thereunder. If not extended, the New Credit Facilities are anticipated to automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period. The borrowing base for the New Credit Facilities is $100 million, and to be subject to semi-annual redeterminations, based upon the Company's annual report of the Company's independent qualified reserves evaluator or updates thereto. The New Credit Facilities are secured by a first fixed and floating charge over all the Company's assets. The New Credit Facilities include operating restrictions on the Company, including (among other things), limitations on acquisitions, distributions, dividends and hedging arrangements.

The borrowing base on the New Credit Facilities 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 60 days. 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 recovery of global commodity prices and increased interest in the Western Canadian energy sector has positively impacted the availability for credit within the industry.

The Company was 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 June 30, 2023, the Company's current ratio was 0.97:1.0 (December 31, 2022 – 2.40:1:00). The Company was required to maintain a net debt to cash flow ratio no greater than 2.0:1.0 for each quarter. At June 30, 2023 the Company's net debt to cash flow ratio is 1.56:1.0 (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.

The New Credit Facility has minimum hedging covenant which management forecasts the Company will be in compliance with. 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.

The Company has increased accounts payable and accrued liabilities by approximately $1.2 million and $1.5 million during the three and six months period ending June 30, 2023 from March 31, 2023 and December 31, 2022, respectively. The main reason for the increase is due to timing of payments and increased costs associated with the Acquisitions that were closed in the third quarter of 2023. At June 30, 2023, the Company has classified $447 thousand of accounts payable and accrued liabilities as long term as the vendor has agreed to a payment plan that extends beyond 12 months.

The Company plans to meet foreseeable obligations by actively monitoring its credit and coordinating payment and revenue cycles each month and secure cash flows. Future liquidity depends primarily on funds generated from operations, drawing on existing credit facilities and accessing debt and equity markets.

The oil and natural gas commodity price environment has been and continues to be volatile, however, prices have recently remained fairly consistent.

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

The oil and gas industry has a number of environmental risks and hazards and is subject to regulation by all levels of government. Environmental legislation includes, but is not limited to, operational controls, site restoration requirements and restrictions on emissions of various substances produced in association with oil and natural gas operations. Compliance with such legislation could require additional expenditures and a failure to comply may result in fines and penalties which could, in the aggregate and under certain unlikely assumptions, become material. Operations are continuously monitored to minimize the environmental impact and capital is allocated to reclamation and other activities to mitigate the impact on the areas in which we operate.

Related-Party Transactions

The Company received legal advisory from a company where a partner is a director of the Company, DLA Piper (Canada) LLP. During the three and six months ended June 30, 2023, the legal expenses incurred were $689 thousand and $720 thousand, respectively, (three and six months ended June 30, 2022 - $nil and $nil, respectively). As at June 30, 2023, $719 thousand (December 31, 2022 - $51 thousand) is included within accounts payable with respect to these charges.

During the three and six months ended June 30, 2023, the Company received funds of $2.8 million from a shareholder. Subsequent to June 30, 2023, the Company issued a promissory note to the same shareholder in the amount of $2.8 million. The promissory note bears interest at 9.5% per annum, accruing daily, with any accrued interest to be added to the principal balance of the promissory note. The promissory note is secured by a general security agreement. The promissory note is due on demand and can be repaid by the Company at any time. The Company received the required regulatory approval for the promissory note. The promissory note is subordinate to the credit facility.

Subsequent to June 30, 2023, the promissory was extinguished in conjunction with the Private Placement with the same shareholder.

PART 6 – ACCOUNTING POLICIES

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, 2022 annual consolidated financial statements as well as included in the Company's annual MD&A as at December 31, 2022. 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.

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 "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 and changes in long-term accounts payable and accrued liabilities.

The term "Net Debt" is not defined under IFRS and may not be comparable with similar measures presented by other companies. represents the carrying value of the Company's debt instruments, including outstanding deferred acquisition payments, net of Adjusted working capital. The Company uses Net Debt as an alternative to total outstanding debt as Management believes it provides a more accurate measure in assessing the liquidity of the Company. The Company believes that Net Debt can provide useful information to investors and shareholders in understanding the overall liquidity of the Company.

The term "EBITDA" is not defined under IFRS and may not be comparable with similar measures presented by other companies. EBITDA is used as an alternative measure of profitability and attempts to represent the cash profit generated by the Company's operations. The most directly comparable GAAP measure is cash flow from (used in) operating activities. EBITDA is calculated as cash flow from (used in) operating activities, adding back changes in non-cash working capital, decommissioning obligation expenditures and interest expense.

"Adjusted EBITDA" is calculated as cash flow from (used in) operating activities, adding back changes in non-cash working capital, decommissioning obligation expenditures, transaction costs and interest expense. The Company considers Adjusted EBITDA to be a key capital management measure as it is both used within certain financial covenants anticipated to be prescribed under the New Credit Facilities and demonstrates Highwood's standalone profitability, operating and financial performance in terms of cash flow generation, adjusting for interest related to its capital structure. The most directly comparable GAAP measure is cash flow from (used in) operating activities.

"Field Cash Flow" Field Cash Flow is used to assess the profitability of the Company's operations on a unit basis. The most directly comparable GAAP measure is cash flow from (used in) operating activities. Field Cash Flow is calculated as cash flow from (used in) operating activities, adding back decommissioning obligation expenditures and any costs incurred at the corporate level, divided by production. There are no general and administrative expenses included in Field Cash Flow as those costs are incurred at the corporate level.

"Field Net Operating Income" or "Field NOI" is used a measure to calculate NOI at the field level. The most directly comparable GAAP measure is cash flow from (used in) operating activities. Field NOI is calculated as cash flow from (used in) operating activities, adding back decommissioning obligation expenditures and any costs incurred at the corporate level. There are no general and administrative expenses included in Field Cash Flow as those costs are incurred at the corporate level.

"Free Cash Flow" or "FCF" is used as an indicator of the efficiency and liquidity of the Company's business, measuring its funds after capital expenditures available to manage debt levels, pursue acquisitions and assess the optionality to pay dividends and/or return capital to shareholders though activities such as share repurchases. The most directly comparable GAAP measure is cash flow from (used in) operating activities. Free Cash Flow is calculated as cash flow from (used in) operating activities, less interest, office lease expenses, cash taxes and capital expenditures.

"Net Debt" represents the carrying value of the Company's debt instruments, including outstanding deferred acquisition payments, net of Adjusted working capital. The Company uses Net Debt as an alternative to total outstanding debt as Management believes it provides a more accurate measure in assessing the liquidity of the

Company. The Company believes that Net Debt can provide useful information to investors and shareholders in understanding the overall liquidity of the Company.

"Net Debt / 2024E EBITDA" is calculated as net debt at the ending period of each financial quarter divided by the 2024E Adjusted EBITDA. The Company believes that Net Debt / 2024E Adjusted EBITDA is useful information to investors and shareholders in understanding the time frame, in years, it would take to eliminate Net Debt based on 2024E Adjusted EBITDA.

"NOI" is calculated as Net Income plus taxes, interest and excluding gains (losses) on disposals. The most directly comparable GAAP measure is Net Income. NOI provides a useful measure of the profitability of the Company's regular operations.

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 or metals & minerals at an acceptable price given market conditions; volatility in market prices for metals, minerals, 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 mining resources & oil and natural gas reserves; risks and uncertainties related to mining and oil & 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 mining permits, 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.

Qualified Persons

All technical and scientific metallic mineral information discussed in this MD&A, including Inferred Mineral Resource estimates for the Company's early-stage lithium-brine mineral exploration project ("**Drumheller Lithium-Brine Project**"), has been reviewed and approved by D. Roy Eccles, P.Geol. (Senior Consulting Geologist and Chief Operations Officer, APEX Geoscience Ltd.), who is a Qualified Person for the purposes of National Instrument 43-101 — *Standard of Disclosure for Mineral Projects* of the Canadian Securities Administrators (“**NI 43-101**”) and who is independent of Highwood. For further details, see the technical report entitled "*National Instrument 43-101 Technical Report, Initial Inferred Lithium-Brine Resource Estimations for Highwood Asset Management Ltd.'s Drumheller Property in South-Central Alberta, Canada*" with an effective date of February 21, 2023, which was prepared by D. Roy Eccles, P.Geol. (Senior Consulting Geologist and Chief Operations Officer, APEX Geoscience Ltd.) in accordance with NI 43-101 and is available under Highwood’s SEDAR profile at www.sedar.com.

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

JOEL MACLEOD
Executive Chairman
Highwood Asset Management Ltd.
Calgary, Alberta

GREG MACDONALD
President & CEO
Highwood Asset Management Ltd.
Calgary, Alberta

STEPHEN HOLYOAKE
CEO, Fireweed Energy Ltd.
Calgary, Alberta

DAVID GARDNER
Independent Director
Calgary, Alberta

GARRETT ULMER
Independent Director
Calgary, Alberta

RYAN MOONEY
Managing Director, Investment Banking,
Echelon Wealth Partners
Calgary, Alberta

OFFICERS

JOEL MACLEOD
Executive Chairman

GREG MACDONALD
President & Chief Executive Officer

CHRIS ALLCHORNE
Chief Financial Officer

KELLY MCDONALD
Vice President, Exploration

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