MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

November 29, 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 November 29, 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, the annual information form for the year ended December 31, 2022 and the unaudited condensed interim consolidated financial statements for the three and nine months ended September 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.sedarplus.ca and www.highwoodmgmt.com.

Highwood's management is responsible for the integrity of the information contained in this report and for the consistency between the MD&A and financial statements. In the preparation of the financial statements, estimates are necessary to make a determination of future values for certain assets and liabilities. Management believes these estimates have been based on careful judgments and have been properly presented. The financial statements have been prepared using policies and procedures established by management and fairly reflect Highwood's financial position and results of operations.

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.

The Company's common shares and warrants trade on the TSX Venture Exchange ("TSX-V") under the symbol "HAM" and "HAM.WT".

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 exploitation of its oil and gas properties in Alberta.

Q3 2023 Corporate Highlights and Outlook

- Highwood anticipates allocating its organic Free Cash Flow after sustaining capital on a 50:50 basis to support organic production growth of approximately 25% while also expecting to reduce Net Debt by approximately 25%, achieving Net Debt / 2024E EBITDA of under 0.8x in the next 12 months.

- The focus of the third 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. On August 3, 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 $143 million. The Acquisitions brought 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**")

- Highwood commenced its drilling program on September 16, 2023, spudding the 102/13-09-048-14W5 multi-lateral open hole ("**MLOH**") well (the "**13-09 well**") at Brazeau, which offsets the 12-09-048-14W5 MLOH well. After approximately 25 days of cleaning up post drilling operations, the 13-09 well has averaged approximately 350 bbls/d of oil over the past seven days which is slightly above the projected type curve for this well.

- On October 21, 2023, the Company spud a second MLOH well at Brazeau 14-09-048-14W5 (the "**14-09 well**"), with the rig being released on November 19, 2023. The 14-09 well is expected to be onstream prior to the end of November 2023. Total capital costs for the 13-09 well and the 14-09 well was in line with the budget forecasts for these wells.

- On November 21, 2023, the Company spud a third well, 04-10-043-05W5 (the "**04-10 well**"), at Wilson Creek which is a follow up to the successful 102/06-04-043-05W5 (the "**102/06-04 well**") well that achieved payout in under six months. Following the drilling of the 04-10 well, Highwood intends to drill a second well at Wilson Creek, a direct offset to the 102/06-04 well, the 100/03-04-043-05W5 well (the "**03-04 well**").

- Highwood reiterates its expected average production guidance of approximately 5,200 boe/d, representing growth of approximately 25%, on expected drilling, completion and tie-in capital expenditures of approximately $40 million in 2024. Highwood also expects to reduce Net Debt by approximately 25% reducing Net Debt / 2024E EBITDA to under 0.8x in the next 12 months, based on an US$70/bbl WTI and C$2.75/GJ AECO.(1)(2)(3)

- Following the acquisition of each of Castlegate Energy Ltd., Boulder Energy Ltd. and Shale Petroleum Ltd. early in the third quarter of 2023, Highwood continued to hedge oil production as oil reached 2023 highs through September 2023 and is pleased it was able to secure hedges that are over US$10/bbl higher than the forecasted realized crude oil pricing versus the forecasted pricing on the announcement of the Acquisitions on July 5, 2023, with the average WTI hedge price at over C$100/bbl. Highwood has hedged approximately 38% of gross forecasted production for 2024 at an average WTI oil price of approximately $103 CAD/bbl and an average AECO gas price of $3.03 per gigajoule.

- Highwood conducted a workover program during the third quarter of 2023 which added approximately 180 bbls/day of oil production for capital of approximately $500,000.

- Pursuant to the Acquisitions, Highwood is positioned as a growth focused oil-weighted producer with strong insider ownership which remains committed to supporting the Company's long-term growth trajectory and prudent use of debt capital.

Notes to Highlights:

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

(2) 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.

2023 Third Quarter Operations

With the continued strong commodity prices and increased interest in Canadian energy, the Company's primary focus in the third quarter was closing the Acquisitions and transitioning the acquired assets into Highwood. The Company also focused on beginning the execution of Highwood's capital development program and spud the initial MLOH well in September. 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.

The operating results of the three and nine months ended September 30, 2023 include the impact of the Acquisitions from the closing date of August 3, 2023.

Outlook

Highwood anticipates allocating its organic Free Cash Flow after sustaining capital on a 50:50 basis to support organic production growth of approximately 25% while also expecting to reduce Net Debt by approximately 25%, achieving Net Debt / 2024E EBITDA of under 0.8x in the next 12 months.

The primary focus over the near term is the execution of the Company's capital program and growth strategy while reducing the Company's Net Debt.

As of the date of this MD&A, the Company is drawn approximately $73.5 million on its new credit facility which provides considerable financial and operational flexibility. As the Company continues to see a 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 and stage fracking technologies, 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, 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.

ORGANIZATION OF THE MD&A

PART 1 – OUR BUSINESS AND STRATEGY

Overview

Highwood is a junior asset manager with a current focus primarily in the upstream oil and gas space, as well as midstream oil and gas. Highwood's intention is to eventually oversee various operations including Environmental, Social and Governance ("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 accretive acquisitions and organic growth opportunities will be prudent for shareholder returns.

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

  Highwood will focus on growing production through a combination of executing capital plans and acquisitions. Current 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**

  The Company is committed to having a positive impact in the communities in which they 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 $000's, except share numbers)
(Canadian dollars)

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Financial				
Petroleum and natural gas sales	**$ 15,894**	$ 1,135	**$ 17,580**	$ 3,411
Transportation pipeline revenues	**774**	842	**2,203**	2,486
Total revenues, net of royalties and commodity contracts (1)	**8,870**	1,720	**12,121**	4,791
Income (Loss)	**(1,014)**	241	**(1,641)**	2,184
Funds flow from (used in) operations(6)	**5,916**	485	**6,060**	1,086
Adjusted EBITDA(6)	**7,489**	368	**7,406**	1,289
Capital expenditures	**2,917**	1,526	**4,030**	1,683
Proceeds from dispositions	**173**	67	**248**	2,413
Working capital surplus (deficit) *(end of period)* (2)			**(2,669)**	554
Net debt (3)			**89,696**	(367)
Shareholders' equity *(end of period)*			**56,676**	10,508
Shares outstanding *(end of period)*			**15,013**	6,014
Options outstanding *(end of period)*			**222**	176
Warrants outstanding *(end of period)*			**3,150**	-
Restricted share units outstanding *(end of period)*			**120**	160
Deferred share units outstanding *(end of period)*			**20**	-
Weighted-average basic shares outstanding			**7,955**	6,014
Weighted-average diluted shares outstanding			**7,955**	6,192
Operations (4)				
Production				
Crude oil *(bbls/d)*	**1,359**	116	**530**	111
NGL *(boe/d)*	**305**	-	**103**	-
Natural gas *(mcf/d)*	**4,785**	-	**1,613**	-
Total *(boe/d)*	**2,425**	116	**889**	111
Benchmark prices				
Crude oil				
Canadian Light *(Cdn$/bbl)*	**107.26**	116.65	**100.69**	123.68
Natural gas				
AECO *(Cdn$/mcf)*	**2.41**	4.75	**2.48**	5.24
Average realized prices (5)				
Crude oil *(Cdn$/bbl)*	**109.07**	106.27	**105.87**	112.65
NGL *(Cdn$/boe)*	**39.75**	-	**39.75**	-
Natural gas *(Cdn$/mcf)*	**2.59**	-	**2.59**	-
Upstream Operating netback *(per boe)* (6)	**41.01**	45.79	**40.29**	48.41

(1) Includes unrealized gain and losses on commodity contracts
(2) Working capital surplus/deficit excludes commodity contract liability of $2.83 million (September 30, 2022 - $nil) and current portion of decommissioning liability of $2.0 million (September 30, 2022 - $nil) and current portion of lease liabilities of $91 thousand (September 30, 2022 - $23 thousand)
(3) Net debt consists of bank debt, promissory note, long-term accounts payable and accrued liabilities and working capital surplus (deficit) excluding commodity contract assets and/or liabilities, current portion of decommissioning liabilities and lease liabilities
(4) For a description of the boe conversion ratio, see "Basis of Barrel of Oil Equivalent".
(5) Before hedging.
(6) See "Non-GAAP and other Specified Financial measures".

PART 3 – OPERATING RESULTS

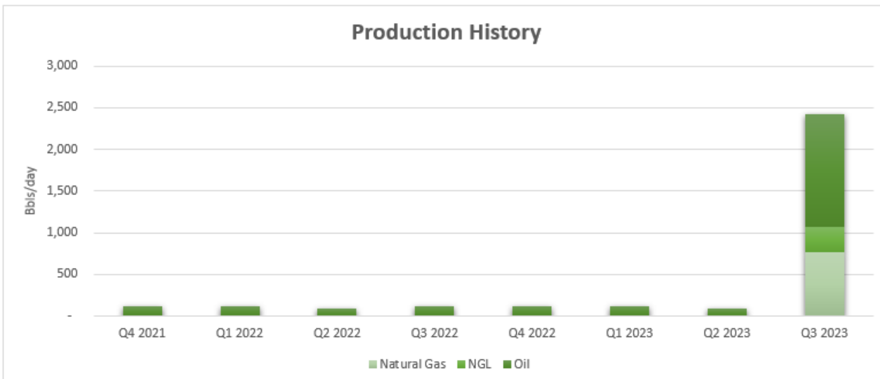
Basis of Presentation

The operating results of the three and nine months ended September 30, 2023 include the impact of the Acquisitions from the closing date of August 3, 2023.

In the third quarter with the Boulder Acquisition, Castlegate Acquisition and Shale Acquisition, the Company changed the composition on its reportable segments to a single segment.

Summary of Results

Production



	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Daily average volume				
Crude oil *(bbls/d)*	**1,359**	116	**530**	111
NGL (boe/d)	**305**	-	**103**	-
Natural gas (mcf/d)	**4,786**	-	**1,613**	-
Total sales *(boe/d)*	**2,425**	116	**889**	111
Total sales *(boe)*	**223,104**	10,680	**242,805**	30,278
Production weighting				
Crude oil and NGL	**69%**	100%	**71%**	100%

Production significantly increased in the third quarter of 2023 with the closing of the Acquisitions. Production in August, was also negatively impacted by an unplanned outage at a third party facility which resulted in significant amount of production in Wilson Creek being shut in. In late August the unplanned outage ended and the impacted production was brought back up to normal levels. Highwood anticipates growth in overall production and crude oil and NGL weighting as it executes a capital plan of ~$15 million in the fourth quarter of 2023 and a capital plan of ~$40 million in 2024. Highwood re-iterates production growth of approximately 25% to approximately 5,200boe/d in 2024 on an expected capital program of approximately $40 million in 2024.

Petroleum and Natural Gas Sales

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Crude oil	**$ 13,640**	$ 1,135	**$ 15,326**	$ 3,411
NGL	**1,115**	-	**1,115**	-
Natural gas	**1,139**	-	**1,139**	-
Total	**15,894**	$ 1,135	**17,580**	$ 3,411
Average realized prices before hedging				
Crude oil *($/bbl)*	**109.07**	106.27	**105.87**	112.66
NGL *($/boe)*	**39.75**	-	**39.75**	-
Natural gas *($/mcf)*	**2.59**	-	**2.59**	-
Equivalent *($/boe)*	**71.24**	106.27	**72.40**	112.66

Petroleum and natural gas revenue increased significantly in three and nine month periods ending September 30, 2023 compared to the same period in 2022, driven primarily by the Acquisitions that closed on August 3, 2023.

For the third quarter of 2023 compared to the third quarter of 2022, the Company saw a slight increase in realized price, despite a decrease in the Edmonton light benchmark due to the higher quality of oil from the Acquisitions which results in a higher realized price. The majority of Highwood's oil production is light oil and benchmarked to Edmonton light pricing while natural gas in benchmarked to AECO pricing. Overall the realized pricing in the third quarter of 2023 is in line with expectations after accounting for the Acquisitions.

Western Canadian commodity prices continued to be volatile over the first nine months of 2023 and in the short term, the Company anticipates continued price volatility. With respect to oil prices, significant factors include the unknown impact of transportation constraints in Alberta, demand levels, as well as global inventory levels. The Company continues to monitor current and forecasted pricing.

Royalties

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
	$	$	**$**	$
Royalties	**3,829**	362	**4,347**	1,092
Per boe	**17.16**	33.89	**17.90**	36.07
Percentage of sales	**24.1%**	31.89%	**24.7%**	32.0%

Highwood's royalty burden includes crown, gross over-riding and freehold royalties applicable on the Company's production sales, which are either paid or taken in kind. The terms of the land and mineral rights owner agreements and provincial royalty regimes impact Highwood's overall royalty rate.

The increase in royalties for the three and nine months ended September 30, 2023 to the comparative period in 2022 is driven by the Acquisitions and associated production.

Operating and Transportation Expense

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Total operating and transportation	**3,293**	519	**4,595**	1,599
Per boe	**14.76**	48.60	**18.92**	52.81
Less midstream and other operating[1]	***(377)***	*(235)*	***(1,145)***	*(746)*
Upstream operating and transportation	**2,916**	284	**3,450**	853
Per boe	**13.07**	26.59	**14.21**	28.17

1) *Amounts removed are operating costs related to midstream operations or metallic minerals operations. The purpose is to show the operating cost associated with each barrel of production.*

Overall total operating and transportation expenses have increased significantly due to the Acquisitions, which is also the reason for the decrease total operating and transportation expenses per boe.

The midstream and other operating expenses mainly relate to the Wabasca River Pipeline System and EVI Terminal and these costs are removed from total operating and transportation expenses to show the operating and transportation costs associated with flowing barrels of production. Overall these costs are slightly higher compared to the prior year due to increased activity with respect to the EVI terminal.

The Company has been actively working to reduce costs, by conducting abandonment and reclamation work on the non-producing properties, reducing costs such as surface and mineral rentals. The Company is also assessing opportunities that are available with the Acquisitions to reduce operating and transportation costs, such as using infrastructure the Company owns rather than through third parties for assets that were acquired within close proximity. For example, the Company is assessing moving product from the Wilson Creek area (acquired in the Castlegate Acquisition) to Highwood's battery in the Brazeau area (acquired in the Boulder Acquisition) which could reduce third party processing costs.

Netback Analysis

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**71.24**	106.27	**72.40**	112.65
Royalties	**(17.16)**	(33.89)	**(17.90)**	(36.07)
Upstream Operating and transportation	**(13.07)**	(26.59)	**(14.21)**	(28.17)
Upstream operating netback	**41.01**	45.79	**40.29**	48.41

Upstream operating netback reflects the profit that is made from each barrel of production, which is why upstream operating and transportation expense is used in the calculation. The main reason for the decrease in operating netback for the three and nine months ended September 30, 2023 compared to the three and nine months ended September 30, 2022 is due to a decrease in average realized sales due to lower crude oil percentage of the total Company production. This was partially offset by a decrease in upstream operating and transportation costs per boe and a decrease in royalties per boe as previously discussed. Management continues to look at ways to maximize the operating netback.

Midstream Operations

The midstream segment consists of the Company's Wabasca River Sales Pipeline, EVI Terminal and marketing revenues. 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 10,396 m3/month of throughput for the third quarter of 2023. Volumes were up slightly in the third quarter compared to the second quarter of 2023. 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 third quarter of 2023 and expected capital activity in 2023 by producers in the area.

	Three months ended September 30,		**Nine months ended September 30,**	
	2023	2022	**2023**	2022
Transportation pipeline revenues	**$ 774**	$ 842	**$ 2,203**	$ 2,486

Overall, the slight decrease in transportation pipeline revenues in the current period is due to a decrease in volumes flowing through pipeline. Transportation pipeline revenues are generated on a tariff of $23.50/M3 of crude oil that is flowed through the pipeline.

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 nine months ended September 30, 2023.

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 variable as 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.

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.

The Company has the following commodity contracts outstanding at September 30, 2023:

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	1,100bbls/day	October 1, 2023 to December 31, 2023	$ 106.00 - $111.20	WTI - NYMEX
Crude Oil	100bbls/day	November 1, 2023 to December 31, 2023	$ 114.15 - $114.15	WTI - NYMEX
Crude Oil	1,300bbls/day	January 1, 2024 to March 31, 2024	$ 103.55 - $114.90	WTI - NYMEX
Crude Oil	1,250bbls/day	April 1, 2024 to June 30, 2024	$ 101.40 - $110.95	WTI - NYMEX
Crude Oil	1,200bbls/day	July 1, 2024 to September 30, 2024	$ 99.30 - $108.00	WTI - NYMEX
Crude Oil	1,150bbls/day	October 1, 2024 to December 31, 2024	$ 97.45 - $105.50	WTI - NYMEX
Crude Oil	870bbls/day	January 1, 2025 to March 31, 2025	$ 95.55 - $103.15	WTI - NYMEX

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Realized gain (loss) on commodity contracts	**(354)**	11	**(354)**	64
Unrealized gain (loss) on commodity contracts	**(3,821)**	44	**(3,821)**	-

General and Administrative (G&A)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Gross G&A	**1,876**	577	**3,614**	1,967
Capitalized G&A	**(100)**	-	**(100)**	-
G&A	**1,776**	577	**3,514**	1,967

G&A expenses increased during the three and nine months ended September 30, 2023, compared to the respective period in 2022 mainly due to increased staffing requirements associated with the Acquisitions. As part of the Acquisition, Highwood has seen a growth in employees and consultants that are vital to the Company achieving the objectives of shareholder returns and debt reduction. The increase is also due to inflationary pressures which have increased costs of goods and services.

Share-based Compensation

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Share-based compensation	**110**	139	**230**	331

The increase in share-based compensation for the three month period ended September 30, 2023 from the comparative periods of 2022 is mainly due to the granting of options, Restricted Share Units (“RSU’s”), Performance Share Units (“PSU’s”) and Deferred Share Units (“DSU’s”) on August 28, 2023.

On August 28, 2023, the Company granted the following:

- 65,056 options at an exercise price of $6.00 per option. The options granted vest 1/3 on each of August 3, 2024, August 3, 2025 and August 3, 2026 and have a five year term.
- 59,379 RSU’s exercisable for no consideration. The RSU’s granted vest 1/3 on each of August 28, 2024, August 28, 2025 and August 28, 2026 and expire on December 31, 2026.
- $609 thousand worth of PSU’s. The PSU’s granted vest on August 3, 2026, subject to the sole discretion of the Board of Directors.
- 20,000 DSU’s exercisable for no consideration. The DSU’s granted vest on each of August 3, 2024.

At September 30, 2023 and the date of this MD&A the Company had 222,000 options and 120,000 RSU’s and 20,000 DSU’s outstanding.

Depletion and Depreciation (“D&D”)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
D&D	**2,814**	62	**3,267**	223

The increase in D&D for the three and nine months ended September 30, 2023, compared to the prior period, is mainly due to the Acquisitions that occurred in the third quarter of 2023. Between the Acquisitions and capital activity the Company added approximately $145 million to plant, property and equipment. This combined with the significant increase in production has resulted in the increase to D&D.

Impairment

The Company assesses many factors when determining if an impairment test should be performed. At September 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 September 30, 2023.

Finance Income and Expenses, net

	Three months ended September 30,		**Nine months ended September 30,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Interest on bank debt	**1,361**	10	**1,386**	54
Interest on promissory note	**289**	-	**289**	-
Interest income	**(22)**	-	**(22)**	-
Cash finance income and expenses, net	**1,628**	10	**1,653**	54
Accretion of decommissioning liabilities	**302**	11	**333**	35
Accretion of long-term accounts payable and accrued liabilities	**14**	21	**47**	63
Amortization of debt issue costs	**51**	-	**51**	-
Other expense	**3**	-	**3**	1
Non-cash finance expense	**370**	32	**434**	99
Total finance income and expenses, net	**1,998**	42	**2,087**	153

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 nine month periods ended September 30, 2023, compared to the three and nine month periods ended September 30, 2022, increased mainly due to the increase on bank debt which is due to the Acquisitions and the New Credit Facility that was entered into to facilitate the purchases.

The promissory note was issued on August 3, 2023 and bears interest at 13% per annum.

Accretion of decommissioning liabilities for the three and nine months ended September 30, 2023 has also increased due to the Acquisitions, which resulted in an increase to decommissioning liabilities, therefore increasing the associated accretion.

Interest rates for the bank debt is based on the Company's most recent quarter consolidated total debt to EBITDA ratio (as defined in the credit facility agreement).

Deferred Income Tax

Deferred income tax was a recovery of $221 thousand and $362 thousand, respectively, for the three and nine months ended September 30, 2023, compared to an expense of $106 thousand and $660 thousand, respectively, for the three and nine months ended September 30, 2022. The recovery in the three and nine months ended September 30, 2023 was mainly due to the net loss incurred in the period.

Income (Loss)

The Company incurred a loss of $1.01 million and $1.64 million, respectively, for the three and nine months ended September 30, 2023, compared to income of $241 thousand and $2.2 million, respectively, for the comparative three and nine months ended September 30, 2022. Loss for the three and nine months ended September 30, 2023 was driven by a combination of lower commodity prices, non-cash expenditures such as depletion and depreciation expense of $2.8 million and $3.3 million, respectively, unrealized loss on commodity contracts of $3.8 million and transaction costs of $658 thousand associated with the Acquisitions. Income for the three and nine months ended September 30, 2022 was mainly a result of strong commodity prices and a gain on disposal of assets in the second quarter of 2022.

	Three months ended September 30,		**Nine months ended September 30,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Income (Loss)	**(1,014)**	241	**(1,641)**	2,184
Per weighted average share, basic	**(0.09)**	0.04	**(0.21)**	0.36
Per weighted average share, diluted	**(0.09)**	0.04	**(0.21)**	0.35

Selected Quarterly Information

Three months ended	Sept. 30, 2023	June 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sept. 30, 2022	June 30, 2022	Mar. 31, 2022	Dec. 31, 2021
Financial ($000s, except per share amounts and share numbers)								
Petroleum and natural gas sales	15,894	728	958	1,027	1,135	1,125	1,151	966
Transportation pipeline revenues	774	681	748	769	842	847	797	718
Income (loss)	(1,014)	(600)	(27)	62	241	1,487	456	(951)
Capital expenditures	2,917	428	685	362	1,526	19	138	3
Total assets *(end of quarter)*	198,416	20,530	17,904	16,841	16,718	16,274	15,746	15,883
Working capital surplus (deficit)[1] *(end of quarter)*	(2,669)	(1,206)	197	411	554	1,512	340	(486)
Shareholders' equity *(end of quarter)*	56,676	10,190	10,729	10,697	10,508	10,128	8,529	7,993
Weighted-average basic shares outstanding *(000s)*	11,728	6,037	6,037	6,014	6,014	6,014	6,014	6,014
Operations								
Production								
Crude oil *(bbls/d)*	1,359	95	123	119	116	97	120	125
NGL *(boe/d)*	305	-	-	-	-	-	-	-
Natural Gas *(mcf/d)*	4,785	-	-	-	-	-	-	-
Total *(boe/d)*	2,425	95	123	119	116	97	120	125
Average realized prices *($)*								
Crude oil *(per bbl)*	109.07	83.93	86.88	93.44	106.27	127.37	106.92	84.06
NGL *(per boe))*	39.75	-	-	-	-	-	-	-
Natural Gas *(per mcf)*	2.59	-	-	-	-	-	-	-

1) *Working capital surplus/deficit excludes commodity contract liability), current portion of decommissioning liability and current portion of lease liabilities*

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 Results and Select Consolidated Operating Disclosures sections above for an explanation of changes.

Capital Activity

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Land	**628**	160	**1,047**	174
Seismic and other pre-drilling costs	**-**	-	**8**	-
Production equipment and facilities	**-**	184	**686**	327
Drilling and completions	**2,289**	-	**2,289**	-
Corporate	**-**	1,182	**-**	1,182
	2,917	1,526	**4,030**	1,683

At September 30, 2023, the Company had E&E assets of $1.99 million (December 31, 2022 – $951 thousand). This amount is primarily made up of undeveloped land. The Company acquired undeveloped lands during the second quarter and third quarter of approximately $1.05 million, mainly in the Viking Kinsella area and Brazeau.

At September 30, 2023, the Company had gross property and equipment of $169.6 million (December 31, 2022 - $20.98 million). This included developed land and costs associated with the wells the Company has drilled and acquired to date, as well as midstream infrastructure it had acquired. During the third quarter of 2023, upon closing of the Acquisitions, the Company added $125.37 million of gross property and equipment. The Company incurred capital expenditures of $2.98 million in the second quarter mainly related drilling activity.

PART 5 – CAPITALIZATION

Share Capital and Share Based Compensation Activity

As at September 30, 2023 and the date of this MD&A, the Company had 15,114,322 common shares, 3,150,000 warrants, 222,056 options, 119,979 RSUs, 20,000 DSUs outstanding and 100,800 common shares held in trust related to the PSU plan.

On July 27, 2023, the Company closed a marketed offering of subscription receipts (the "Offering"). Pursuant to the Offering, the Company issued and sold a total of 5,833,333 subscription receipts ("Subscription Receipts") at a price of $6.00 per Subscription Receipt for gross proceeds of approximately $35,000,000. Each Subscription Receipt represented the right of the holder to receive, upon closing of Castlegate Acquisition, Boulder Acquisition and Shale Acquisition, without payment of additional consideration and without further action, one unit of the Company ("Offered Unit"). Each Offered Unit was comprised of one common share of the Company ("Common Share") and one-half of one Common Share purchase warrant (each full warrant, a "Warrant") with each Warrant exercisable into one Common Share (each a "Warrant Share") at an exercise price of $7.50 per Warrant Share for a period of 36 months from the issuance date of the Warrants.

On August 3, 2023, concurrently with the closing of the acquisitions each subscription receipt of the Company issued pursuant to the Offering was exchanged for one Common Share of the Company and one-half of one Warrant with each full Warrant exercisable into one Warrant Share at an exercise price of $7.50 per Warrant Share until August 3, 2026. As result of the Offering, 5,833,333 Common Shares and 2,916,667 Warrants were issued. Officers and directors received 469,178 Common Shares and 234,589 Warrants in the Offering.

On August 3, 2023, 1,500,000 Common Shares were issued as part of the consideration for the Boulder Acquisition and 1,277,025 Common Shares were issued as part of the consideration for the Shale Acquisition.

On August 3, 3023 the Company closed a private placement purchase of $2.8 million in units of the Company (the "Private Placement Units") comprised of one Common Share and one-half of one common share purchase warrant (the "Private Placement"). The Private Placement Units were issued on terms identical to the terms of the Offered Units that are issuable pursuant to the terms of the Subscription Receipts under the Offering. The Private Placement Units purchased pursuant to the Private Placement (including the Common Shares and Warrants comprising such Private Placement Units, and the Warrant Shares issuable upon the exercise of such Warrants) are subject to a statutory hold period until December 4, 2023. As a result of the Private Placement, 466,666 Common Shares and 233,333

Warrants were issued. The proceeds from the Private Placement were used to settle a promissory note with an existing shareholder, a related party, whom the shares were issued to.

The unit cost of $6.00 per unit was allocated $5.80 per Common Share and $0.20 per one-half of one Warrant. The allocation was conducted by analyzing the fair value of each equity instrument and proportionately allocating.

Liquidity, Capital Resources and Capital Management

Net Debt

The Company considers net debt a key capital management measure in assessing the Company's liquidity.

The following table outlines the Company's calculation of net debt:

	September 30, 2023	December 31, 2022
Adjusted current assets[1]	**$ 18,184**	$ 2,820
Adjusted current liabilities[1]	**(20,853)**	(2,390)
Adjusted working capital	**(2,669)**	430
Bank debt	**(72,333)**	-
Promissory note	**(14,289)**	-
Other long term obligations	**(405)**	(666)
Total	**$ (89,696)**	$ (236)

Note 1: Adjusted current assets and current liabilities excludes commodity contracts, current portion of lease liabilities and current portion of decommissioning obligations.

Adjusted EBITDA

The Company considers adjusted EBITDA to be a key capital management measure as it demonstrates the Company's profitability, operating and financial performance with respect to cash flow generation, adjusted for interest related to its capital structure. Adjusted EBITDA is calculated by adjusting cash flows from operating activities for changes in non-cash working changes and interest.

Adjusted funds flow

The Company considers adjusted funds flow to be a key capital management measure as it demonstrates the Company's ability to generate required funds to manage production levels and fund future capital investment. Management believes that this measure provides an insightful assessment of the Company's operations on a continuing basis by removing certain non-cash charges, decommissioning expenditures, of which the nature and timing of expenditures may vary based on the stage of the Company's assets and operating areas, and transaction costs which vary based on the Company's acquisition and disposition activity. The Company calculates adjusted funds flow as adjusted EBITDA less net interest and adjusting for decommissioning expenditures incurred.

Free funds flow

The Company considers free funds flow to be a key capital management measure as it is used to measure liquidity and efficiency of the Company by measuring the funds available after capital investment available for debt repayment, to pursue acquisitions and shareholder distributions. The Company calculates free funds flow as adjusted funds flow less expenditures on property, plant and equipment and exploration and evaluation assets (collectively, the "capital expenditures").

The following table outlines the Company's calculation of adjusted EBITDA, adjusted funds flow and free funds flow to cash flow from operating activities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Cash flow from operating activities	**$ 8,560**	$ 258	**$ 9,310**	$ 144
Change in non-cash working capital	**(2,699)**	100	**(3,557)**	1,091
Net interest[1]	**1,628**	10	**1,653**	54
Adjusted EBITDA	**7,489**	368	**7,406**	1,289
Decommissioning expenditures	**78**	85	**120**	85
Net interest[1]	**(1,628)**	(10)	**(1,653)**	(54)
Adjusted funds flow	**5,939**	443	**5,873**	1,320
Capital expenditures	**(2,917)**	(1,526)	**(4,030)**	(1,683)
Free funds flow	**$ 3,022**	$ (1,083)	**$ 1,843**	$ (363)

Note 1: Net interest is interest on bank debt and promissory note less interest income

The Company makes adjustments to capital employed by monitoring economic conditions and investment opportunities. The Company 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 New Credit Facility.

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, excluding commodity contracts consist accounts payable and accrued liabilities, promissory note and bank debt, all of which are due within a year and lease liabilities and long term accounts payable and accrued liabilities. A portion of accounts payable and accrued liabilities is being paid on a long term payment plan.

At September 30, 2023, the Company had a working capital deficit of $2.7 million, excluding the current portion of decommissioning obligations and commodity contracts. 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. At September 30, 2023, the Company has classified $405 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 September 30, 2023, the Company has classified $14.3 million of promissory notes as long term as payments extend beyond 12 months. The maturity date of the bank debt is August 2, 2025, therefore bank debt has been classified as long term.

During the third quarter of 2023, the Company entered into 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 and the Company will not be entitled to any further drawdowns. The borrowing base for the New Credit Facilities is $100 million, and is subject to semi-annual redeterminations based on the production profile of the borrowing base properties and other relevant matters as determined by the lenders, including a review of the Company's annual reserve report, prepared by the Company's independent qualified reserves evaluator and internally prepared updates thereto. If after a borrowing base determination or re-determination, a borrowing base shortly exists, the Company would be required to repay any amounts borrowed in excess of the borrowing base within 60 days. The New Credit Facilities are secured by a first priority security interest including a general security agreement and floating charge demand debenture over all the Company's present and future property, assets and undertakings. The next semi-annual redetermination is scheduled for December 31, 2023. The New Credit Facilities include operating restrictions on the Company, including (among other things), limitations on acquisitions, distributions, dividends and hedging arrangements. The New Credit Facilities include industry standard reporting requirements and financial covenants. With respect to financial covenants, the Company is required to maintain a minimum Liability Management Rating of 2.00:1:00. The maximum utilization allowed on the New Credit Facility is 90% of the total commitments of the lenders, with the total commitment being $100 million at September 30, 2023. At September 30, 2023, the Company is in compliance with this requirement. At September 30, 2023, $73,500,000 was drawn on The New Credit Facilities.

The Company was required to enter into commodity contracts with an aggregate notional quantity of at least 65% of the next 18 months expected production from proved developed producing properties, on a boe/day basis, at or in excess of US$70.00/bbl (or the Canadian equivalent) for a period of 18 months, after which, the Company is required to enter into commodity contracts with an aggregate notional quantity of at least 50% of the next 6 months expected production and rolling monthly from proved developed producing properties, on a boe/day basis, at or in excess of US$60.00/bbl (or the Canadian equivalent). 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 $16.9 million and $18.4 million during the three and nine months period ending September 30, 2023 from June 30, 2023 and December 31, 2022, respectively. The main reason for the increase is due to the Acquisitions that closed in the third quarter of 2023 which significantly increased overall activity. At September 30, 2023, the Company has classified $405 thousand of accounts payable and accrued liabilities as long term as the vendor has agreed to a payment plan that extends beyond 12 months.

A Promissory Note was issued in conjunction with the Boulder Acquisition. The Promissory Note was issued to a related party and an officer of the counterparty is on the Board of Directors of the Company. The Promissory Note matures on July 1, 2025 and provides for payments, equal to $3.5 million each, commencing October 1, 2024 and thereafter on January 1, 2025, April 1, 2025 and July 1, 2025, with the outstanding principal (if any) due in full on maturity. The Promissory Note bears interest at 13% per annum payable quarterly on October 1, 2024, January 1, 2025, April 1, 2025 and July 1, 2025; all payments/repayments (of both principal and interest) under the Promissory Note are subject to certain terms and conditions under the New Credit Facilities

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.

The following table details the Company's financial liabilities, excluding commodity contracts, as at September 30, 2023:

	Total	**<1 year**	**1-3 years**	**4-5 years**
Accounts payable and accrued liabilities	**$ 21,258**	$ 20,853	$ 405	$ -
Bank debt	**72,333**	-	72,333	-
Promissory note	**14,289**	-	14,289	-
Lease liabilities	**386**	91	110	185
Total financial liabilities	**$ 108,266**	$ 20,944	$ 87,137	$ 185

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 the Corporate Secretary of the Company, DLA Piper (Canada) LLP. During the three and nine months ended September 30, 2023, the legal expenses incurred were $764 thousand and $1.5 million, respectively, (three and nine months ended September 30, 2022 - $nil and $nil, respectively).

During the second quarter of 2023, the Company received funds of $2.8 million from a shareholder and in the third quarter of 2023 issued a promissory note to the same shareholder in the amount of $2.8 million. The promissory note bore 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 was secured by a general security agreement. The promissory note was due on demand and could be repaid by the Company at any time. The Company received the required regulatory approval for the promissory note. The promissory note was subordinate to the credit facility. During the third quarter of 2023, the promissory note was extinguished in conjunction with a 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 as well as in note 2 of the condensed interim consolidated financial statements for the three and nine months ended September 30, 2023. 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 and Specified Financial Measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry. The term "upstream 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, 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.

"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.

"Upstream Operating netback (per BOE)" is calculated as the realized price per boe, less royalties associated with the sale of petroleum and natural gas products on a per boe basis, less the operating costs associated with the production on a per boe basis. The Company believes that Upstream Operating netback (per BOE) is a useful measure of the profit that is made from each barrel of production.

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 6,290 cubic feet of gas to one barrel of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6,290 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. This conversion conforms to the Canadian Securities Regulator's National Instrument 51-101 – Standards for Oil and Gas Activities.

Caution Respecting Reserves Information

Readers should see the "Selected Technical Terms" in the Annual Information Form filed on April 28, 2023 for the definition of certain oil and gas terms.

Disclosure of oil and gas information is presented in accordance with generally accepted industry practices in Canada and National Instrument 51-101— Standards of Disclosure for Oil and Gas Activities ("**NI 51-101**"). Specifically, other than as noted herein, the oil and gas information regarding the Acquisitions presented in this news release is based on: (i) in respect of Boulder Energy Ltd. ("**Boulder**"), the reserves report prepared by McDaniel & Associates Consultants Ltd. and dated April 3, 2023 evaluating oil, natural gas liquids and natural gas interests attributable to Boulder's properties at January 1, 2023 (the "**Brazeau Reserves Report**"), (ii) in respect of Castlegate Energy Ltd. ("**Castlegate**"), the reserves report prepared by GLJ Ltd. and dated May 24, 2023 evaluating Castlegate's oil, natural gas liquids and natural gas interests at January 1, 2023 (the "**Castlegate Reserves Report**"), and (iii) in respect of Shale Petroleum Ltd. ("**Shale**"), the reserves report prepared by GLJ Ltd. and dated January 18, 2023 evaluating Shale's oil and gas reserves in aggregate at January 1, 2023 (the "**Shale Reserves Report**", and together with the Brazeau Report and the Castlegate Report, the "**Acquisition Reserves Reports**"). Highwood has not engaged in any independent verification of any of the Brazeau Reserves Report, the Castlegate Reserves Report or the Shale Reserves Report, nor any of the contents thereof. Other than as noted herein, the oil and gas information regarding the Company presented in this news release is based on the reserves report prepared by GLJ Ltd. evaluating the crude oil, natural gas and natural gas liquids attributable to the Company's properties at January 1, 2023 (the "**2022 Reserves Report**").

Reserves are classified according to the degree of certainty associated with the estimates as follows:

"Proved reserves" or "1P" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

"Probable reserves" are those additional reserves that are less certain to be recovered than proved reserves.

“Proved plus probable reserves” or “2P” is the total of proved reserves and probable reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

“Proved Developed Producing” or “PDP” reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

Standards Issued but Not Yet In Effect

In June 2023, the International Sustainability Standards Board ("ISSB") issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* which are effective for annual reporting periods beginning on or after January 1, 2024. These standards provide for transition relief in IFRS S1 that allow reporting entity to report on only climate-related risks and opportunities in the first year of reporting under the sustainability standards. The Canadian Securities Administrators ("CSA") are responsible for determining the reporting requirements for public companies in Canada and are responsible for decisions related to the adoption of the sustainability disclosure standard, including the effective annual reporting dates. The CSA issued proposed National Instrument NI-51-107 – *Disclosure of Climate-related Matters in October 2021*. The CSA intends to consider the ISSB standards in addition to development in United States reporting requirements in its decision relating to development of climate-related disclosure requirements for Canadian reporting issuers. The CSA will involve the Canadian Sustainability Standards Board ("CSSB") for a combined review of the suitability of the adopting the ISSB standards in Canada. There is no requirement for public companies in Canada to adopt the ISSB standards until the CSA and CSSB have issued a decision on reporting requirements in Canada. While we are actively reviewing the ISSB standards we have not yet determined the impact on future financial statements, nor have we quantified the costs to comply with such standards.

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.sedarplus.ca.

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

TREVOR WONG-CHOR
Corporate Secretary

HEAD OFFICE
500, 600 3rd Avenue SW
Calgary, Alberta
T2P 0G5

Telephone: 403-719-0499
Facsimile: 587-296-4916

AUDITORS
RSM Canada LLP
Calgary, Alberta

BANKERS
Royal Bank of Canada
Calgary, Alberta

LEGAL COUNSEL
DLA Piper (Canada) LLP
Calgary, Alberta

EVALUATION ENGINEERS
GLJ Petroleum Consultants Ltd.
Calgary, Alberta

Apex Geoscience Ltd.
Edmonton, Alberta