HIGHWOOD
ASSET MANAGEMENT LTD.

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022

April 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 April 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. 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 including metallic minerals, oil production & midstream energy operations. Future growth focuses will include clean energy transition subsectors with a focus on Environment, Social and Governance ("ESG").

Q4 2022 Corporate Highlights and Outlook

- Within the upstream oil & gas production business unit, the Company delivered average production of 119 bbl/d of oil in the fourth quarter of 2022. Current net production from Highwood is approximately 130 bbl/d of oil.

- During the fourth quarter of 2022, the Company and its 50% working interest partner in the EVI terminal completed the reactivation of the blending portion of the facility, which was commissioned on October 2, 2022. The Company is planning to reactivate the heavy trucking terminal located at EVI in the first half of 2023.

- Corporately, net debt at December 31, 2022 was $255 thousand and the Company is in a working capital surplus position of $411 thousand. The Company has reduced net debt, from $2.2 million at December 31, 2021, including a bank draw of $1.1 million.

- Overall, the Company saw an increase in Proved Developed Producing reserves of ~21%, Proved reserves of 8% and Proved and Probable reserves of 5%. The increase is reserves and impact of economic factors resulted in before tax net present value, discounted at 10%, to increase 36%, 63% and 75%, respectively for each of the reserve categories.

2022 Fourth Quarter Operations

With the continued strong commodity prices and increased interest in Canadian energy, the Company's focus in the fourth quarter was reviewing and assessing several potential acquisitions for its upstream operations. 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. During the fourth quarter of 2022, the Company acquired Viking Kinsella lands which the Company plans to drill one well within the next 18 months and another within the next 24 months.

The Company also focused time and resources in Q4 2022 on extraction technologies for Lithium from Brine.

Outlook

As of today, the Company is minimally drawn on its credit facility and has a working capital surplus, which provides considerable financial and operational flexibility. The Company remains open to completing accretive acquisitions through the balance of 2023 and beyond. The Company is currently engaged in several encouraging dialogues regarding various acquisitions and partnership opportunities.

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

Highwood is continuing to evaluate its undeveloped lands for drilling opportunities, particularly on its W4 lands, which the Company anticipates drilling at least 2 wells by the end of 2024.

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

ORGANIZATION OF THE MD&A

PART 1 – OUR BUSINESS AND STRATEGY

Overview

Highwood is a junior asset manager with a current focus in both the upstream & midstream oil and gas space as well as 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.

- ✓ **Diverse Industry Exposure**

  While today Highwood holds conventional oil & gas upstream and midstream assets as well as industrial mines & minerals permits, future focuses will include other energy subsectors including ESG and other clean energy transition infrastructure.

- ✓ **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 December 31,		Year ended December 31,	
	2022	2021	**2022**	2021
Financial				
Oil and natural gas sales	**$ 1,027**	$ 966	**$ 4,438**	$ 7,389
Transportation pipeline revenues	**769**	718	**3,255**	3,523
Total revenues, net of royalties and commodity contracts [(1)]	**1,827**	1,351	**6,618**	7,593
Income (Loss)	**62**	(951)	**2,246**	(2,321)
Funds flow from (used in) operations[(6)]	**308**	59	**1,543**	(75)
Capital expenditures	**362**	3	**2,045**	273
Proceeds from dispositions	**60**	-	**2,473**	1,978
Working capital surplus (deficit), excluding current bank debt *(end of period)* [(2)]			**411**	(486)
Net debt [(3)]			**(255)**	(2,244)
Shareholders' equity *(end of period)*			**10,697**	7,993
Shares outstanding *(end of period)*			**6,037**	6,014
Options outstanding *(end of period)*			**176**	149
Restricted share units outstanding *(end of period)*			**61**	133
Weighted-average basic shares outstanding	**6,015**	6,014	**6,014**	6,014
Weighted-average diluted shares outstanding	**6,080**	6,014	**6,088**	6,014
Operations [(4)]				
Production				
Crude oil *(bbls/d)*	**119**	125	**113**	331
Total *(boe/d)*	**119**	125	**113**	331
Benchmark prices				
Crude oil				
Canadian Light *(Cdn$/bbl)*	**103.11**	88.28	**113.60**	76.39
Average realized prices [(5)]				
Crude oil *(per bbl)*	**93.44**	84.06	**107.54**	61.18
Upstream Operating netback *(per boe)* [(6)]	**40.40**	31.85	**46.28**	20.98

(1) Includes unrealized gain and losses on commodity contracts
(2) Working capital surplus/deficit also excludes bank debt of $nil thousand (December 31, 2021 - $1.08 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:

- Metallic Minerals
- Midstream Operations
- Upstream Operations
- 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

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.

Reporting Parameter	Leduc Aquifer Domain	Nisku Killam Barrier Reef Aquifer Domain	Nisku Platform/Basin Aquifer Domain
Aquifer volume (km^3)	670.559	23.669	123.323
Brine volume (km^3)	65.058	1.415	8.218
Average lithium concentration (mg/L)	48.3	41.4	25.5
Average porosity (%)	9.9	6.1	6.8
Average brine in pore space (%)	98.0	98.0	98.0
Total elemental Li resources (tonnes)	3,142,000	59,000	207,000
Total LCE (tonnes)	16,726,000	312,000	1,102,000

Note 1: Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no guarantee that all or any part of the mineral resource will be converted into a mineral reserve. The estimate of mineral resources may be materially affected by geology, environment, permitting, legal, title, taxation, social-political, marketing, or other relevant issues.
Note 2: The weights are reported in metric tonnes (1,000kg or 2,204.6lbs).
Note 3: Tonnage numbers are rounded to nearest 1,000 unit.
Note 4: In a 'confined' aquifer, effective porosity is a proxy for specific yield.
Note 5: The resource estimation was completed and reported using a cutoff of 20mg/L lithium.
Note 6: To describe the resource in terms of the industry standard, a conversion factor of 5.323 is used to convert elemental lithium to Li_2CO_3 or Lithium Carbonate Equivalent (LCE).

As the metallic minerals segment entails early-stage exploration projects, there was no revenue and minimal expenses associated with the segment for the year ended December 31, 2022.

Highwood engaged 2 independent third party labs for extraction technology test work: Preliminary lithium extraction process development testing indicate that an ion exchange process holds reasonable prospects for eventual economic extraction of battery-grade lithium product from Highwood's lithium-brine. The labs' results showed a good lithium loading capacity and a good selectivity for lithium and demonstrated optimized lithium extraction results of 98.3%. Further testing for process development and process is justified and will commence later.

Expenditures of $1 thousand and $44 thousand, respectively, was deployed within the metallic minerals segment for the three months and year ended December 31, 2022. 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.

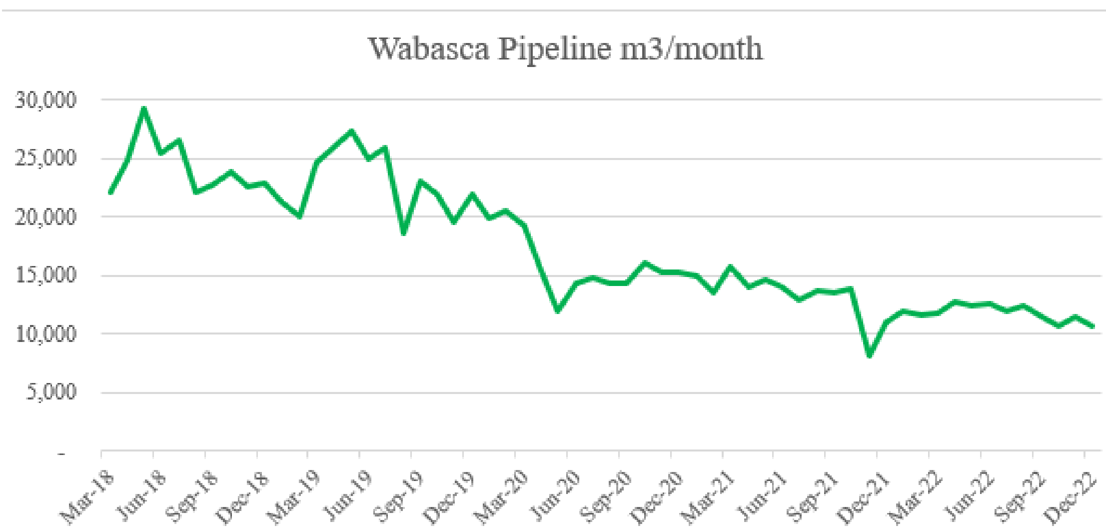
Lithium and Ironstone testing remains an ongoing focus for Highwood. Extraction technologies continue to be evaluated as well as potential go forward technology parties whom Highwood may elect to partner with moving forward.

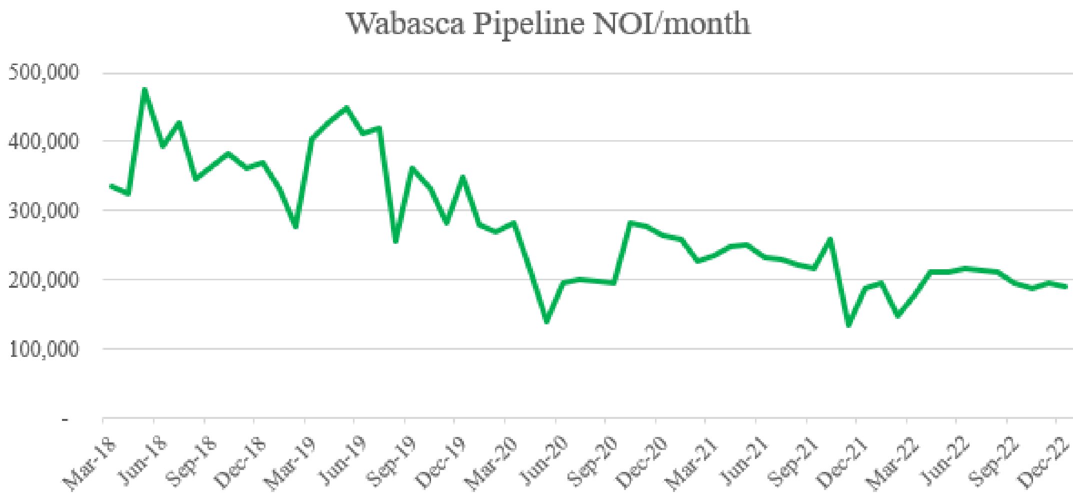
Midstream Operations

The midstream segment consists of the Company's Wabasca River Sales Pipeline. 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 Company's crude transmission line averaged 10,899 m3/month of throughput for the fourth quarter of 2022, consistent with the fourth quarter of 2021. Volumes were down slightly in the fourth quarter compared to the third quarter of 2022, but volumes are expected to return to third quarter levels in the first half of 2023. 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 fourth quarter of 2022 and expected capital activity in 2023 by producers in the area.

Revenue for the three months and year ended December 31, 2022 was $769 thousand and $3.3 million, respectively, compared to $718 thousand and $3.5 million for the year ended December 31, 2021.





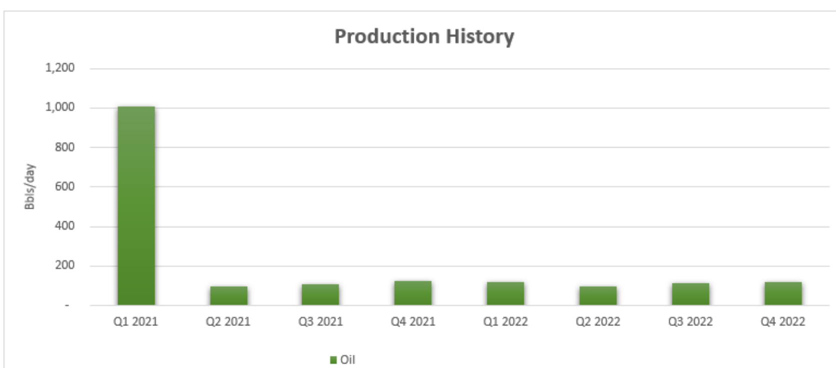
In addition, during the second half of 2022, the Company spent net capital of ~$232 thousand to reactivate the blending portion of its EVI terminal. The terminal was commissioned at the beginning of the fourth quarter of 2022 and will provide additional midstream revenues. The Company is planning to reactivate the heavy oil trucking portion of the facility in the first half of 2023.

Upstream Operations

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

The Company disposed of the majority of its producing assets in two transactions, one that closed in December 2020 and one that closed in March 2021. The comparative figures include the disposed properties from Q1 2021 and prior.

Production



	Three months ended December 31,		Year ended December 31,	
	2022	2021	**2022**	2021
Daily average volume				
Crude oil *(bbls/d)*	**119**	125	**113**	331
Total sales *(boe/d)*	**119**	125	**113**	331
Total sales *(boe)*	**10,991**	11,492	**41,270**	120,777
Production weighting				
Crude oil	**100%**	100%	**100%**	100%

The decrease in production from the year ended December 31, 2022 comparative period is primarily due to the disposition of the Red Earth assets on March 25, 2021. The majority of the production in the fourth quarter of 2022 came from the Company's Saskatchewan CGU, which has remained consistent with prior periods.

Sales

Oil sales

	Three months ended December 31,		Year ended December 31,	
	2022	2021	**2022**	2021
Crude oil	**$ 1,027**	$ 966	**$ 4,438**	$ 7,389
Average realized prices before hedging				
Crude oil *($/bbl)*	**93.44**	84.06	**107.54**	61.18

The decrease in oil sales from the year ended December 31, 2022 to the comparative period in 2021 is primarily due to the disposition of the Red Earth assets on March 25, 2021. The Company did see an increase in realized commodity prices from $84.06/bbl in fourth quarter of 2021 to $93.44/bbl in the fourth quarter of 2022, an increase of 11%. For the year ended December 31, 2022, the Company saw realized commodity prices increase from $61.18/bbl to $107.54/bbl, an increase of 76%. 2022 has seen commodity prices rise dramatically from 2021, mainly driven by the impact of Russia's invasion of Ukraine, including major economic sanctions being placed on Russia, along with continuing demand recovery. Over the short term, the Company anticipates continued price volatility. With respect to oil prices, a significant factor is the unknown impact of transportation constraints in Alberta, demand levels, as well as global inventory levels. The Company anticipates that there will be continued price volatility for at least the next several quarters as various dynamics play out. There have been significant fluctuations in oil prices and the stock markets worldwide for various reasons linked to the COVID-19 pandemic, Russia's invasion of Ukraine and other conditions impacting worldwide oil prices. The Company continues to monitor current and forecasted pricing.

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

Royalties

	Three months ended December 31,		Year ended December 31,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Royalties	**354**	303	**1,446**	1,048
Per boe	**32.21**	26.37	**35.04**	8.68
Percentage of oil sales	**34.5%**	31.4%	**32.6%**	14.2%

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

The increase in royalties per boe and percentage of sales during the year ended December 31, 2022 compared to the year ended December 31,2021 is mainly due to the majority of the Company's production coming from the Saskatchewan CGU after the disposition of Red Earth in March 2021. The Saskatchewan CGU is burdened by several gross over-riding royalties which results in a higher royalty percentage of oil sales. The increase in royalties per boe and percentage of sales, for both the year ended December 31, 2022 compared to the respective 2021 periods, is also due to the increase in crown royalty rates with the improvement in commodity prices.

Upstream Operating and Transportation Expense

	Three months ended December 31, 2022	2021	Year ended December 31, 2022	2021
	$	$	**$**	$
Operating and transportation	**229**	297	**1,082**	3,970
Per boe	**20.83**	25.84	**26.22**	32.87

Overall, total operating and transportation expense and on a per boe basis for the upstream segment have decreased significantly for the year ended December 31, 2022 compared to the respective comparative period due to the disposition the Company made in early 2021. Operating and transportation expense and on a per boe basis for the upstream segment have also decreased for the three months ended December 31, 2022 compared to the respective comparative period mainly due to a reduction in surface and mineral rental costs and other cost saving initiatives. 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 December 31, 2022	2021	Year ended December 31, 2022	2021
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**93.44**	84.06	**107.54**	61.18
Royalties	**(32.21)**	(26.37)	**(35.04)**	(8.68)
Upstream Operating and transportation	**(20.83)**	(25.84)	**(26.22)**	(32.87)
Operating netback	**40.40**	31.85	**46.28**	19.63

The main reason for the increase in operating netback for the three months and year ended December 31, 2022 compared to the three months and year ended December 31, 2021 is due to the improvement in average realized sales price. The average realized price for the year ended December 31, 2022 was approximately 11% and 76% higher, respectively, than the comparative periods of 2021. The reduction in upstream operating and transportation costs has also led to the increase in operating netback. Management continues to look at ways to maximize the operating netback.

Royalty Income

	Three months ended December 31, 2022	2021	Year ended December 31, 2022	2021
	$	$	**$**	$
Royalty Income	**288**	-	**338**	-

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 fourth quarter of 2022 of $288 thousand and for the year ended December 31, 2022 $338 thousand.

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 improved in recent months but continue to be volatile.

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). Through most of 2021 and 2022, commodity prices have significantly recovered due to a combination of increasing worldwide demand for commodities and decreasing oil inventories and prices are currently exceeding pre-pandemic levels. In addition to the COVID-19 pandemic, 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.

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 December 31, 2022 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 December 31,		**Year ended December 31,**	
	2022	2021	**2022**	2021
	$	$	**$**	$
Realized loss on commodity contracts	**-**	(508)	**(64)**	(2,574)
Unrealized gain on commodity contracts	**-**	475	-	109

The realized loss on commodity contracts during the year ended December 31, 2022 and three months and year ended December 31, 2021 was due to oil commodity prices being higher than the contract price.

General and Administrative (G&A)

	Three months ended December 31,		**Year ended December 31,**	
	2022	2021	**2022**	2021
	$	$	**$**	$
G&A	**808**	702	**2,775**	3,028

G&A expenses increased during the three months ended December 31, 2022, compared to the respective period in 2021 mainly due to non cash expenses related to the Company creating allowances for overdue receivables. Overall, without the addition of bad debt expense, G&A costs were consistent. G&A expenses decreased significantly for the year ended December 31, 2022 compared to the respective period in 2021 due to cost cutting measures put in place and a significant reduction in risk mitigation expenditures going forward due to the disposition of the Red Earth assets which carried a significantly higher risk profile than the Company's remaining assets. In order to continue to reduce costs, the Company continues working with vendors to find additional cost savings.

Stock-Based Compensation

	Three months ended December 31,		**Year ended December 31,**	
	2022	2021	**2022**	2021
	$	$	**$**	$
Stock-based compensation (recovery)	**127**	108	**458**	551

The decrease in stock-based compensation for the year ended December 31, 2022 from the comparative periods of 2021 is mainly due to the forfeiture of options and RSU's during 2021.

At December 31, 2022 the Company had 176,000 options and 61,000 RSU's outstanding.

Depletion and Depreciation ("D&D")

	Three months ended December 31,		**Year ended December 31,**	
	2022	2021	**2022**	2021
	$	$	**$**	$
D&D	**279**	342	**502**	877
Per boe	**25.38**	29.76	**12.16**	7.26

The decrease in D&D for the year ended December 31, 2022, 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 months and year ended December 31, 2022, D&D related to producing upstream assets was $107 thousand and $454 thousand, respectively, compared to $135 thousand and $530 thousand, respectively for the three months and year ended December 31, 2021. The decrease in 2022 is mainly due to increases in reserves associated with these assets.

For the three months and year ended December 31, 2022, D&D related to midstream assets was $75 thousand and $299 thousand, respectively, compared to $75 thousand and $303 thousand, respectively for the three months and year ended December 31, 2021.

For the three months and year ended December 31, 2022, D&D related to corporate assets was $15 thousand and $30 thousand, respectively, compared to $nil for both the three months and year ended December 31, 2021 as the assets were acquired in the second half of 2022.

Impairment

Impairment of property, plant and equipment

2022

The Company assesses many factors when determining if an impairment test should be performed. At December 31, 2022, 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 December 31, 2022.

2021

The Company assesses many factors when determining if an impairment test should be performed. At December 31, 2021, the Company conducted an assessment of impairment indicators for the Company's CGUs. In performing the review, management determined that the significant improvement in commodity pricing and the impact this has on the economic performance of the Company's CGUs resulted in no indicators of impairment at December 31, 2021.

As at June 30, 2021, the Company determined that it's non-core CGU, Alliance, no longer had any value absent any throughput and recorded an impairment loss in the three month period ended June 30, 2021 of $352 thousand, representing the full carrying value of the non-core CGU.

As at June 30, 2021, management determined that the significant improvement in commodity pricing and the impact this has on the economic performance of the Saskatchewan CGU resulted in impairment reversals. During the three month period ended March 31, 2020, the Saskatchewan CGU incurred an impairment charge of $332 thousand. The recoverable amounts were estimated at the value in use based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by external engineers at December 31, 2020 and internally updated by Company engineers at June 30, 2021. The future net cash flows were discounted at a before tax rate of 15%. As a result of the impairment test, the Company has recorded a reversal of prior impairment loss in the three month period ended June 30, 2021 of $306 thousand, representing the increased carrying amount factoring in the depletion of the historical cost if the impairment had not previously been recognized.

The forecasted commodity prices used in the impairment test at June 30, 2021 were as follows:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
WTI Crude Oil (USD$/bbl)	65.31	66.30	62.42	63.67	64.95	66.25	67.57	68.92	70.30	71.71	+2%/yr

For purposes of the impairment test, the benchmark commodity prices forecast above are adjusted to reflect varied delivery points and quality differentials in the products delivered.

Finance Expenses

	Three months ended December 31,		Year ended December 31,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Interest on bank debt	**11**	10	**65**	80
Stamping fees on bank debt	**-**	-	**-**	58
Finance fees	**3**	4	**3**	7
Other interest expense	**-**	4	**-**	10
Cash finance expenses	**14**	18	**68**	155
Accretion of decommissioning liabilities	**7**	5	**42**	34
Accretion of long-term accounts payable and accrued liabilities	**19**	-	**82**	-
Other expense	**-**	1	**1**	5
Non-cash finance expense	**26**	6	**125**	39
Total finance expenses	**40**	24	**193**	194

Interest on bank debt and stamping fees relates to interest and fees paid to Highwood's bankers to service the bank debt and bank overdraft. Interest on bank debt and stamping fees for the year ended December 31, 2022 compared to 2021 decreased due to the decrease in amount drawn. At December 31, 2022 the Company was undrawn on its bank facility and was minimally drawn for the entire quarter.

Accretion of decommissioning liabilities for the year ended December 31, 2022 is consistent with the comparative period of 2021.

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 an expense of $51 thousand and $711 thousand for the three months and year ended December 31, 2022, respectively, compared to an recovery of $155 thousand and $468 thousand for the three months and year ended December 31, 2021, respectively. The expense in the year ended December 31, 2022 was mainly due to positive income reducing non-capital losses available to the Company and dispositions the Company has made during 2022, resulting in gains and reductions in tax pools.

Income (Loss)

The Company generated income of $62 thousand and $2.25 million for the three months and year ended December 31, 2022, respectively, compared to losses of $951 thousand and $2.32 million for the comparative three months and year ended December 31, 2021, respectively. Income for the year ended December 31, 2022 was mainly a result of an increase in commodity prices generating higher netbacks, along with dispositions that resulted in significant gains. Loss for the three months and year ended December 31, 2021 was mainly a result of realized loss of commodity contracts of $508 thousand and $2.57 million.

	Three months ended December 31,		**Year ended December 31,**	
	2022	2021	**2022**	2021
	$	$	**$**	$
Income (Loss)	**62**	(951)	**2,246**	(2,321)
Per share, basic	**0.01**	(0.16)	**0.37**	(0.39)
Per share, diluted	**0.01**	(0.16)	**0.37**	(0.39)

Selected Annual Information

Years ended December 31,	2022	2021	2020
	$	$	$
Oil and natural gas sales	4,438	7,389	20,719
Royalties	(1,446)	(1,048)	(1,870)
Transportation pipeline revenues	3,255	3,523	3,740
Processing and other income	435	194	1,023
Realized loss on commodity contracts	(64)	(2,574)	2,473
Unrealized gain on commodity contracts	-	109	3,333
Total revenue, net of royalties and commodity contracts	6,618	7,593	29,418
Cash flows from (used in) operating activities	722	(2,157)	9,114
Income (loss)	2,246	(2,321)	(9,284)
Per share, basic	0.37	(0.39)	(1.54)
Per share, diluted	0.37	(0.39)	(1.54)
Total assets	16,841	15,883	65,650
Total non-current financial liabilities [1]	666	700	49

[1] Excludes decommissioning liabilities and deferred tax liabilities.

Supplemental Information

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

Cash Flows from (used in) Operating Activities

	Three Months Ended,		Year Ended,	
	December 31, 2022	December 31, 2021	**December 31, 2022**	December 31, 2021
Cash provided by (and used in)				
Operating activities				
Income (loss) for the period	**$ 62**	$ (951)	**$ 2,246**	$ (2,321)
Items not involving cash:				
Unrealized gain on commodity contracts	**-**	(475)	**-**	(109)
Exploration and evaluation expenditures	**(25)**	587	**185**	714
Depletion and depreciation expense	**279**	342	**502**	877
Impairment loss, net of reversal	**-**	-	**-**	46
Finance expense	**26**	6	**125**	39
Deferred tax expense (recovery)	**51**	(155)	**711**	(468)
Stock-based compensation	**127**	108	**458**	551
(Gain)/loss on disposal of assets	**(56)**	-	**(2,470)**	2
Gain on debt modification	**-**	-	**(122)**	-
Cash abandonment expenditures	**(31)**	(86)	**(116)**	(89)
Change in long-term accounts payable and accrued liabilities	**(125)**	683	**24**	683
Change in non-cash working capital	**270**	(1,018)	**(821)**	(2,082)
Net cash from (used in) operating activities	**578**	(959)	**722**	(2,157)

Selected Quarterly Information

Three months ended	Dec. 31, 2022	Sept. 30, 2022	June 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021	June 30, 2021	Mar. 31, 2021
Financial ($000s, except per share amounts and share numbers)								
Oil sales	1,027	1,135	1,125	1,151	966	721	544	5,158
Transportation pipeline revenues	769	842	847	797	718	905	931	969
Income (loss)	62	241	1,487	456	(951)	150	(930)	(590)
Capital expenditures	362	1,526	19	138	3	79	74	117
Total assets *(end of quarter)*	16,841	16,718	16,274	15,746	15,883	16,389	18,005	22,105
Working capital surplus (deficit), excluding commodity contracts and bank debt *(end of quarter)*	411	531	1,512	340	(486)	(1,588)	(1,672)	1,200
Shareholders' equity *(end of quarter)*	10,697	10,508	10,128	8,529	7,993	8,836	8,570	9,416
Weighted-average basic shares outstanding *(000s)*	6,015	6,014	6,014	6,014	6,014	6,014	6,014	6,014
Operations								
Production								
Crude oil *(bbls/d)*	119	116	97	120	125	108	94	1,008
Total *(boe/d)*	119	116	97	120	125	108	94	1,008
Average realized prices *($)*								
Crude oil *(per bbl)*	93.44	106.27	127.37	106.92	84.06	72.26	63.30	56.87

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 December 31,		Year ended December 31,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Mining operations				
Mineral permits	**-**	4	**-**	199
Upstream operations				
Land	**229**	-	**403**	17
Recompletions	**-**	-	**-**	22
Equipment and facilities	**-**	-	**24**	-
Midstream Operations				
Production equipment and facilities	**133**	2	**436**	35
Corporate				
Office space and furniture	**-**	-	**1,182**	-
	362	6	**2,045**	273

At December 31, 2022, the Company had E&E assets of $951 thousand (December 31, 2021 – $738 thousand). This amount is primarily made up of undeveloped land and metallic minerals permits. During the fourth quarter of 2022 the Company acquired Viking Kinsella lands for $173 thousand which the Company plans to drill one well within the next 18 months and another within the next 24 months.

At December 31, 2022, the Company had gross property and equipment of $20.99 million (December 31, 2021 - $19.64 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 and the office space and furniture the Company purchased in the third quarter of 2022.

During the year ended December 31, 2022, the Company closed a purchase and sale agreement with a private Company (the "Purchaser") to dispose of 50% of the Company's 100% working interest in the 14-05 Terminal, for total cash consideration of $2.25 million. The terminal had a carrying value of $nil at the time of the disposition. As a result of the disposition, the Company recognized a gain on disposal of asset of $2.24 million during the year ended December 31, 2022. Transaction costs totalling $12 thousand have reduced the gain recorded. The 14-05 Terminal is part of the Company's midstream operating segment. During the second half of 2022, the Company spent net capital of $232 thousand to reactive the terminal and it was commissioned at the beginning of the fourth quarter of 2022.

During the year ended December 31, 2022, the Company acquired new office space for proceeds of $1.15 million and furniture for total proceeds of $31 thousand, resulting in total additions of $1.18 million to Corporate plant, property and equipment.

During the year period ended December 31, 2022, the Company disposed of several assets with a total net book value of $nil for gross proceeds of $230 thousand. As a result of the disposition, the Company recognized a gain on disposal of assets of $230 thousand during the year ended December 31, 2022.

PART 5 – CAPITALIZATION

Share Capital and Option Activity

As at December 31, 2022, the Company had 6,037,298 common shares, 175,868 options and 60,600 RSU's outstanding.

As at the date of this MD&A, the Company had 6,037,298 common shares, 157,000 options and 60,600 RSU's outstanding.

On May 30, 2022, the Company granted 26,500 options at an exercise price of $11.00 per option. The options granted vest 1/3 on each of December 31, 2022, December 31, 2023 and December 31, 2024 and have a five year term.

On May 30, 2022, the Company granted 26,500 RSU's exercisable for nominal consideration. The RSU's granted vest 1/3 on each of December 31, 2022, December 31, 2023 and December 31, 2024 and expire on December 31, 2025.

During the year ended December 31, 2022, 23,334 RSU's were exercised at $10.86/share on the date of exercise.

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 December 31, 2022, the Company had a working capital surplus of $411 thousand. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows and through deleveraging transactions. The Company also has a credit facility to facilitate the management of liquidity risk. At December 31, 2022, $2.92 million was available under the credit facility. Subsequent to December 31, 2022, the maturity date on the operating facility was extended to October 31, 2023 and the operating facility was reduced to $1.0 million. At December 31, 2022, the Company has classified $666 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 had a $2.92 million operating facility at December 31, 2022. 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 matures October 31, 2023, at which time it is subject to customary reviews by the lenders.

The borrowing base can be determined at the sole discretion of the lender and any amount outstanding under the bank facility in excess of a newly established borrowing base must be repaid in full within 30 days. The 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 is required to maintain an adjusted working capital ratio of not less than 1.0:1.0, and such ratio is to be tested at the end of each fiscal quarter. Current ratio is defined as the ratio of (i) current assets, excluding financial derivatives to (ii) current liabilities, excluding financial derivatives, any amounts drawn under the bank facility and any current liabilities related to lease contracts. At December 31, 2022, the Company's current ratio was 2.40:1.0 (December 31, 2021 – 1.17:1:00). The Company is required to maintain a net debt to cash flow ratio no greater than 2.0:1.0 for each quarter. At December 31, 2022 the Company's net debt to cash flow ratio is 0.16:1.0 (December 31, 2021 – 1.57:1.0). 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 December 31, 2022 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 bank facility has financial and hedging covenants as outlined in note 10 of the financial statements. The Company was in compliance with all its financial covenants at December 31, 2022. As planned production rates and forward prices for crude oil being traded in the futures market, management is forecasting it will be in compliance with financial covenants for the next 12 months. The Company forecasts that it can continue to meet its obligations including interest payments, general & administrative expenses and operating expenses within its internally generated cash flows. However, there are no assurances that the lender will maintain the borrowing base at the current level, which may result in a borrowing base shortfall. If the Company cannot generate sufficient funds to meet the borrowing base shortfall it would constitute an event of default under the loan agreement and the bank could demand immediate repayment of the outstanding loan amount.

The Company has reduced accounts payable and accrued liabilities by approximately $487 thousand during the year ended December 31, 2022 from December 31, 2021. The main reason for the decrease is due to cash flows generated by the Company's assets and cash flows generated on disposals. At December 31, 2022, the Company has classified $666 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 facilities through use of the revolving debt, coordinating payment and revenue cycles each month and secure cash flows. The Company will also seek secondary financing to meet obligations if terms are considered to be economic by the Company. 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 extremely volatile. During 2022 commodity prices continued to remained strong and remain significantly higher than 2021 prices, mainly driven by the fallout from the invasion of Ukraine by Russia. Prices were down slightly during the fourth quarter of 2022 compared to the third quarter of 2022 mainly due to demand concerns. Subsequent to December 31, 2022, prices have remained steady.

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

During the year ended December 31, 2022, the Company incurred charges of $89 thousand (2021 –$237 thousand) from a company with common officers and directors, Tidewater Midstream and Infrastructure Ltd., for management fees, office space, subscriptions and supplies of which $39 thousand (2021 – $116 thousand) was recorded as an increase in general and administrative expense and $50 thousand (2021 – $121 thousand) was recorded as a reduction to lease liabilities. As at December 31, 2022, $nil (December 31, 2021 - $1 thousand) is included within accounts receivable and $nil (December 31, 2021 - $58 thousand) is included within accounts payable with respect to these charges.

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.

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, 2022, 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

TREVOR WONG-CHOR
Partner, DLA Piper (Canada) LLP
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

HEAD OFFICE
Suite 202, 221 10th Avenue SE
Calgary, Alberta
T2G 0V9

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

AUDITORS
RSM Canada LLP
Calgary, Alberta

BANKERS
National 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