MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023

April 15, 2024

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 15, 2024, 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, 2023 and 2022 and the annual information form for the year ended December 31, 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 consolidated financial statements. In the preparation of the consolidated 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 consolidated financial statements have been prepared using policies and procedures established by management and fairly reflect Highwood’s consolidated 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.

Corporate Highlights and Outlook

- Achieved record corporate production of 4,035 boe/d in the fourth quarter of 2023. As a result of an effective capital program in the fourth quarter of 2023 and early 2024, first quarter 2024 production is expected to average approximately 4,900 boe/d and current production is greater than 6,500 boe/d.

- During the first quarter of 2024, the Company executed a successful capital program of approximately $24 million, which included five additional wells, all of which were brought onstream in the first quarter. These five wells consisted of three fracture stimulated wells at Wilson Creek and two additional multi-lateral open hole wells, one in Brazeau and one in the Mannville horizon in eastern Alberta.

- The Company is encouraged by the initial results on the capital program executed to date in 2024, particularly with respect to the Wilson Creek wells, 100/12-05-043-05 (the "**12-05 well**"), 100/13-05-043-05 (the "**13-05 well**"), and the Brazeau well 02/08-33-047-14W5 (the "**08-33 well**"). Trailing and current production for the five wells drilled in the first quarter of 2024 are summarized below:

			Average Rate Since Online				Current Rate				
Well	Spud	Rig Release	BOPD	BNGLD	MCFD	BOED	BOPD	BNGLD	MCFD	BOED	Days Online
Brazeau 08-33 well	2024-02-18	2024-03-03	310	6	127	337	393	8	180	431	30
Wilson 13-05 well	2024-01-24	2024-02-02	262	15	172	306	611	41	470	731	13
Wilson 12-05 well	2024-02-03	2024-02-15	241	14	159	282	518	41	467	637	12
Wilson 16-33 well	2024-01-06	2024-01-13	187	37	314	276	242	55	472	376	54
Viking 14-29 well	2024-02-06	2024-02-20	28	0	0	28	37	0	0	36	24

(1) The test results are not necessarily indicative of long-term performance or of ultimate recovery.

- The five wells had associated average cycles times of 45 days and delivered capital efficiencies of less than \$20,000 boe/d, an improvement of more than 20% versus the previous forecast.

- Significant intrinsic value recognized in Year-End 2023 Reserves. Realized before-tax net present value, after debt, of booked reserves[1]:
  - PDP BTNPV10 of \$218.9 million representing NAV \$8.06/share and \$7.93/share fully diluted.
    - Associated RLI of 10.8 years and delivered a recycle ratio of 2.34
  - 1P BTNPV10 of \$463.6 million representing NAV \$24.25/share and \$21.07/share fully diluted.
    - Associated RLI of 15.2 years and recycle ratio of 2.9
  - 2P BTNPV10 of \$746.9 million representing NAV \$43.00/share and \$36.28/share fully diluted.
    - Associated RLI of 21.8 years and recycle ratio of 3.6

- At December 31, 2023, Highwood had over \$300 million in tax pools, including more than \$100 million in non-capital losses. Highwood does not anticipate being cash taxable for approximately three years.

- Highwood reiterates its 2024 production guidance of approximately 5,200 boe/d. Representing year-over-year growth of approximately 25%. Forecast capital expenditures are estimated to be approximately \$40–45 million. Further, the Company expects to reduce Net Debt by approximately 25%, reducing Net Debt / 2024E EBITDA to under 0.8x by the end of 2024.[1][2]. The Company will continue to evaluate our capital program, market conditions and associated guidance over the next 30 days.

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\$78.00/bbl; WCS Diff: US\$14.00/bbl; MSW Diff: US\$4.00/bbl; AECO: C\$1.90/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.

Operational Update

With the continued strong commodity prices in the fourth quarter and into 2024, the Company focused primarily on the execution of its capital program. Highwood achieved record corporate production in the fourth quarter of 2023 of 4,035 boe/d. Highwood is also pleased to announce that first quarter 2024 production is expected to average approximately 4,900 boe/d and current production is greater than 6,500 boe/d. During the first quarter of 2024, the Company executed a successful \$24 million capital program which included five additional wells all of which were brought onstream in the first quarter. These five wells consisted of three fracture stimulated wells at Wilson Creek and two additional multi-lateral open hole wells, one in Brazeau and one in the Mannville horizon in eastern Alberta.

In the first quarter of 2024, the Company spud five additional new wells. Three of these wells will infill the western side of the Wilson Creek asset, the 103/16-33-042-05W5 (the "**16-33 well**"), the 12-05 well and the 13-05 well. Further, the Company drilled two additional multi-lateral open hole wells, one in Brazeau, the 8-33 well and one in the Mannville horizon in eastern Alberta, 100/14-29-048-08W4 (the "**14-29 well**"). The Company is pleased with the early results of the program. The 14-29 well has been online for approximately three weeks and is currently producing slightly below the projected type curve.

The Company will continue to review and assess opportunities which are accretive to the Company as Highwood seeks to grow this segment of its operations. The Company will also assess land offerings in strategic areas where the Company sees significant growth opportunities.

Outlook

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 by the end of 2024. The Company will continue to evaluate our capital program, market conditions and associated guidance over the next 30 days.

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. At December 31, 2023, Highwood had over $300 million in tax pools, including more than $100 million in non-capital losses. Highwood does not anticipate being cash taxable for approximately three years.

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, with a longer-term goal to provide significant return of capital to shareholders.

Highwood is continuing to evaluate its undeveloped lands for drilling opportunities and is planning to continue its active capital program while commodity prices remain strong.

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 by the end of 2024.

- ✓ **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 December 31,		Year ended December 31,	
	2023	2022	**2023**	2022
Financial				
Petroleum and natural gas sales	**$ 23,633**	$ 1,027	**$ 41,212**	$ 4,438
Transportation pipeline revenues	**757**	769	**2,867**	3,255
Total revenues, net of royalties and commodity contracts (1)	**29,918**	1,827	**41,038**	6,618
Income	**47,785**	62	**46,144**	2,246
Funds flow from (used in) operations(6)	**7,813**	433	**13,873**	1,519
Adjusted EBITDA(6)	**10,261**	322	**17,667**	1,608
Capital expenditures	**14,737**	362	**18,767**	2,045
Proceeds from dispositions	**11**	60	**258**	2,473
Working capital surplus (deficit) *(end of period)* (2)			**(13,867)**	430
Net debt (3)			**97,051**	(236)
Shareholders' equity *(end of period)*			**104,199**	10,697
Shares outstanding *(end of period)*			**15,114**	6,037
Options outstanding *(end of period)*			**222**	176
Warrants outstanding *(end of period)*			**3,150**	-
Restricted share units outstanding *(end of period)*			**120**	61
Deferred share units outstanding *(end of period)*			**20**	-
Weighted-average basic shares outstanding			**9,723**	6,014
Weighted-average diluted shares outstanding			**9,875**	6,088
Operations (4)				
Production				
Crude oil *(bbls/d)*	**2,306**	119	**978**	113
NGL *(boe/d)*	**526**	-	**210**	-
Natural gas *(mcf/d)*	**7,215**	-	**2,969**	-
Total *(boe/d)*	**4,035**	119	**1,682**	113
Benchmark prices				
Crude oil				
Canadian Light *(Cdn$/bbl)*	**96.30**	108.00	**99.59**	119.76
Natural gas				
AECO *(Cdn$/mcf)*	**2.40**	5.68	**2.46**	5.35
Average realized prices (5)				
Crude oil *(Cdn$/bbl)*	**95.07**	93.44	**99.44**	107.54
NGL *(Cdn$/boe)*	**36.22**	-	**37.52**	-
Natural gas *(Cdn$/mcf)*	**2.57**	-	**2.63**	-
Operating netback *(per boe)* (6)	**32.42**	40.40	**35.54**	46.28

(2) Includes unrealized gain and losses on commodity contracts
(3) Working capital surplus/deficit excludes commodity contract asset of $5.5 million (December 31, 2022 - $nil) and current portion of decommissioning liability of $1.6 million (December 31, 2022 - $nil) and current portion of lease liabilities of $178 thousand (December 31, 2022 - $19 thousand)
(4) 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
(5) For a description of the boe conversion ratio, see "Basis of Barrel of Oil Equivalent".
(6) Before hedging.
(7) See "Non-GAAP and other Specified Financial measures".

PART 3 – OPERATING RESULTS

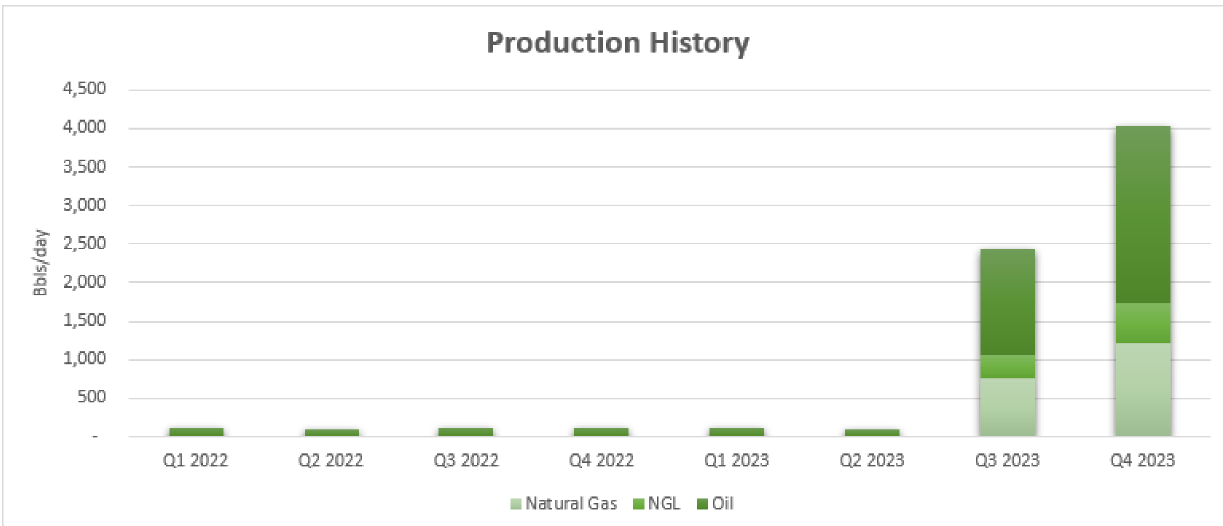
Basis of Presentation

The operating results of the three months and year ended December 31, 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 December 31, 2023	2022	Year ended December 31, 2023	2022
Daily average volume				
Crude oil *(bbls/d)*	**2,306**	119	**978**	113
NGL (boe/d)	**526**	-	**210**	-
Natural gas (mcf/d)	**7,215**	-	**2,969**	-
Total sales *(boe/d)*	**4,035**	119	**1,682**	113
Total sales *(boe)*	**371,238**	10,991	**614,043**	41,270
Production weighting				
Crude oil and NGL	**70%**	100%	**71%**	100%

Production significantly increased in the fourth quarter of 2023 and for the year ended December 31, 2023 with the closing of the Acquisitions. During the fourth quarter of 2023, 13-09 well and 14-09 well were drilled and brought online which added additional production. Highwood anticipates growth in overall production and crude oil and NGL weighting as it executes a capital plan of ~$40 million in 2024. Highwood re-iterates production growth of approximately 25% to approximately 5,200boe/d in 2024.

Petroleum and Natural Gas Sales

	Three months ended December 31, 2023	2022	Year ended December 31, 2023	2022
Crude oil	**$ 20,171**	$ 1,027	**$ 35,496**	$ 4,438
NGL	**1,754**	-	**2,869**	-
Natural gas	**1,708**	-	**2,847**	-
Total	**$ 23,633**	$ 1,027	**$ 41,212**	$ 4,438
Average realized prices before hedging				
Crude oil *($/bbl)*	**95.07**	93.44	**99.44**	107.54
NGL *($/boe)*	**36.22**	-	**37.52**	-
Natural gas *($/mcf)*	**2.57**	-	**2.63**	-
Equivalent *($/boe)*	**63.66**	93.44	**67.12**	107.54

Petroleum and natural gas revenue increased significantly in three months and year ended ending December 31, 2023 compared to the same period in 2022, driven primarily by the Acquisitions that closed on August 3, 2023.

For the fourth quarter of 2023 compared to the fourth 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 is benchmarked to AECO pricing. Overall the realized pricing in the fourth quarter of 2023 is in line with expectations after accounting for the Acquisitions.

Western Canadian commodity prices continued to be volatile over 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 December 31, 2023	2022	Year ended December 31, 2023	2022
	$	$	**$**	$
Royalties	**6,173**	354	**10,520**	1,446
Per boe	**16.63**	32.21	**17.13**	35.04
Percentage of sales	**26.1%**	34.59%	**25.5%**	32.6%

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 months and year ended December 31, 2023 to the comparative period in 2022 is driven by the Acquisitions and associated production.

The Company expects a decrease in its royalty as a percentage of sales in 2024, mainly due to the Drilling and Completion Cost Allowance ("C*") in Alberta. The Company has a planned capital program of 2024 of approximately $40 million and the increased production from the new wells will initially have lower royalty rates attributed to C*. The royalty rate is sensitive to commodity prices, and as such, a change in commodity pricing will impact the actual rate.

Operating and Transportation Expense

	Three months ended December 31, 2023	2022	Year ended December 31, 2023	2022
	$	$	**$**	$
Total operating and transportation	**5,647**	540	**10,242**	2,140
Per boe	**15.21**	49.13	**16.68**	51.85
Less midstream and other operating[1]	***(224)***	*(311)*	***(1,369)***	*(1,058)*
Upstream operating and transportation	**5,423**	229	**8,873**	1,082
Per boe	**14.61**	20.83	**14.45**	26.22

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, and 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 and increasing operational efficiencies, such as using infrastructure the Company owns rather than through third parties for assets that were acquired within close proximity.

Netback Analysis

	Three months ended December 31, 2023	2022	Year ended December 31, 2023	2022
	$/boe	$/boe	**$/boe**	$/boe
Average sales price	**63.66**	93.44	**67.12**	107.54
Royalties	**(16.63)**	(32.21)	**(17.13)**	(35.04)
Upstream Operating and transportation	**(14.61)**	(20.83)	**(14.45)**	(26.22)
Operating netback	**32.42**	40.40	**35.54**	46.28

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 months and year ended December 31, 2023 compared to the three months and year ended December 31, 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.

Transportation Pipeline Revenues

The Company owns an interest in the 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 9,995m3/month of throughput for the fourth quarter of 2023. Volumes were down slightly in the fourth quarter compared to the fourth quarter of 2023 primarily due to producers turnarounds that temporarily reduced their 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 fourth quarter of 2023 and expected capital activity in 2024 by producers in the area.

	Three months ended December 31,		**Year ended December 31,**	
	2023	2022	**2023**	2022
Transportation pipeline revenues	**$ 664**	$ 769	**$ 2,867**	$ 3,255

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. Subsequent to December 31, 2023, the tariff was increased to $24.50/M3 of crude oil.

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.

As the metallic minerals segment entails early-stage exploration projects, there was no revenue and minimal expenses associated with the segment for the three months and year ended December 31, 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 December 31, 2023:

Swaps:

Product	Notional Volume	Term	Contract Price (CAD/GJ)	Index
Natural Gas	4,600GJ/day	Sept 1, 2023 to March 31, 2025	$ 3.00 - $3.05	AECO
Natural Gas	2,000GJ/day	April 1, 2025 to March 31, 2027	$ 3.15 - $3.25	AECO

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
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 and comprehensive income.

	Three months ended December 31,		**Year ended December 31,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Realized gain (loss) on commodity contracts	**236**	-	**(118)**	(64)
Unrealized gain on commodity contracts	**9,845**	-	**6,024**	-

Subsequent to December 31, 2023, the Company entered into the following commodity contracts:

Swaps:

Product	Notional Volume	Term	Contract Price (CAD/GJ)	Index
Natural Gas	2,500GJ/day	April 1, 2025 to December 31, 2026	$ 3.13 - $ 3.40	AECO
Natural Gas	1,000GJ/day	January 1, 2027 to March 31, 2027	$ 3.40	AECO

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
Crude Oil	200bbls/day	April 8, 2024 to June 30, 2024	$ 115.50	WTI - NYMEX
Crude Oil	200bbls/day	March 1, 2024 to December 31, 2024	$ 100.25 - $ 101.05	WTI - NYMEX
Crude Oil	100bbls/day	April 1, 2024 to September 30, 2025	$ 95.75	WTI - NYMEX
Crude Oil	100bbls/day	October 1, 2024 to September 30, 2025	$ 95.50	WTI - NYMEX
Crude Oil	100bbls/day	November 1, 2024 to July 31, 2025	$ 95.00	WTI - NYMEX
Crude Oil	400bbls/day	April 1, 2025 to September 30, 2025	$ 94.00 - $ 95.00	WTI - NYMEX
Crude Oil	200bbls/day	May 1, 2025 to October 31, 2025	$ 102.50 - $ 104.00	WTI - NYMEX
Crude Oil	300bbls/day	May 1, 2025 to December 31, 2025	$ 105.00 - $106.00	WTI - NYMEX

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
MSW Differential	100bbls/day	March 1, 2024 to December 31, 2024	$ 5.05	ICE-1A-SW
MSW Differential	100bbls/day	April 1, 2024 to September 30, 2025	$ 4.75	ICE-1A-SW
MSW Differential	500bbls/day	April 1, 2024 to December 31, 2024	$ 3.78 - $4.70	ICE-1A-SW
MSW Differential	200bbls/day	June 1, 2024 to December 31, 2025	$ 3.35	ICE-1A-SW

General and Administrative (G&A)

	Three months ended December 31,		**Year ended December 31,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Gross G&A	**2,054**	808	**5,668**	3,028
Capitalized G&A	**(170)**	-	**(270)**	-
G&A	**1,884**	808	**5,398**	3,028
G&A	**5.07**	73.51	**8.79**	73.37

G&A expenses increased during the three months and year ended December 31, 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 increased office space costs as additional space was required after the Acquisitions and inflationary pressures which have increased costs of goods and services.

Share-based Compensation

	Three months ended December 31,		**Year ended December 31,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Share-based compensation	**190**	127	**420**	458

The increase in share-based compensation for the three month period ended December 31, 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 December 31, 2023 the Company had 222,000 options and 120,000 RSU's and 20,000 DSU's outstanding.

As at the date of this MD&A the Company had 436,000 options and 220,400 RSU's and 40,000 DSU's outstanding.

Depletion and Depreciation ("D&D")

	Three months ended December 31,		Year ended December 31,	
	2023	2022	**2023**	2022
	$	$	**$**	$
D&D	**4,042**	279	**7,309**	502
Per boe	**10.89**	25.38	**11.90**	12.16

The increase in D&D for the three months and year ended December 31, 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 $157 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 December 31, 2023, the Company conducted an assessment of impairment indicators for the Company's CGUs. In performing the review, management determined that the continued strength in commodity pricing from December 31, 2022 and/or from the date of the acquisitions and the impact this has on the economic performance of the Company's CGUs resulted in no indicators of impairment at December 31, 2023.

Finance Expenses

	Three months ended December 31,		Year ended December 31,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Interest on bank debt	**2,208**	14	**3,594**	65
Interest on promissory note	**459**	-	**748**	-
Interest income	**(22)**	-	**(44)**	-
Cash finance expenses	**2,645**	14	**4,298**	65
Accretion of decommissioning liabilities	**264**	7	**597**	42
Amortization of debt issue costs	**164**	-	**215**	-
Other expense	**29**	19	**79**	86
Non-cash finance expense	**457**	26	**891**	128
Total finance expenses	**3,102**	40	**5,189**	193

Interest on bank debt relates to interest and fees paid to Highwood's bankers to service the bank debt. Interest on bank debt for the three months and year ended December 31, 2023, compared to the three months and year ended December 31, 2022, increased mainly due to the increase in 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 months and year ended December 31, 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 Tax Expense

Deferred tax was an expense of $3.7 million and $3.3 million, respectively, for the three months and year ended December 31, 2023, compared to an expense of $51 thousand and $711 thousand, respectively, for the three months and year ended December 31, 2022. The expense for the three months and year ended December 31, 2023 is mainly due to the utilization of tax pools, including non-capital losses, to offset taxable income.

Income

The Company generated income of $47.8 million and $46.1 million, respectively, for the three months and year ended December 31, 2023, compared to income of $62 thousand and $2.2 million, respectively, for the comparative three months and year ended December 31, 2022. Income generated for the three months and year ended December 31, 2023 was driven by a combination of generating income from the properties acquired on the Acquisitions and a non-cash gain on acquisition of $37.9 million associated with the Acquisitions. Income for the three months and year ended December 31, 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 December 31,		**Year ended December 31,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Income	**47,785**	62	**46,144**	2,246
Per weighted average share, basic	**3.19**	0.01	**4.75**	0.37
Per weighted average share, diluted	**3.16**	0.01	**4.67**	0.37

Selected Annual Information

Years ended December 31,	2023	2022	2021
Financial	$	$	$
Oil and natural gas sales	41,212	4,438	7,389
Royalties	(10,520)	(1,446)	(1,048)
Transportation pipeline revenues	2,867	3,255	3,523
Processing and other income	1,734	435	194
Realized loss on commodity contracts	(118)	(64)	(2,574)
Unrealized gain on commodity contracts	5,863	-	109
Total revenue, net of royalties and commodity contracts	41,038	6,618	7,593
Cash flows from (used in) operating activities	16,376	722	(2,157)
Income (loss)	46,144	2,246	(2,321)
Per share, basic	4.75	0.37	(0.39)
Per share, diluted	4.67	0.37	(0.39)
Total assets	257,079	16,841	15,883
Total non-current financial liabilities [1]	83,795	666	700

[1] Excludes decommissioning liabilities and deferred tax liabilities.

Production			
Crude Oil (bbls/d)	978	113	311
NGL (boe/d)	210	-	-
Natural Gas (mcf/d)	2,969	-	-
Oil Equivalent (boe/d)	1,682	113	311
Oil Equivalent (boe)	614,043	41,270	120,777

Selected Quarterly Information

Three months ended	Dec. 31, 2023	Sept. 30, 2023	June 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sept. 30, 2022	June 30, 2022	Mar. 31, 2022
Financial ($000s, except per share amounts and share numbers)								
Petroleum and natural gas sales	23,633	15,894	728	958	1,027	1,135	1,125	1,151
Transportation pipeline revenues	664	774	681	748	769	842	847	797
Income (loss)	47,785	(1,014)	(600)	(27)	62	241	1,487	456
Capital expenditures	14,737	2,917	428	685	362	1,526	19	138
Total assets *(end of quarter)*	257,079	198,416	20,530	17,904	16,841	16,718	16,274	15,746
Working capital surplus (deficit)[1] *(end of quarter)*	(13,867)	(2,669)	(1,206)	197	411	554	1,512	340
Shareholders' equity *(end of quarter)*	104,199	56,676	10,190	10,729	10,697	10,508	10,128	8,529
Weighted-average basic shares outstanding *(000s)*	14,971	11,728	6,037	6,037	6,014	6,014	6,014	6,014
Operations								
Production								
Crude oil *(bbls/d)*	2,306	1,359	95	123	119	116	97	120
NGL *(boe/d)*	526	305	-	-	-	-	-	-
Natural Gas *(mcf/d)*	7,215	4,785	-	-	-	-	-	-
Total *(boe/d)*	4,035	2,425	95	123	119	116	97	120
Average realized prices *($)*								
Crude oil *(per bbl)*	95.07	109.07	83.93	86.88	93.44	106.27	127.37	106.92
NGL *(per boe))*	36.22	39.75	-	-	-	-	-	-
Natural Gas *(per mcf)*	2.57	2.59	-	-	-	-	-	-

1) Working capital surplus/deficit excludes commodity contract asset of $5.5 million (December 31, 2022 - $nil) and current portion of decommissioning liability of $1.6 million (December 31, 2022 - $nil) and current portion of lease liabilities of $178 thousand (December 31, 2022 - $19 thousand)

Inherent to the nature of the energy industry, fluctuations in Highwood's quarterly petroleum and natural gas sales, transportation pipeline revenues, 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 December 31,		Year ended December 31,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Land	**317**	229	**1,364**	403
Seismic and other pre-drilling costs	**149**	-	**157**	-
Production equipment and facilities	**981**	133	**1,667**	460
Drilling and completions	**13,224**	-	**15,513**	-
Corporate	**66**	-	**66**	1,182
	14,737	362	**18,767**	2,045

At December 31, 2023, the Company had E&E assets of $1.5 million (December 31, 2022 – $951 thousand). This amount is primarily made up of undeveloped land. The additions to E&E assets during the year ended December 31, 2023 primarily related to undeveloped lands in Brazeau and Viking Kinsella.

At December 31, 2023, the Company had gross property and equipment of $204.6 million (December 31, 2022 - $21.0 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 2023, upon closing of the Acquisitions, the Company added $139.5 million of gross property and equipment. The Company incurred capital expenditures of $14.7 million in the fourth quarter mainly related drilling activity.

The determination of the fair value of assets acquired and liabilities assumed was previously reported based on the information available at the previous reporting period. As of the date of the audited annual consolidated financial statements, the allocation of the purchase price with respect to the assets acquired and liabilities assumed has been updated to reflect new information, whereby management has now completed a full and detailed valuation of the oil and natural gas properties acquired. As a result, property, plant and equipment increased $14.3 million, decommissioning liability decreased $2.7 million and deferred tax asset increased $17.9 million. In addition, the Company has recognized a bargain gain as the total net assets acquired are greater than the consideration paid related to the significant tax pools acquired.

The determination of the fair value of assets acquired and liabilities assumed was previously reported based on the information available at the previous reporting period. As of the date of the audited annual consolidated financial statements, the allocation of the purchase price with respect to the assets acquired and liabilities assumed has been updated to reflect new information, whereby management has now completed a full and detailed valuation of the oil and natural gas properties acquired. As a result, property, plant and equipment increased $341 thousand, decommissioning liability decreased $862 thousand and deferred tax asset increased $2.0 million. In addition, the Company has recognized a bargain gain as the total net assets acquired are greater than the consideration paid related to the significant tax pools acquired.

PART 5 – CAPITALIZATION

Share Capital and Share Based Compensation Activity

As at December 31, 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 178,650 common shares held in trust related to the PSU plan.

As at date of this MD&A, the Company had 15,147,922 common shares, 3,150,000 warrants, 436,089 options, 220,404 RSUs, 40,000 DSUs outstanding and 246,310 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.

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:

	December 31, 2023	December 31, 2022
Adjusted current assets[1]	**$ 23,951**	$ 2,820
Adjusted current liabilities[1]	**(37,818)**	(2,390)
Adjusted working capital	**(13,867)**	430
Bank debt	**(72,464)**	-
Promissory note – long term portion	**(10,500)**	-
Other long-term obligations	**(220)**	(666)
Total net debt	**$ (97,051)**	$ (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 December 31,		**Year Ended December 31,**	
	2023	2022	**2023**	2022
Cash flow from operating activities	**$ 7,066**	$ 578	**$ 16,376**	$ 722
Change in non-cash working capital	**550**	(270)	**(3,007)**	821
Net interest[1]	**2,645**	14	**4,298**	65
Adjusted EBITDA	**10,261**	322	**17,667**	1,608
Decommissioning expenditures	**1,244**	31	**1,364**	116
Net interest[1]	**(2,645)**	(14)	**(4,298)**	(65)
Adjusted funds flow	**8,860**	339	**14,733**	1,659
Net capital expenditures	**14,737**	302	**(18,509)**	428
Free funds flow	**$ (5,877)**	$ 37	**$ (3,776)**	$ 2,087

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 Amended and Restated Credit Agreement (the "ARCA").

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 of 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 December 31, 2023, the Company had a working capital deficit of $8.5 million, excluding current portion of decommissioning obligations. 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 ARCA. At December 31, 2023, the Company has classified $220 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 December 31, 2023, the Company has classified $10.5 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.

On August 3, 2023, the Company entered into a senior secured extendible revolving credit facilities in the aggregate principal amount of up to $100 million (the "New Credit Facilities") with a syndicate of banks. On December 19, 2023, the Company executed an Amended and Restated Credit Agreement (the "ARCA"). The ARCA is comprised of senior secured extendible revolving credit facilities in the aggregate principal amount of up to $100 million with a syndicate of banks. The ARCA is comprised of revolving credit facilities consisting of a $10 million operating facility and a syndicated loan facility to a maximum of $90 million. The ARCA allows the Company to enter into Letters of Credit up to a maximum of $20 million.

The ARCA has 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 ARCA is 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 ARCA 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 ARCA is 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 May 31, 2024. The ARCA include operating restrictions on the Company, including (among other things), limitations on acquisitions, distributions, dividends and hedging arrangements. The ARCA includes industry standard reporting requirements and financial covenants. With respect to financial covenants, the Company is required to maintain a minimum Liability Management Rating, as defined by the Alberta Energy Regulator, 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 December 31, 2023. At December 31, 2023, the Company is in compliance with this requirement. At December 31, 2023, $73,500,000 was drawn on The ARCA.

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 from the execution of the New Credit Facility, 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). In addition, the Company shall not enter into commodity contracts where the volume exceeds (a) 75% of expected production for the 12 months following the month in which the agreement is entered into (b) 65% of expected production for the 13 through to 24 months following the month in which the agreement is entered into (c) 50% of expected production for the 25 through 36 months following the month which the agreement is entered into and (d) 30% of the expected production for the 37 to 48 months which the agreement is entered into.

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 $18.3 million and $30.7 million during the three months and year period ending December 31, 2023 from September 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 and also due to the capital expenditures incurred during the fourth quarter of

2023. At December 31, 2023, the Company has classified $220 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 as an officer of the counterparty is on the Board of Directors of the Company, Garrett Ulmer. 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 ARCA. All obligations under the Promissory Note are fully and unconditionally personally guaranteed by Joel MacLeod, the Executive Chairman of the Company, in an amount limited to $3 million. The Promissory Note is secured by a Security Interest on the assets of the Company, subordinated to the ARCA.

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 December 31, 2023:

	Total	**<1 year**	**1-3 years**	**4-5 years**
Accounts payable and accrued liabilities	**$ 33,790**	$ 33,570	$ 220	$ -
Bank debt	**72,464**	-	72,464	-
Promissory note	**14,748**	4,248	10,500	-
Lease liabilities	**789**	178	349	262
Total financial liabilities	**$ 121,791**	$ 37,996	$ 83,533	$ 262

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 significant. 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 Corporate Secretary of the Company, DLA Piper (Canada) LLP. During the year ended December 31, 2023, the legal expenses incurred were $1.5 million (year ended December 31, 2022 - $111 thousand). For the year ended December 31, 2023, $354 thousand were recorded as transaction costs, $823 thousand were recorded as unit issuance costs, $145 thousand were recorded as debt issuance costs and $162 thousand were recorded as general and administrative expenses. As at December 31, 2023, $47 thousand (December 31, 2022 - $51 thousand) is included within accounts payable with respect to these charges.

The Company received engineering consultant service from a company controlled by a director of the Company, Becam Consulting Ltd. During the year ended December 31, 2023, costs of $67 thousand were recorded as additions to property, plant and equipment. As at December 31, 2023, $25 thousand (December 31, 2022 - $nil) is included within accounts payable with respect to these charges.

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 – OTHER

Changes in Accounting Pronouncements

New accounting standards

Amendments to IAS 12 Income Taxes

Effective January 1, 2023, amendments to IAS 12 require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The adoption of this amendment did not have a material impact on the consolidated financial statements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Effective January 1, 2023, amendments to IAS 8 replace the definition of a change in accounting estimate with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. The adoption of this amendment did not have a material impact on the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements

Effective January 1, 2023, amendments to IAS 1 require that a company disclose its material accounting policies rather than its significant accounting policies and explain how a company can identify material accounting policies. The adoption of this amendment did not have a material impact on the consolidated financial statements.

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, 2023 annual consolidated financial statements as well as included in the Company's annual MD&A as at December 31, 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 "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 ARCA 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.

"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 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 6,000 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. 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 16, 2024 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**"). 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, 2024 (the "**2023 Reserves Report**").

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

"BT" means before tax.

"RLI" means reserves life index and is calculated as total company interest reserves divided by annual production, for the year indicated.

"NPV10" represents the anticipated net present value of the future net revenue discounted at a rate of 10% associated with the reserves associated with the acquired assets.

"F&D" is calculated as the sum of field capital plus the change in FDC for the period divided by the change in reserves that are characterized as development for the period is calculated as the sum of field capital plus the change in FDC for the period divided by the change in total reserves, other than from production, for the period. Finding and development costs take into account reserves revisions during the year on a per boe basis. The aggregate of the exploration and development costs incurred in the financial year and changes during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year. Management uses F&D costs as a measure of capital efficiency for organic reserves development.

"NAV per fully diluted share" is calculated using the respective net present values of PDP, 1P and 2P reserves, before tax and discounted at 10% plus internally valued undeveloped land & seismic and proceeds from warrants and stock options, less net debt, and divided by fully diluted outstanding shares. Management used NAV per share as a measure of the relative change of Highwood's net asset value over its outstanding common shares over a period of time.

"Netback" is used to evaluate potential operating performance.. Netback is calculated as follows: (Revenue – Royalties - Operating Expenses).

"Recycle Ratio" is measured by dividing the operating netback for the applicable period by F&D cost per boe for the year. The recycle ratio compares netback from existing reserves to the cost of finding new reserves and may not accurately indicate the investment success unless the replacement reserves are of equivalent quality as the produced 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.

"Proved" or "1P" reserves are those 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. Reported reserves should target at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves under a specific set of economic conditions.

"Proved plus Probable" or "2P" reserves are those 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 plus probable reserves. Reported reserves should target at least a 50 percent probability that the probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves under a specific set of economic conditions.

Standards Issued but Not Yet In Effect

Future changes in accounting standards

The Company has reviewed amended accounting pronouncements that have been issued but are not yet effective and determined that the following pronouncements may impact the Company but are not expected to have a material impact on its consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements

Effective January 1, 2024, amendments to IAS 1 clarify how condition with which an entity must comply within twelve months after the reporting period affect the classification of a liability with covenants as current or non-current and related disclosure.

IFRS Sustainability Disclosure Standard
Emissions, carbon and other regulations impacting climate and climate-related matter are constantly evolving. With respect to the environmental, social and governance (“ESG”) and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The impact and cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified.

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.

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

RYAN PETKAU
Vice President, Operations

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

Alberta Treasury Branch
Calgary, Alberta

LEGAL COUNSEL
DLA Piper (Canada) LLP
Calgary, Alberta

EVALUATION ENGINEERS
GLJ Ltd.
Calgary, Alberta

Apex Geoscience Ltd.
Edmonton, Alberta