HIGHWOOD
ASSET MANAGEMENT LTD.

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2022

May 27, 2022

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 May 27, 2022, 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, 2021 and 2020 and the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2022. 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 industrial metals and minerals, oil production & midstream energy operations. Future growth focuses will include clean energy transition subsectors with a focus on ESG.

Q1 2022 Corporate Highlights and Outlook

- Within the industrial metals and minerals business unit, the Company engaged the third-party resource evaluator to compile a 43-101 Lithium from Brine Resource Assessment specific to Drumheller, Alberta, which was effectively dated February 21, 2022. The initial inferred Lithium-Brine resource at Drumheller has been calculated within 3 separate resource domains, the combined total of which is estimated to contain 18.14 million metric tonnes lithium carbonate equivalent (“LCE”).

- Within the upstream oil & gas production & processing business unit, the Company delivered average production of 120 bbl/d of oil in the first quarter of 2021. Current net production from Highwood is approximately 110 bbl/d of oil, with one well in Deer Mountain currently shut in due to road bans. Highwood is working to bring this well back on production as soon as possible.

- During the first quarter of 2022, the Company sold a non-core property for gross proceeds of $107 thousand that had a cost basis of $nil.

- Subsequent to March 31, 2022, the Company disposed of 50% of its 100% working interest in the Company’s 14-05 terminal to an arm’s length private Canadian midstream company (the “Purchaser”) for gross proceeds of $2.25 million. The Company and the Purchaser will each own 50% of the terminal with the Company remaining as operator. The funds will be used to reactivate the terminal which the Company anticipates bringing back on line in the third quarter of 2022.

- Corporately, net debt at March 31, 2022 was $1.67 million, subsequent to quarter-end, with cash flows form operations and dispositions the Company has reduced net debt and is in a working capital surplus position.

2022 First Quarter Operations

With the strong improvement in commodity prices and increased interest in Canadian energy, the Company's focus in the first 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.

Highwood's focus in the first quarter of 2022 was also to evaluate the sizeable position of industrial mines and minerals permits throughout Western Canada for purposes of creating a 43-101 inferred resource assessment. During the first quarter of 2022, Highwood filed a NI 43-101 Technical Report Lithium Resource Estimate for its Drumheller Property, resulting in a combined total resource estimate of 18.14Mt LCE.

The Company also focused time and resources in Q1 2022 on extraction technologies for Lithium from Brine.

Outlook

As of today, the Company is undrawn 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 2022 and beyond. The Company is currently engaged in several encouraging dialogues regarding various acquisitions and partnership opportunities. Global optimism around mitigating COVID-19 and restoring previous economic and industrial activities has created positive market and investment sentiment both within and outside oil & gas space.

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 M&A market but will remain disciplined to pursue only those opportunities that are accretive with low to moderate liability profiles.

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 industrial metals and 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

(formerly Highwood Oil Company Ltd.)
(all tabular amounts expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2022	2021
Financial		
Oil and natural gas sales	**$ 1,151**	$ 5,158
Transportation pipeline revenues	**797**	969
Total revenues, net of royalties and commodity contracts (1)	**1,618**	4,175
Income (Loss)	**456**	(778)
Funds flow from operations(6)	**875**	726
Capital expenditures	**138**	117
Proceeds from dispositions	**107**	1,981
Working capital surplus (deficit), excluding current bank debt *(end of period)* (2)	**363**	(361)
Net debt (3)	**(1,694)**	(544)
Shareholders' equity *(end of period)*	**8,529**	9,228
Shares outstanding *(end of period)*	**6,014**	6,014
Options outstanding *(end of period)*	**149**	167
Restricted share units outstanding *(end of period)*	**133**	149
Weighted-average basic shares outstanding	**6,014**	6,014
Operations (4)		
Production		
Crude oil *(bbls/d)*	**120**	1,008
Total *(boe/d)*	**120**	1,008
Benchmark prices		
Crude oil		
Canadian Light *(Cdn$/bbl)*	**110.92**	64.67
Average realized prices (5)		
Crude oil *(per bbl)*	**106.92**	56.87
Upstream Operating netback *(per boe)* (6)	**49.33**	18.64

(1) Includes unrealized gain and losses on commodity contracts
(2) Working capital surplus/deficit includes commodity contract asset of $23 thousand, (March 31, 2021 – commodity contract liability of $1.32 million). Excluding this, the working capital surplus would be $340 thousand (March 31, 2021 –surplus of $959 thousand). Working capital surplus/deficit also excludes bank debt of $1.08 million (March 31, 2021 - $1.5 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:

- Mining and 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

Mining and Minerals

The mining and 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 mining and minerals segment entails early-stage exploration projects, there was no revenue and minimal expenses associated with the segment for the first quarter ended March 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.

Capital of $21 thousand was deployed within the mining and minerals segment for the first quarter ended March 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.

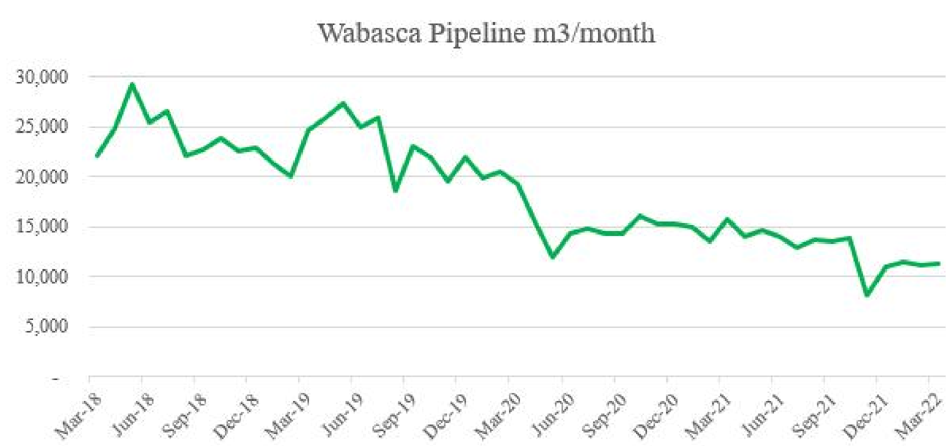
Midstream Operations

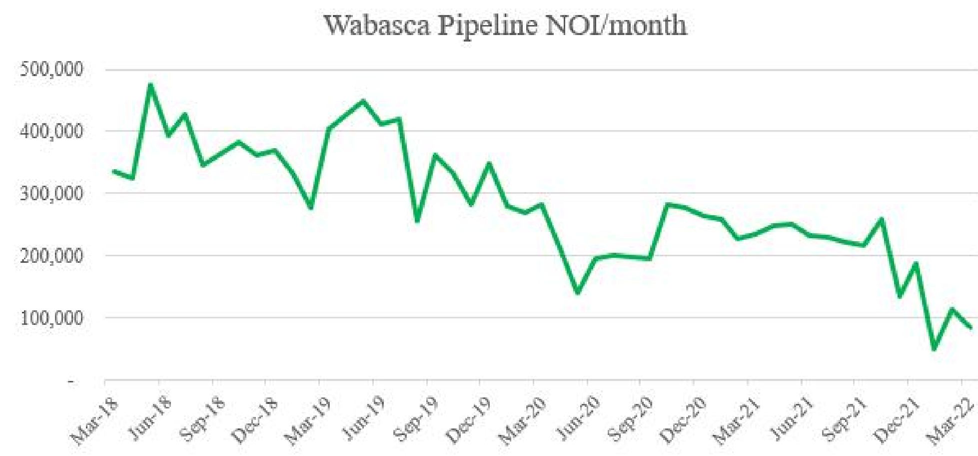
The midstream segment consists of the Company's Wabasca River Sales Pipeline. Transportation pipeline revenues relate to the Wabasca River Pipeline System that the Company has a 100% working interest in. Revenues are generated from a tariff charged to vendors who transport product on the pipeline.

The Company's crude transmission line averaged 11,306 m3/month of throughput for the first quarter of 2022. The Company continued working through issues with off specification product being provided by producers in the first quarter of 2022 which resulted in a temporary reduction in volumes as producers were temporarily shut in. The Company has been working with producers and anticipates volumes continuing to return in the second quarter of 2022. The Company continues to anticipate additional volumes coming onto the pipeline as area producers continue to revive capital activity in the currently strong price environment.

Revenue for the three month period ended March 31, 2022 was $797 thousand, compared to $969 thousand for the three month period ended March 31, 2021.

Throughout the first quarter of 2022, the Company continued to promote strong cost control on the Wabasca River Pipeline and saw $247 thousand of total expenses compared to $246 thousand for the same three month period ended March 31, 2021. The first quarter of 2022 saw some additional expenditures incurred relating to maintenance that is not expected to be incurred for the remainder of 2022.



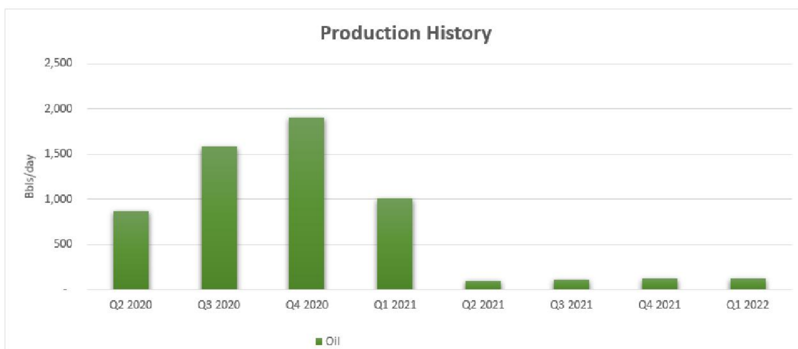


Upstream Operations

The upstream segment includes oil production and associated processing and other income associated with the upstream assets located in the Western Canada Sedimentary Basin. The operations primarily involve the production of oil, processing facilities and other third-party charges for operating upstream assets.

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.

Production



	Three months ended March 31,	
	2022	2021
Daily average volume		
Crude oil *(bbls/d)*	**120**	1,008
Total sales *(boe/d)*	**120**	1,008
Total sales *(boe)*	**10,766**	90,713
Production weighting		
Crude oil	**100%**	100%

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

Sales

Oil sales

	Three months ended March 31, 2022	2021
Crude oil	**1,151**	5,158
Total	**1,151**	5,158
Average realized prices before hedging		
Crude oil *($/bbl)*	**106.92**	56.87
Combined average *($/boe)*	**106.92**	56.87

The decrease in oil sales from the comparative period 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 $56.87/bbl in first quarter of 2021 to $106.92/bbl in the first quarter of 2022, an increase of 88%. The first quarter of 2022 has seen commodity prices rise dramatically, 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 March 31, 2022	2021
	$	$
Royalties	**353**	364
Per boe	**32.79**	4.01
Percentage of oil sales	**30.7%**	7.1%

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 first quarter of 2022 compared to the first quarter of 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 is also due to the increase in Crown royalty rates with the improvement in commodity prices.

Upstream Operating and Transportation Expense

	Three months ended March 31,	
	2022	2021
	$	$
Operating and transportation	**267**	3,104
Per boe	**24.80**	34.22

Overall, operating and transportation expense for the upstream segment have decreased significantly for the three month period ended March 31, 2022 compared to the respective comparative periods due to the disposition the Company made in early 2021. Operating and transportation expense per boe decreased in 2022 compared to the prior periods, as the Company has been actively working to reduce costs, mainly by conducting abandonment and reclamation work on the non-producing properties.

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

Netback Analysis

	Three months ended March 31,	
	2022	2021
	$/boe	$/boe
Average sales price	**106.92**	56.87
Royalties	**(32.79)**	(4.01)
Upstream Operating and transportation	**(24.80)**	(34.22)
Operating netback	**49.33**	18.64

The main reason for the increase in operating netback for the three months ended March 31, 2022 compared to three months ended March 31, 2021 is due to the improvement in average realized sales price. The average realized price for the three months ended March 31, 2022 was approximately 88% higher than the comparative period of 2021. Management continues to look at ways to maximize the operating netback.

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.

During the first quarter of 2021, oil prices started to recover from the historic low prices that were realized in the first half of 2020. On January 30, 2020, the World Health Organization declared the Coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020 declared COVID-19 a pandemic. As a result, there had been a significant demand shock worldwide which created downward pressure on oil prices. With the emergence of vaccines in late 2020 and early 2021, demand has slowly started to recover, which along with the gradual resumption of supply has resulted in increasing prices. The trend in increasing commodity prices has continued during the first quarter of 2022, driven mainly by the impact of Russia's invasion of Ukraine along with other worldwide factors.

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 March 31, 2022 Highwood had the following commodity contracts in place:

CAD Buy Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	50bbls/day	April 1, 2022 to September 30, 2022	$ 121.95	WTI - NYMEX

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

	Three months ended March 31,	
	2022	2021
	$	$
Realized loss on commodity contracts	**-**	(649)
Unrealized gain (loss) on commodity contracts	**23**	(1,208)

During the first quarter of 2022, the Company did not have any commodity contracts in place. The realized loss on commodity contracts during the three months ended March 31, 2021 was due to oil commodity prices being higher than the contract price.

General and Administrative (G&A)

	Three months ended March 31,	
	2022	2021
	$	$
G&A	**565**	1,257

G&A expenses decreased significantly for the three months ended March 31, 2022 compared to the respective periods in 2020 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 March 31,	
	2022	2021
	$	$
Stock-based compensation	**80**	243

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

At March 31, 2022 the Company had 149,000 options and 133,000 RSU's outstanding.

Depletion and Depreciation ("D&D")

	Three months ended March 31,	
	2022	2021
	$	$
D&D	**94**	205
Per boe	**8.73**	2.26

The decrease in D&D for the three months ended March 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 period.

Impairment

Impairment of property, plant and equipment

2022

The Company assesses many factors when determining if an impairment test should be performed. At March 31, 2022, the Company conducted an assessment of impairment indicators for the Company's CGUs. In performing the review, management determined that the continued 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 March 31, 2022.

Finance Expenses

	Three months ended March 31,	
	2022	2021
	$	$
Interest on bank debt	**20**	23
Stamping fees on bank debt	**-**	26
Cash finance expenses	**20**	49
Accretion of decommissioning liabilities	**12**	11
Accretion of long-term accounts payable and accrued liabilities	**21**	-
Other expense	**1**	2
Non-cash finance expenses	**34**	13
Total finance expenses	**54**	62

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 three months ended March 31, 2022 compared to 2021 decreased due to the decrease in amount drawn and decrease in interest rates in 2022. At March 31, 2022 the Company was drawn $1.1 million on its bank facility, excluding bank overdraft of $158 thousand, compared to a draw of $1.5 million at March 31, 2021.

Accretion for the three months ended March 31, 2022 is consistent with the comparative period of 2021.

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. For the fiscal quarters ending June 30, 2021, September 30, 2021 and December 31, 2021, the impact of realized gains or losses on commodity contracts is excluded from the calculation of net income for the purposes of the net debt to cash flow covenant.

Deferred Income Tax

Deferred income tax was an expense of $63 thousand for the three months ended March 31, 2022, compared to a recovery of $166 thousand for the three months ended March 31, 2021. The expense in the first quarter of 2022 was mainly due to positive income reducing non-capital losses available to the Company.

Income (Loss)

The Company generated income of $456 thousand for the three months ended March 31, 2022, compared to a loss of $778 thousand for the comparative three months ended March 31, 2021. Income for the three months ended March 31, 2022 was mainly a result of a increase in commodity prices generating higher netbacks. Loss for the three months ended March 31, 2021 was mainly a result of realized loss of commodity contracts of $649 thousand.

	Three months ended March 31,	
	2022	2021
	$	$
Income (Loss)	**456**	(778)
Per share, basic	**0.08**	(0.13)
Per share, diluted	**0.07**	(0.13)

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	
	March 31, 2022	March 31, 2021
Cash provided by (and used in)		
Operating activities		
Income (loss) for the period	**$ 456**	$ (778)
Non-cash items:		
Unrealized (gain) loss on commodity contracts	**(23)**	1,208
Depletion and depreciation expense	**94**	205
Finance expense	**34**	13
Deferred tax expense (recovery)	**63**	(166)
Stock-based compensation	**80**	243
(Gain) loss on disposal of assets	**(107)**	2
Gain on debt modification	**(122)**	-
Cash abandonment expenditures	**-**	(1)
Changes in long-term accounts payable and accrued liabilities	**400**	-
Change in non-cash working capital	**(896)**	(2,058)
	$ (21)	$ (1,332)

Selected Quarterly Information

Three months ended	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021	June 30, 2021	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020
Financial ($000s, except per share amounts and share numbers)								
Oil sales	1,151	966	721	544	5,158	6,685	5,752	1,737
Transportation pipeline revenues	797	718	905	931	969	1,021	790	769
Income (loss)	456	(951)	150	(930)	(590)	18,348	(20,074)	(3,837)
Capital expenditures	138	3	79	74	117	228	67	223
Total assets *(end of quarter)*	15,746	15,883	16,389	18,005	22,105	65,650	87,108	103,782
Working capital surplus (deficit), excluding commodity contracts and bank debt *(end of quarter)*	340	(486)	(1,588)	(1,672)	1,200	5,868	(6,028)	(9,089)
Shareholders' equity *(end of quarter)*	8,529	7,993	8,836	8,570	9,416	9,763	(8,977)	10,860
Weighted-average basic shares outstanding *(000s)*	6,014	6,014	6,014	6,014	6,014	6,014	6,014	6,014
Operations								
Production								
Crude oil *(bbls/d)*	120	125	108	94	1,008	1,908	1,585	870
Total *(boe/d)*	120	125	108	94	1,008	1,908	1,585	870
Average realized prices *($)*								
Crude oil *(per bbl)*	106.92	84.06	72.26	63.30	56.87	38.08	39.44	21.94

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 March 31, 2022	2021
	$	$
Mining operations		
Mineral permits	**-**	92
Upstream operations		
Land	**-**	-
Seismic and other pre-drilling costs	**-**	-
Production equipment and facilities	**138**	-
Drilling and completions	**-**	-
Recompletions	**-**	22
Midstream Operations		
Production equipment and facilities	**-**	-
	138	114

At March 31, 2022, the Company had E&E assets of $738 thousand (December 31, 2021 – $738 thousand). This amount is primarily made up of undeveloped land and industrial metals and minerals permit.

At March 31, 2022, the Company had gross property and equipment of $19.62 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 and the transportation pipelines the Company acquired in 2018.

During the period ended March 31, 2022, the Company disposed of assets with a net book value of $nil for gross proceeds of $107 thousand. As a result of the disposition, the Company recognized a gain on disposal of assets of $107 thousand during the three months ended March 31, 2022.

PART 5 – CAPITALIZATION

Share Capital and Option Activity

As at March 31, 2022 the Company had 6,014,000 common shares, 149,000 options and 133,000 RSU's outstanding.

As at the date of this MD&A the Company had 6,014,000 common shares, 175,500 options and 159,500 RSU's outstanding.

Subsequent to March 31, 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.

Subsequent to March 31, 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.

Liquidity, Capital Resources and Going Concern

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 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 March 31, 2022, the Company had a working capital surplus of $363 thousand, excluding bank debt. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows and through deleveraging transactions. The Company also has a credit facility to facilitate the management of liquidity risk. At March 31, 2021, approximately $767 thousand was available under the credit facility. The operating facility of $2 million matures December 31, 2022, and is due on demand, therefore the credit facility has been classified as current. At March 31, 2021, the Company has classified $982 thousand of accounts payable and accrued liabilities as long term as the vendor has agreed to a payment plan that extends beyond 12 months. During the three month period ended March 31, 2022, the Company agreed to a modified payment plan.

The Company has a $2.0 million operating facility. 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 December 31, 2022, 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 March 31, 2022, the Company's current ratio was 1.50:1.0 (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. As March 31, 2022 the Company's net debt to cash flow ratio is 1.95:1.0 (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. For the fiscal quarters ending June 30, 2021, September 30, 2021 and December 31, 2021, the impact of realized gains or losses on commodity contracts is excluded from the calculation of net income for the purposes of the net debt to cash flow covenant. 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 6 of the financial statements. The Company was in compliance with all its financial covenants at March 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 $467 thousand during the three months ended March 31, 2022 from December 31, 2021. The main reason for the decrease is due to cash flows generated by the Company's assets. At March 31, 2022, the Company has classified $982 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The oil and natural gas commodity price environment has been extremely volatile and had been suppressed by historical standards in the past few years and was significantly worse with the COVID-19 outbreak and the resulting global oversupply of oil until early in 2021 when prices began to recover. During the first quarter of 2022 and subsequent to March 31, 2022, commodity prices have continued to increase, mainly driven by the fallout from the invasion of Ukraine by Russia.

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

In October 2020, the Government of Canada announced a national carbon pricing regime in response to the Paris Agreement ratified by Canada earlier that month. Under the Carbon Strategy, a benchmark carbon pricing program will be applied, pricing carbon emissions at a minimum of $10 per tonne in 2020, rising by $10 per tonne each Year to $50 per tonne by 2022. The Carbon Strategy also proposes a federal backstop in the event that jurisdictions fail to meet the benchmark. The Government of Alberta established a carbon pricing system referenced in the federal announcement; therefore, in the short term, the national price on carbon will likely have little additional impact to Highwood beyond that imposed by the Government of Alberta.

Related-Party Transactions

During the three month period ended March 31, 2022, the Company incurred charges of $59 thousand (three months period ended March 31, 2021 – $86 thousand) from a company with common directors, Tidewater Midstream and Infrastructure Ltd., for management fees, office space, subscriptions and supplies of which $29 thousand (three months period ended March 31, 2021 - $56 thousand), was recorded as an increase in general and administrative expense and $30 thousand (three months period ended March 31, 2021 - $30 thousand), was recorded as interest expense and a reduction to lease liabilities. As at March 31, 2022, $nil thousand (December 31, 2021 - $1 thousand) is included within accounts receivable and $9 thousand (December 31, 2021 - $58 thousand) is included within accounts payable with respect to these charges.

Hedging

The Company historically practiced an active hedging program, with the objective to provide a measure of downside protection for its oil and natural gas sales and cash flow from operations, while maximizing exposure to potential commodity pricing upside.

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, 2021 annual consolidated financial statements as well as included in the Company's annual MD&A as at December 31, 2021. 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.

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.

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

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

GREG MACDONALD
President & Chief Executive Officer

CHRIS ALLCHORNE
Interim Chief Financial Officer

KELLY McDONALD
Vice President, Exploration

HEAD OFFICE
Suite 900, 222 – 3rd Avenue S.W.
Calgary, Alberta
T2P 0B4

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

AUDITORS
RSM Alberta 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