



HIGHWOOD

ASSET MANAGEMENT LTD.

**CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2025**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Highwood Asset Management Ltd.

Opinion

We have audited the consolidated financial statements of Highwood Asset Management Ltd. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2025 and 2024, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2025 and 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2025. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of the impact of estimated proved and probable oil and natural gas reserves on property, plant and equipment ("PP&E") and deferred tax asset ("DTA").

Refer to consolidated financial statements Note 2(d) - Basis of preparation – management's significant accounting judgments, estimates and assumptions; Note 3(c)(ii) and (iii) - Oil and natural gas interests – Depletion and depreciation and Impairment; Note 8 - Property, plant, and equipment; and Note 13 – Taxes.

The Company used estimated proved and probable oil and natural gas reserves to deplete its oil and natural gas properties, to assess for indicators of impairment or impairment reversal on each of the Company's cash generating units ("CGU's) and perform impairment testing thereon, and to determine if it is probable that future taxable profits will be sufficient to utilize the underlying deductible temporary differences and unused tax losses associated with the DTA.

The Company depletes its oil and natural gas properties, excluding transportation pipelines, using the unit of production method by reference to the ratio of production in the period to the related proved and probable oil and natural gas reserves, taking into account estimated future development costs necessary to bring those reserves into production. Depletion expense was \$23,916,000 for the year ended December 31, 2025.



The Company assesses at each reporting date whether there is an indication that PP&E within the Company's CGUs may be impaired or that historical impairment may be reversed. The estimate of proved and probable oil and natural gas reserves is significant to the Company's assessment. The Company identified indicators of impairment for its property, plant and equipment as at December 31, 2025 and therefore performed an impairment test. No impairment loss was recognized. The Company has \$255,406,000 of oil and natural gas properties at December 31, 2025. The determination of recoverable amount of a CGU involves numerous estimates, including cash flows associated with estimated proved and probable oil and gas reserves of the CGU and the discount rate. Changes in the reserve report assumptions related to these estimates and the discount rate could have had a significant impact on the estimate of the recoverable amount of the CGUs.

The estimates of the Company's proved and probable oil and natural gas reserves require management to make significant assumptions to derive estimates of future cashflows related to production volumes, commodity prices, timing and amount of future development costs, operating and transportation costs and royalty costs. In addition, the recognition of DTA of \$17,917,000 is based on management's estimate of future taxable profits against which these assets can be utilized. This requires assumptions regarding future profitability and is therefore inherently subjective. The Company engages an independent third-party reserve evaluator to estimate proved and probable oil and natural gas reserves.

We identified the assessment of the impact of estimated proved and probable oil and natural gas reserves on PP&E and DTA as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of proved and probable oil and natural gas reserves and related cashflows. Additionally, the measurement of the DTA requires the use of professionals with specialized skills and knowledge in tax.

How our audit addressed the Key Audit Matter

Our approach to addressing the matter involved the following procedures, among others:

- We evaluated the competence, capabilities and objectivity of the independent third-party reserve evaluator engaged by the Company. The procedures performed also included evaluation of the methods and assumptions used by independent third-party reserve evaluator, and tests of the data used by independent third-party reserve evaluator.
- We evaluated the reasonableness of the significant assumptions used by management in developing the estimates of the Company's proved and probable oil and natural gas reserves, including:
 - o Comparing current and past performance of the Company to management's assumptions regarding expected future production volumes, and the timing and amount of future development costs. We evaluated whether these assumptions were consistent with evidence obtained in other areas of the audit.
 - o Comparing current and past performance of the Company to management's assumptions regarding the expected future operating and transportation costs and royalty costs. We evaluated whether these assumptions were consistent with evidence obtained in other areas of the audit.
 - o Comparing future commodity prices used by the Company's independent third-party reserve evaluator in the preparation of the reserve estimates to forecasts published by other independent third-party reserve evaluators.
 - o Evaluating changes in conditions and events affecting the Company in arriving at their significant assumptions.
- We recalculated the unit of production volumes used to determine depletion expense.
- We recalculated the carrying values of the Company's CGU's used in the impairment test and compared the result to the Company's estimate of the carrying values.
- We involved valuation professionals with specialized skills and knowledge who assisted in evaluating the reasonableness of the Company's discount rates by comparing inputs to the discount rates against publicly available market data for comparable assets and entities. The valuation professionals also assisted in testing the estimate of recoverable amount of the Company's CGUs by applying the discount rates to the CGUs' reserves cashflows and comparing the result to the Company's estimate of the recoverable amount.

- We involved income tax professionals with specialized skills and knowledge who assisted in evaluating the application of relevant tax laws and regulations and the appropriateness of the Company's estimate of future taxable profits used in the measurement of the DTA.

Other Information

Management is responsible for the other information. The other information comprises the the information included in Management's Discussion and Analysis (MD&A).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the information included in MD&A prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purpose of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Christin Giebelhaus.

RSM Canada LLP

Chartered Professional Accountants
March 16, 2026
Calgary, Alberta

Highwood Asset Management Ltd. Consolidated Statement of Financial Position

(all tabular amounts expressed in thousands of Canadian dollars)

	Note	As at December 31, 2025	As at December 31, 2024
Assets			
Current assets			
Cash	20(a)	\$ 4,564	\$ 1,811
Accounts receivable	5, 20(a)	17,094	26,631
Deposits and prepaid expenses	6	2,833	2,379
Assets held for sale	8	-	1,107
Commodity contracts	20(b)	11,996	1,469
Total current assets		36,487	33,397
Reclamation deposits		18	18
Acquisition deposit		-	476
Commodity contracts	20(b)	507	615
Exploration and evaluation assets	7	11,528	8,044
Property, plant and equipment	8	255,406	222,501
Right-of-use assets	9	171	456
Deferred tax asset	13	17,917	26,619
Total assets		\$ 322,034	\$ 292,126
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 35,915	\$ 39,041
Commodity contracts	20(b)	-	443
Current portion of decommissioning liabilities	12	2,100	1,600
Current portion of lease liabilities	9	211	317
Total current liabilities		38,226	41,401
Bank debt	10	105,299	90,719
Commodity contracts	20(b)	-	244
Lease liabilities	9	-	213
Decommissioning liabilities	12	24,446	27,462
Total liabilities		167,971	160,039
Shareholders' Equity			
Share capital	14	58,281	60,850
Warrant reserve	15	1,062	1,062
Share-based compensation reserve	18	7,715	4,877
Retained earnings		87,005	65,298
Total equity		154,063	132,087
Total liabilities and shareholders' equity		\$ 322,034	\$ 292,126

Subsequent events (note 20(b), 23), Commitments (note 9)

See the accompanying Notes to the Consolidated Financial Statements

Approved by the Board: "Signed", Stephen J Holyoake, Director

"Signed", Ray Kwan, Director

Highwood Asset Management Ltd.
Consolidated Statement of Income and Comprehensive Income

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

	Note	Year ended December 31, 2025	Year ended December 31, 2024
Revenue			
Petroleum and natural gas sales	16	\$ 98,169	\$ 135,794
Royalties		(20,623)	(29,815)
Transportation pipeline revenues		2,172	2,670
Royalty and other income		3,219	2,917
		82,937	111,566
Realized gain on commodity contracts	20(b)	7,810	2,409
Unrealized gain (loss) on commodity contracts	20(b)	11,106	(4,477)
Total revenue, net of royalties and commodity contracts		101,853	109,498
Expenses			
Operating and transportation		27,846	26,088
General and administrative	8	7,354	6,767
Exploration and evaluation expenditures	7	87	155
Depletion and depreciation	8, 12	24,331	25,923
Share-based compensation	8, 18	2,325	1,987
Total expenses		61,943	60,920
Operating income		39,910	48,578
Other expenses			
Transaction costs		10	146
Finance expenses	17	9,491	11,889
Total other expenses		9,501	12,035
Income before taxes		30,409	36,543
Deferred tax expense	13	8,702	8,593
Income and comprehensive income for the year		\$ 21,707	\$ 27,950
Income per share:			
Basic	14(c)	\$ 1.50	\$ 1.88
Diluted		\$ 1.46	\$ 1.85

See the accompanying Notes to the Consolidated Financial Statements

Highwood Asset Management Ltd.
Consolidated Statement of Changes in Shareholders' Equity

(all tabular amounts expressed in thousands of Canadian dollars)

	Note	Share capital, net of treasury shares	Warrant reserve	Share-based compensation reserve	Retained Earnings	Total equity
Balance, January 1, 2024		\$ 62,440	\$ 1,062	\$ 3,349	\$ 37,348	\$ 104,199
Exercise of restricted share units	18	211	-	(211)	-	-
Purchase of shares held in trust	14, 18	(1,801)	-	-	-	(1,801)
Share-based compensation	8, 18 (d)	-	-	1,739	-	1,739
Income and comprehensive income for the year		-	-	-	27,950	27,950
Balance, December 31, 2024		\$ 60,850	\$ 1,062	\$ 4,877	\$ 65,298	\$ 132,087
Balance, January 1, 2025		\$ 60,850	\$ 1,062	\$ 4,877	\$ 65,298	\$ 132,087
Exercise of restricted share units	18	102	-	(102)	-	-
Purchase of shares held in trust	14, 18	(2,671)	-	-	-	(2,671)
Share-based compensation	8, 18 (d)	-	-	2,940	-	2,940
Income and comprehensive income for the year		-	-	-	21,707	21,707
Balance, December 31, 2025		\$ 58,281	\$ 1,062	\$ 7,715	\$ 87,005	\$ 154,063

See the accompanying Notes to the Consolidated Financial Statements

Highwood Asset Management Ltd.
Consolidated Statement of Cash Flows

(all tabular amounts expressed in thousands of Canadian dollars)

	Note	Year Ended December 31,	
		2025	2024
Cash provided by (and used in)			
Operating activities			
Income for the year		\$ 21,707	\$ 27,950
Items not involving cash:			
Unrealized loss (gain) on commodity contracts	20(b)	(11,106)	4,477
Exploration and evaluation expenditures	7	87	155
Depletion and depreciation expense	8, 12	24,331	25,923
Finance expense	17	2,082	1,879
Deferred tax expense	13	8,702	8,593
Share-based compensation	18	2,062	1,739
Other		66	(224)
Cash abandonment expenditures	12	(2,054)	(1,616)
Change in non-cash working capital	19	10,520	(3,099)
<i>Net cash from operating activities</i>		56,397	65,777
Financing activities			
Payments of lease obligations	9	(358)	(239)
Repayment of promissory note	11	-	(14,000)
Bank debt	10	14,054	18,447
Debt issue costs	10	(518)	(1,074)
Purchase of shares held in trust	14, 18	(2,671)	(1,801)
Changes in non-cash working capital	19	(12)	(921)
<i>Net cash from financing activities</i>		10,495	412
Investing activities			
Additions to property, plant and equipment	8	(56,428)	(53,952)
Additions to exploration and evaluation assets	7	(4,204)	(12,499)
Acquisition deposits		-	(476)
Proceeds on disposition of assets held for sale	8	1,054	-
Transaction costs		(10)	(146)
Lease additions	9	-	(32)
Change in non-cash working capital	19	(4,551)	438
<i>Net cash used in investing activities</i>		(64,139)	(66,667)
Change in cash		\$ 2,753	\$ (478)
Cash, beginning of year		1,811	2,289
Cash, end of year		\$ 4,564	\$ 1,811
Supplemental cash flow information	19		

See the accompanying Notes to the Consolidated Financial Statements

Highwood Asset Management Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

1. REPORTING ENTITY

Highwood Asset Management Ltd. (the “Company”) is a public company engaged in the ownership & oversight of various operations with a primary focus on oil and gas production, with operations also in midstream energy and land holdings of metallic minerals. The Company incorporated in Alberta, Canada on August 24, 2012. The Company conducts its operations in Western Canada, primarily in the province of Alberta. The Company’s principal place of business is located at 1100, 250 – 2nd Street SW, Calgary, Alberta, T2P 0C1.

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

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 16, 2026.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except as otherwise stated and allowed for in accordance with IFRS Accounting Standards. The methods used to measure fair values are described in note 4, note 18 related to share-based compensation and note 20(b) related to commodity contracts.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s and its subsidiary’s functional currency.

(d) Management’s significant accounting judgments, estimates and assumptions

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of income and expenses during the reporting period. Estimates are more difficult to determine and the range of potential outcomes can be wider, in periods of higher volatility and uncertainty. The impact of various events such as the Middle East conflicts and the United States interventions in Venezuela along with the imposition of United States tariffs on Canadian imported goods and their impact on energy markets and general market conditions have created a higher level of volatility and uncertainty. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant estimates, judgments and assumptions made by management in the preparation of these consolidated financial statements are outlined below.

Significant judgments in applying accounting policies:

The following are the significant judgments, estimates and assumptions that management has made in the process of applying the Company’s accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

Highwood Asset Management Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

(i) Valuation of oil and natural gas assets

Judgments are required to assess when internal or external impairment indicators, or reversal indicators, exist and impairment testing is required. The Cash-Generating Units (“CGUs”) comprising oil and natural gas interests are reviewed at each reporting date to assess whether there is any indication of impairment or impairment reversal. The indicators can be internal such as changes in the estimated proved plus probable oil and natural gas reserves and internally estimated oil and natural gas reserves, or external such as market conditions impacting discount rates or market capitalization. The assessment for each CGU considers significant changes in the forecasted cash flows including reservoir performance, the number of development locations and timing of development, forecasted commodity pricing, production volumes, capital and operating and transportation costs and royalty costs.

(ii) Exploration and evaluation assets

The application of the Company’s accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing economic viability and technical feasibility.

(iii) Identification of CGUs

The Company’s oil and natural gas interests are aggregated into cash-generating units for both property, plant and equipment and exploration and evaluation assets, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company’s operations. The Company has identified Belly River as its core CGU at December 31, 2025 and 2024.

(iv) Deferred taxes

Judgment is required in the calculation of current and deferred taxes in applying tax laws and regulations, estimating the timing of the reversals of temporary differences and estimating the realizability of deferred tax assets. The Company recognizes the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences and unused tax losses will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from oil and natural gas reserves, as determined by the external reserve evaluator and the application of existing tax laws in each jurisdiction in which the Company operates.

Key sources of estimation uncertainty:

The following are the key estimates and related assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the measurement of transactions and balances in the financial statements.

(i) Reserves

There are numerous uncertainties inherent in estimating oil and natural gas reserves. The assessment of reported recoverable quantities of proved and probable reserves include key estimates regarding production volumes, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and operating and transportation costs and royalty costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchanges rates, weather and economic and geopolitical factors. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company’s oil and natural gas properties and equipment, the calculation of depletion and depreciation and impairment test, the provision for decommissioning liabilities, and recognition of deferred tax assets and may impact profit or loss as further information becomes available and as the economic environment changes.

Highwood Asset Management Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

Reserve adjustments are made annually based on actual volumes produced, the results from capital expenditure programs, revisions to previous estimates, new discoveries and acquisitions made during the year.

The reserve assessment was completed by an external third-party engineering firm for the years ended December 31, 2025 and 2024. The Company's oil and natural gas reserves are determined pursuant to National Instrument 51-101, Standards of Disclosures for Oil and Gas Activities.

(ii) Recoverability of asset carrying values

The Company assesses property, plant and equipment for impairment by comparing the carrying amount to the recoverable amount of the underlying assets. The determination of the recoverable amount involves estimating the higher of an asset's fair value less costs of disposal or its value in use, which are based on discounted future cashflows using an applicable discount rate. Future cash flows are calculated based on estimates of future proved plus probable reserves using forecasted commodity prices and are discounted using a rate that incorporates management's current assessment of market conditions. Assumptions that are valid at the time of preparing the cash flow models may change significantly when new information becomes available.

Inherent in the determination of recoverable amounts are key assumptions that represent reasonable estimates with respect to factors affecting operations including economic, operational and market conditions. These estimates and assumptions are sensitive to change and could affect fair value.

(iii) Depreciation

Transportation pipelines and related equipment are depreciated, net of estimated residual values, on a straight-line basis over their estimated useful lives. Where facilities and equipment, including major components, are significant in relation to the total cost of the assets and have differing useful lives, they are depreciated separately.

The Company depletes its oil and natural gas properties using the unit of production method based on estimates of proved and probable oil and natural gas reserves. The estimates of the Company's oil and natural gas reserves used to determine depletion requires management to make significant assumptions to derive estimates of future cashflows related to future production volumes, commodity prices, future development costs, and operating and transportation costs and royalty costs. The Company engaged an independent third-party reserve evaluator to estimate oil and natural gas reserves.

(iv) Decommissioning liabilities

The calculation of decommissioning liabilities and related accretion expense requires estimates of future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. In addition, the calculation requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows. Estimates of future remediation costs are based on a combination of publicly available industry benchmarks and internal site specific information. The expected timing of settlements is estimated based on the proved and probable period to abandonment for each area, as per the independent reserve report. On a periodic basis, management reviews these estimates and changes, if any, are applied prospectively.

(v) Deferred taxes

The amounts recorded for deferred tax expense and deferred tax assets are based on estimates as to the timing of the reversal of temporary differences, substantially enacted tax rates and the likelihood of tax assets being realized. The availability of tax pools and other deductions are subject to audit and interpretation by tax authorities.

Highwood Asset Management Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

(vi) Share-based payments

The amounts recorded for share-based compensation expense relating to the fair value of options issued are estimated using the Black-Scholes option pricing model including management's estimates of the future volatility of the Company's share value (based on comparison to similar companies in the oil and natural gas exploration and production industry), estimated market value of the Company's shares at grant date, expected forfeiture rates, expected lives of the options (based on general holder behaviour) and the risk-free interest rate (based on government bonds).

The fair value of RSU's and DSU's are estimated based on the share price on the date of grant. Judgement is also required to estimate the forfeiture or number of RSU's and DSU's that will ultimately vest.

(vii) Commodity contracts

The amounts recorded for the fair value of commodity contracts is dependent on estimates of future commodity prices, foreign exchange rates and volatility in those prices.

(viii) Energy markets

Laws, standards, rules, regulations or other pronouncements enforced by governments both domestic and abroad could significantly impact the Company's business, financial condition, operating results and access to capital. Such actions may include, among other things, tariffs or the threat of tariffs. The impacts of climate change, including governments' response and the advancement of global transition to alternative energy, is another source of uncertainty for the Company and could impact key estimates and assumptions regarding the measurement of certain balances and transactions in these consolidated financial statements.

3. MATERIAL ACCOUNTING POLICY INFORMATION

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

a) Basis of consolidation

(i) Subsidiaries

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries at December 31, 2025, Castlegate Energy Partnership, 2312882 Alberta Ltd., Cataract Creek Environmental Ltd., Renewable EV Battery Cleantech Corp. and 2339364 Alberta Ltd. Cataract Creek Environmental Ltd., Renewable EV Battery Cleantech Corp. and 2339364 Alberta Ltd. are currently inactive.

The Company has control of an investee entity when it is exposed, or has rights, to variable returns from its involvement in the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated on a line-by-line basis, recognizing all their assets, liabilities, income and expenses and recording any non-controlling interest for the portion not owned by the Company from the date on which control is obtained. Intercompany transactions and balances between the Company and its subsidiary are eliminated. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the acquired share of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Highwood Asset Management Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2025 and 2024

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

(ii) Joint arrangements

A portion of the Company's oil and natural gas business activities involve jointly controlled assets and are conducted under joint operating agreements. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. These consolidated financial statements reflect only the Company's proportionate share of the joint operation's controlled assets and liabilities it has incurred, its share of any liabilities jointly incurred with other joint interest partners, income from the sale or use of its share of the joint operation's output, together with its share of expenses incurred by the joint operation and any expenses it incurs in relation to its interest in the joint operation and a share of production in such activities.

b) Financial instruments

Classification and Measurement

On initial recognition, all financial instruments are measured at fair value. Measurement in subsequent periods depends on their context within the Company's business model and the characteristics of the contractual cash flows as described below:

Financial Assets	Subsequent Measurement
Cash	Amortized cost
Accounts receivable	Amortized cost
Deposits	Amortized cost
Acquisition deposit	Amortized cost
Commodity contracts	Fair value through profit or loss
Financial Liabilities	Subsequent Measurement
Accounts payable and accrued liabilities	Amortized cost
Bank debt	Amortized cost
Lease liabilities	Amortized cost

The Company uses, from time to time, financial derivatives to manage the price risk attributable to anticipated sales of oil and natural gas production. The Company does not enter into financial derivative instruments for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, financial derivatives are classified as fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value.

Transaction costs attributable to financial instruments recorded at amortized cost are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument using the effective interest rate method.

Impairment

Impairment of financial assets is based on expected credit losses. The majority of the Company's accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have significant financing component and a lifetime expected credit loss ("ECL") is measured as the date of initial recognition of accounts receivable. The carrying amount of receivables are reduced by the amounts of ECL through an allowance account and losses are recognized as bad debt expense in profit or loss.

Based on industry experience, the Company considered financial assets to be in default when the receivable is more than 90 days past due. Once the Company has pursued collection activities and it has been determined that the incremental cost of collection pursuits outweigh the benefits of collection, the Company derecognizes the gross carrying amount of the asset and the associated allowance from the statement of financial position.

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c) Oil and natural gas interests

(i) Recognition and measurement

Exploration and evaluation assets:

Pre-license costs incurred before the Company has attained legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation costs, including the costs of acquiring leases and licenses, technical services and studies, geophysical and geological activities, seismic acquisition, exploration drilling and testing are initially capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by exploration area pending determination of technical feasibility and commercial viability. Assets classified as exploration and evaluation are not depleted or depreciated until after these assets are reclassified to property, plant and equipment.

Exploration and evaluation assets are tested separately from property and equipment for impairment and are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. When an exploration and evaluation asset is determined not to be technically feasible or commercially viable, or the Company decides not to continue with its activity, the unrecoverable exploration and evaluation costs are charged to profit or loss as exploration and evaluation expense.

The technical feasibility and commercial viability of extracting resources is considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment.

Exchanges, swaps and farm-outs that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the disposal of exploration and evaluation assets are recognized in profit or loss.

Property, plant and equipment:

All costs directly associated with the development and production of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests if they extend or enhance the recoverable reserves of the underlying assets. Items of property, plant and equipment, which include oil and natural gas development assets, and midstream assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning costs, transfers of exploration and evaluation assets, directly attributable overhead and includes costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred. The cost of material replacement parts, turnarounds and major inspections are capitalized provided its probable that future economic benefits in excess of costs will be realized and such benefits are expected to extend beyond the current operating period. The carrying amount of a replaced part is derecognized as its carrying value at the time of replacement.

Gains and losses on disposal of property, plant and equipment, property swaps and farm-outs, are determined by comparing the proceeds or fair value of the asset received or given up with the carrying amount of property, plant and equipment and are recognized in profit or loss. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in profit or loss.

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(ii) Depletion and depreciation

The net carrying value of oil and natural gas interests included in property, plant and equipment is depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Oil and natural gas interests including processing facilities and well equipment are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Relative volumes of reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. Future development costs are estimated taking into account the level of development required to produce the reserves. The estimates of reserves are reviewed by independent reserve evaluators at least annually.

Transportation pipelines are depreciated over the estimated useful life using the straight-line depreciation method. The estimated useful life of the transportation pipelines is 25 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(iii) Impairment

The carrying amounts of the Company's property, plant and equipment and exploration and evaluation assets are reviewed at each reporting date to determine whether there is any indication of impairment. These indicators include, but are not limited to, status of energy economy, market capitalization of the Company, extended decreases in prices or margins for oil and natural gas commodities or products, a significant downward revision in estimated reserves, an upward revision in future development costs, significant decrease in fair values of undeveloped lands in close proximity to lands held by the Company or management's decision to no longer pursue certain evaluation projects. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, exploration and evaluation assets and property, plant and equipment are tested separately and are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or cash generating units ("CGU"). Geological formation, product type, geography and internal management operations and processes are key factors considered when grouping the Company's oil and natural gas assets into CGUs.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. Fair value is determined to be the amount for which the asset could be sold in an arm's-length transaction between knowledgeable and willing parties. Unless indicated otherwise, the recoverable amount used in assessing impairment losses is value in use. The Company estimates fair value less cost of disposal using discounted future net cash flows of proved and probable reserves based on forecast prices and costs and including future development costs. The cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU. Value in use is generally computed by reference to the present value of proved and probable oil and gas reserves estimated by the Company's independent third-party reserve evaluators.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss in respect of property, plant and equipment recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Right-of-use assets and lease liabilities are re-measured at each reporting period to reflect any contract modifications or reassessments that impact the remaining cash outflows under the contract.

d) Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, and the asset is available for immediate sale in its present condition. For the sale to be highly probable, management must be committed to a plan to sell the asset and an active program to locate a buyer has been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale should be expected to be completed within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs of disposal, with impairments recognized in profit or loss in the period measured. Non-current assets held for sale are presented in current assets and liabilities within the statement of financial position. Assets held for sale are not depleted, depreciated or amortized.

e) Decommissioning liabilities

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are made for the estimated cost of site restoration and capitalized to exploration and evaluation assets or property, plant and equipment and are depleted over the useful life of the assets.

Decommissioning liabilities are measured at the present value of management's best estimate of the risk adjusted cash flows required to settle the present obligation at the statement of financial position date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. Subsequent to the initial measurement, the liability is adjusted at the end of each period to reflect the passage of time using a risk-free interest rate and changes in the estimated future cash flows underlying the liability. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases/decreases due to changes in the estimated future cash flows or timing are recognized as changes in the decommissioning liability and related asset. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the liability to the extent the liability was established. Any differences between the recorded liability and the actual costs incurred are recorded as a gain or loss in profit or loss.

f) Revenue recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when control of the product is transferred to the buyer based on the consideration specified in the contracts with customers. This usually occurs when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer (often at terminals, pipelines, or other transportation methods).

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

Fees charged to other entities for royalties, use of pipelines, and processing facilities are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided. Generally, as the Company performs the distinct services stipulated under the contract, it does not have any remaining performance obligations to its customer for those services.

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g) Taxes

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit (loss) nor taxable profit (loss). In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

h) Income per share

Basic income per common share is computed by dividing the income for the period by the weighted average number of common shares outstanding during the period. Diluted income per common share amounts are calculated by giving effect to the potential dilution that would occur if contracts to issue common shares were exercised, fully vested, or converted to common shares. The treasury stock method is used to determine the dilutive effect of dilutive instruments such as RSU's, DSU's, PSU's, warrants, options, where it is assumed that the proceeds received from the exercise price of in-the-money dilutive instruments are used to repurchase common shares.

i) Equity

Share capital

Common shares are classified as equity.

Share issue costs

Costs, such as, but not limited to, professional, consulting, regulatory that are directly attributable to financing transactions are recorded as deferred share issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise, they are expensed as incurred. Share issue costs are charged to share capital or warrant reserve when the related shares or warrants are issued. Deferred share issue costs relating to financing transactions that are not completed are charged to profit or loss.

Unit issuance

Warrants issued in combination with common shares as part of a unit are evaluated and classified under IAS 32 Financial Instruments: Presentation. Equity classification applies to instruments where a fixed amount of cash (or liability) denominated in the issuer's functional currency is exchanged for a fixed number of shares (often referred to as the "fixed-or-fixed" criteria). In determining the allocation of the fair value of each equity instrument within the unit the Company uses the relative fair value method whereby the fair value is proportionately allocated. The fair value of the components of the units is based on the closing share/warrant price on the date of issuance. Amounts attributable to warrants issued are presented in the statement of financial position as warrant reserve, net of issue costs. Upon exercise of warrants, the consideration paid by the holder together with the amount previously recognized in warrant reserve is recorded as an increase to share capital. Upon forfeiture of warrants, the amounts previously recognized remain in the warrant reserve.

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Share-based payments

Stock options, restricted share units (“RSU’s”), performance share units (“PSU’s”) and deferred share units (“DSU’s”) granted are accounted for using the fair value method under which compensation or other equity costs are recorded based on the estimated fair value. For stock options granted fair value is determined using the Black-Scholes option pricing model. The fair value of RSU’s and DSU’s are determined on grant date based on the Company’s share price on the grant date. The fair value of the PSUs is determined on grant date based on the dollar value granted. The Company measures share based payments to non-employees at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options granted will be used, measured using the Black-Scholes option pricing model.

Under the fair value method, the compensation amount attributable to stock options, RSU’s, PSU’s and DSU’s granted are measured at fair value at the date of grant and expensed on a tranche-by-tranche basis over the vesting period, with a corresponding increase to share-based compensation reserve. Upon exercise of the stock options RSU’s, PSU’s and DSU’s, consideration paid by the holder together with the amount previously recognized in share-based compensation reserve is recorded as an increase to share capital. The Company incorporates an estimated forfeiture rate at the date of grant and recognizes the effect of differences in non-vested stock options, RSU, PSU and DSU forfeitures in the period forfeiture occurs.

j) Foreign currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

k) Changes in accounting pronouncements

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. The Company is currently evaluating the impact.

Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)

Amendments to *IFRS 9 Financial Instruments* and *IFRS 7 Financial Instruments: Disclosures* have been issued regarding the settlement of financial liabilities via electronic payment systems and the assessment of contractual cashflow characteristics of financial assets.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026.

Presentation and Disclosure in Financial Statements (IFRS 18)

Highwood is currently evaluating the implications of IFRS 18, as it introduces significant changes to certain financial statement disclosures. The new standard replaces *IAS 1 – Presentation of Financial Statements*. These include the requirement for new totals and subtotals to categorize income and expenses into operating, investing, financing, and tax-related activities within the statement of income and comprehensive income. IFRS 18 also mandates the disclosure of Management-Defined Performance Measures, which are non-GAAP metrics used internally by management to be included in the notes to the consolidated financial statements. Additionally, the standard establishes more detailed guidelines for aggregating and disaggregating financial data, aiming to further enhance transparency and comparability in financial reporting.

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, with early adoption permitted and is required to be applied retrospectively.

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4. FAIR VALUE DETERMINATION

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining the fair values is disclosed in the notes specific to that asset or liability.

The Company classifies fair values according to the following hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

There were no transfers between levels of the hierarchy during the year.

Cash

The fair value of cash approximates its carrying value due to the short-term to maturity.

Accounts receivable, deposits, accounts payable and accrued liabilities and bank debt

The fair value of accounts receivable, deposits, accounts payable and accrued liabilities and bank debt are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2025 and 2024, the fair value of accounts receivable, deposits and accounts payable and accrued liabilities approximated their carrying value due to their short term to maturity. The fair value of bank debt approximates its carrying value as it bears a floating market rate of interest and the margin charged by the lenders is indicative of current credit spreads.

Derivatives – commodity contracts

The fair value of financial forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward curves at the statement of financial position date, using the remaining contracted oil and natural gas volumes, electricity and foreign exchange and a risk-free interest rate adjusted for the credit risk of the counterparty. The Company has used Level 2 to determine the fair value of its commodity contracts.

Assets held for sale

Assets held for sale are recorded at the lower of their carrying amount and the fair value less costs of disposal. The fair value less costs of disposal is the estimated amount for which assets held for sale could be exchanged on the acquisition between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties each act knowledgeably, prudently and without compulsion, less any associated costs of disposal.

Share-based payments

The fair value of share-based awards are measured using a Black-Scholes option pricing model. Measurement inputs include share price on the measurement date, exercise price of the instrument, expected volatility, expected forfeiture rates, weighted average expected life of the instruments, expected dividends and the risk-free interest rate.

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5. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	December 31, 2025	December 31, 2024
Petroleum and natural gas marketers	\$ 14,013	\$ 24,227
Joint interest partners	1,951	1,658
Road use receivable	324	509
Royalty and other income	13	31
Other	1,118	550
Allowance for doubtful accounts	(325)	(344)
	\$ 17,094	\$ 26,631

6. DEPOSITS AND PREPAID EXPENSES

Deposits and prepaid expenses are comprised of the following:

	December 31, 2025	December 31, 2024
Deposits	\$ 692	\$ 504
Prepaid expenses	2,141	1,875
	\$ 2,833	\$ 2,379

7. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets are comprised of the following:

	December 31, 2025	December 31, 2024
Balance, beginning of year	\$ 8,044	\$ 1,461
Additions	4,204	12,499
Acquisition	47	-
Transfers to property, plant and equipment (note 8)	(680)	(5,761)
Land lease expiries	(87)	(155)
Balance, end of year	\$ 11,528	\$ 8,044

Exploration and evaluation assets include undeveloped lands, seismic, mineral leases and unproved properties where management has not fully evaluated for technical feasibility and commercial viability.

Additions during the year ended December 31, 2025 mainly related to undeveloped mineral leases and undeveloped upstream oil and gas lands.

During the year ended December 31, 2025, the Company determined that \$680 thousand (2024 - \$5.8 million) of exploration and evaluation assets were technically feasible and commercially viable, resulting in these costs being transferred to plant, property and equipment.

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During the year ended December 31, 2025, the Company expensed certain costs previously capitalized as exploration and evaluation assets as the lease term of undeveloped lands expired and/or management has no intentions to pursue exploration of these lands in the amount of \$87 thousand (2024 - \$155 thousand). These amounts have been included as exploration and evaluation expense in the statement of income and comprehensive income.

The Company assessed its CGUs to determine whether indicators of impairment were present. At December 31 2025 and 2024, there were no indicators of impairment and therefore an impairment test was not performed.

8. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2025	December 31, 2024
COSTS		
Balance, beginning of year	\$ 262,994	\$ 204,621
Change in decommissioning liabilities (note 12)	(3,664)	(1,444)
Additions	57,883	54,056
Acquisition	1,922	-
Transferred from exploration and evaluation assets (note 7)	680	5,761
Balance, end of year	\$ 319,815	\$ 262,994
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT		
Balance, beginning of year	\$ (40,493)	\$ (14,947)
Depletion and depreciation	(23,916)	(25,546)
Balance, end of year	\$ (64,409)	\$ (40,493)
Net book value	\$ 255,406	\$ 222,501

On March 31, 2025, the Company sold its previous office space for proceeds of \$1.1 million. The held for sale assets had no associated liabilities.

During the year ended December 31, 2025, the Company capitalized \$1.34 million (2024 - \$1.59 million) of general and administrative costs and \$877 thousand (2024 - \$nil) of share-based compensation costs directly related to exploration and drilling activities.

Depletion

Future development costs of \$445.7 million (2024 - \$441.2 million) associated with the development of the Company's proved plus probable reserves were included in the calculation of depletion for the year ended December 31, 2025. Future development costs are only included for CGUs with production.

Impairment and Impairment Reversal

As at December 31, 2025, the Company assessed its CGUs to determine whether indicators of impairment were present. The assessment identified indicators of impairment due to a weaker near-term commodity price environment and the fact that the carrying amount of the Company's net assets at December 31, 2025 were greater than its market capitalization. As a result, impairment tests were performed on the Company's CGUs which did not result in an impairment loss. The Company has no CGUs with historical impairment that have not been fully reversed.

No indicators of impairment were identified as at December 31, 2024, and therefore no impairment test was performed.

The impairment tests at December 31, 2025 were completed following the value in use method determined using future cash flows on a proved and probable basis and utilized a before-tax discount rate of 15%. Future cash flows were estimated using the Company's independently evaluated reserves and reflect key assumptions regarding expected production rates and expected throughput, forecasted commodity prices, operating and transportation costs, and future development costs. The discount rate used to calculate the net present value of cashflows is based on estimates of the Company's weighted average cost of capital, adjusted to consider the nature of the assets being valued and their specific risk profile.

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The following table presents the benchmark prices and other key assumptions used in determining the recoverable amounts. These assumptions are based on the average forecasts of three independent reserve evaluators (GLJ Ltd., McDaniel & Associates Consultants, and Sproule ERCE) and were applied in the impairment assessments as at December 31, 2025.

	WTI (\$US/bbl)	MSW (\$CAD/bbl)	AECO (\$CAD/MMbtu)	Exchange Rate (USD:CAD)	Inflation Rate
2026	\$ 59.92	\$ 75.54	\$ 3.00	0.73	-
2027	65.10	83.60	3.30	0.74	2.00%
2028	70.28	90.18	3.49	0.74	2.00%
2029	71.93	92.32	3.58	0.74	2.00%
2030	73.37	94.17	3.65	0.74	2.00%
2031 – 2036	78.69	99.97	3.92	0.74	2.00%
Thereafter (inflation percentage)	2.00%	2.00%	2.00%	-	2.00%

The estimated value in use for all CGUs are sensitive to changes in the discount rate, of which changes could increase or decrease the estimated recoverable amounts. An increase of 5% in the before tax discount rate would not have resulted in an impairment loss being recognized.

9. LEASES

The Company has various lease contracts in place for office premises and vehicles.

Right-of-use assets

	Total
At December 31, 2023	\$ 739
Additions	578
Dispositions	(597)
Depreciation	(264)
At December 31, 2024	456
Depreciation	(285)
At December 31, 2025	\$ 171

Lease liabilities

Lease liabilities are as follows:

	December 31, 2025	December 31, 2024
Balance, beginning of year	\$ 530	\$ 789
Accretion of lease obligations	39	39
Additions	-	578
Dispositions	-	(637)
Payment of Lease Obligations	(358)	(239)
Balance, end of year	\$ 211	\$ 530
Current portion	\$ 211	\$ 317
Long term portion	\$ -	\$ 213

The discount rate used for the additional leases incurred during the year ended December 31, 2024 was 11.20%.

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During the year ended December 31, 2025, the Company entered into a new lease for its existing office space. The agreement takes effect in 2026 and has a term of five years. Gross payment obligations related to the new lease, excluding occupancy costs, are approximately \$600 thousand annually.

10. BANK DEBT

	December 31, 2025	December 31, 2024
Credit facilities		
Syndicated prime loans	\$ 3,000	\$ 11,500
Syndicated CORRA loans	103,000	80,000
Total Syndicated loan facility	\$ 106,000	\$ 91,500
Operating facility	-	446
Total draw, end of year	\$ 106,000	\$ 91,946
Deferred debt issuance costs	(1,745)	(2,110)
Amortization of debt issue costs (note 17)	1,044	883
Balance credit facilities, end of year	\$ 105,299	\$ 90,719

The Company has 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 \$140 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 \$130 million. The ARCA allows the Company to enter into Letters of Credit up to a maximum of \$20 million. During the second quarter of 2025, the term out date was amended from August 2, 2025 to August 2, 2026 as well as an increase to the syndicated loan facility from a maximum of \$110 million.

The ARCA bears interest which is payable monthly at the Bank’s prime rate plus an applicable margin of 2.50% to 5.00% on prime rate loans and 3.50% to 6.00% on margin on SOFR loans, margin on Canadian Overnight Repo Rate Average (“CORRA”) loans and issue fees for letters of credit, as determined by reference to the Company’s consolidated total debt to EBITDA ratio (as defined in the credit facility agreement). At December 31, 2025, the Company had an effective interest rate of prime plus 3.25% per annum on prime-based loans under the ARCA and CORRA plus 4.25% on CORRA-based loans under the ARCA.

The ARCA has a revolving period of 365 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 \$140 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 shortfall 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, 2026. The ARCA includes 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 be in material compliance with all applicable laws, directives, orders and liability assessments of each relevant Energy Regulator. The Company is also required to meet minimum annual spend requirements as set by each relevant Energy Regulator. The Company is in compliance with all applicable laws, directives and other regulatory requirements.

The maximum utilization allowed on the ARCA is 90% of the total commitments of the lenders, with the total commitment being \$130 million at December 31, 2025. At December 31, 2025, the Company is in compliance with this requirement.

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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, and thereafter, the Company is required to enter into commodity contracts with an aggregate notional quantity of at least 30% of the next 7 to 12 months expected production and rolling monthly from proved developed producing properties, on a boe/day basis. 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. At December 31, 2025, the Company is in compliance with these requirements.

At December 31, 2025, the Company had \$nil (2024 - \$1.95 million) in issued and outstanding letters of credit to suppliers of brokered commodities.

11. PROMISSORY NOTE

The Promissory Note, originally issued on August 3, 2023 was set to mature on July 1, 2025 with equal payments of \$3.5 million each 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 bore interest at 13% per annum payable quarterly. On November 26, 2024, the Company paid the full principal balance and accrued interest outstanding of \$16,324 and the Promissory Note and related guarantee was extinguished and released. All obligations under the Promissory Note were fully and unconditionally personally guaranteed by Joel MacLeod, the Executive Chairman of the Company, in an amount limited to \$3 million. The Promissory Note was also secured by a Security Interest on the assets of the Company, subordinated to the ARCA.

12. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas properties including well sites, pipelines and facilities. The total decommissioning liability is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning liabilities to be \$26.5 million as at December 31, 2025 (2024 - \$29.1 million) based on an undiscounted and uninflated total future liability of \$51.3 million (2024 - \$48.1 million) and discounted using a long-term risk-free rate of 3.85% (2024 - 3.33%) and an inflation rate of 2.00% (2024 - 2.00%). The expected timing of decommissioning expenditures extends to 2074. As at December 31, 2025, no funds have been specifically set aside to settle these obligations. Management expects future expenditures to be funded from cash flows from operating activities.

The following table summarizes changes in the decommissioning liabilities:

	December 31, 2025	December 31, 2024
Balance, beginning of year	\$ 29,062	\$ 31,089
Change in discount rate	(5,411)	(3,950)
Change in cash flow estimates ⁽¹⁾	1,544	1,681
New development activity and acquisition	2,406	938
Abandonment expenditures	(2,054)	(1,616)
Accretion expense (note 17)	999	920
Balance, end of year	\$ 26,546	\$ 29,062
Expected to be settled within one year	\$ 2,100	\$ 1,600
Expected to be settled beyond one year	\$ 24,446	\$ 27,462

¹ Change in estimates for the year ended December 31, 2025 and 2024 was a result of changes in estimated future abandonment and reclamation costs.

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The risk-free rate used in the calculation of the net present value has a significant impact on the carrying value of decommissioning liabilities. A 1% change in the risk-free rate would increase/decrease the decommissioning liability by approximately \$7.6 million.

13. TAXES

a) Deferred tax asset

At December 31, 2025, a deferred tax asset of \$17.9 million (2024 – \$26.6 million) has been recognized in the consolidated financial statements. The following table provides a continuity of the components of the deferred tax asset/liability:

	Balance, January 1, 2025	Recognized in income	Balance, December 31, 2025
Exploration and evaluation assets, property, plant and equipment and assets held for sale	\$ (2,291)	\$ (7,636)	\$ (9,927)
Decommissioning liabilities	6,684	(578)	6,106
Commodity contracts	(321)	(2,555)	(2,876)
Financing fees	1,159	(248)	911
Non-capital loss carryforwards	24,828	2,315	27,143
Deferred tax asset not recognized	(3,440)	-	(3,440)
Deferred tax asset	\$ 26,619	\$ (8,702)	\$ 17,917

	Balance, January 1, 2024	Recognized in income	Balance, December 31, 2024
Exploration and evaluation assets, property, plant and equipment and assets held for sale	\$ 5,209	\$ (7,500)	\$ (2,291)
Decommissioning liabilities	7,150	(466)	6,684
Commodity contracts	(1,386)	1,065	(321)
Financing fees	1,649	(490)	1,159
Other	(9)	9	-
Non-capital loss carryforwards	26,039	(1,211)	24,828
Deferred tax asset not recognized	(3,440)	-	(3,440)
Deferred tax asset	\$ 35,212	\$ (8,593)	\$ 26,619

b) Deferred tax expense

During the year ended December 31, 2025 and 2024, the Company was not required to pay income taxes. Total non-capital losses available to the Company are approximately \$118 million and expire between 2034 and 2044.

The amount for deferred tax expense in the consolidated financial statements results from applying the combined federal and provincial tax rates to the Company's income before taxes as follows:

	Year Ended December 31,	
	2025	2024
Income before taxes	\$ 30,409	\$ 36,543
Combined federal and provincial tax rates	23.0%	23.0%
Expected tax expense	6,994	8,405
Differences from:		
Other	1,032	(212)
Share-based compensation	676	400
Total tax expense	\$ 8,702	\$ 8,593

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Total tax expense is comprised of

Current	\$ -	\$ -
Deferred	8,702	8,593
Total tax expense	\$ 8,702	\$ 8,593

A deferred tax asset was not recognized in respect of temporary differences related to successor tax pools of \$15.0 million (2024 - \$15.0 million) as there is not sufficient certainty regarding future utilization.

14. SHARE CAPITAL

a) Authorized

Unlimited number of voting common shares and unlimited number of preferred shares issuable in series.

b) Issued and outstanding common shares

	Number of Shares (000's)	Stated Value
Balance, December 31, 2023	14,935	\$ 62,440
Repurchase of common shares held in trust (note 18)	(302)	(1,801)
Issued on exercise of restricted share units (note 18)	38	211
Balance, December 31, 2024	14,671	\$ 60,850
Repurchase of common shares held in trust (note 18)	(503)	(2,671)
Issued on exercise of restricted share units (note 18)	18	102
Balance, December 31, 2025	14,186	\$ 58,281

c) Income per share

	December 31, 2025			December 31, 2024		
	Income	Common shares (000's)	Income per share	Income	Common shares (000's)	Income per share
Income - basic	\$ 21,707	14,443	\$ 1.50	\$ 27,950	14,837	\$ 1.88
Dilutive effect	-	428	-	-	266	-
Income - diluted	\$ 21,707	14,871	\$ 1.46	\$ 27,950	15,103	\$ 1.85

For the year ended December 31, 2025 and 2024, all options and warrants were excluded as they were anti-dilutive. The weighted average number of common shares is adjusted for treasury shares purchased and held by the trustee.

15. WARRANTS

	Number of Warrants (000's)	Exercise Price
Issued and outstanding		
Balance, December 31, 2023, 2024 and 2025	3,150	\$ 7.50
Exercisable, December 31, 2025	3,150	\$ 7.50

Each warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$7.50 and a term of three years. At December 31, 2025, the remaining life of the warrants is 0.59 years.

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16. REVENUE

Petroleum and natural gas sales:

The Company sells its production pursuant to variable-price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis. Revenue is recognized when a unit of production is delivered to the customer and control of the product transferred.

The following table summarizes the Company's petroleum and natural gas sales.

	Year ended December 31,	
	2025	2024
Oil	\$ 82,766	\$ 122,913
Natural Gas Liquids	9,248	8,740
Natural Gas	6,155	4,141
Total	\$ 98,169	\$ 135,794

The Company's revenue was generated entirely in the provinces of Alberta and Saskatchewan. The majority of revenue resulted from sales whereby the transaction price was based on the index prices. Of total petroleum and natural gas sales, one counterparty represented approximately 59% of sales for the year ended December 31, 2025 (2024 – 59%).

17. FINANCE EXPENSE

	Year ended December 31,	
	2025	2024
Interest on bank debt	\$ 7,482	\$ 8,524
Interest on promissory note (note 11)	-	1,576
Amortization of debt issue costs (note 10)	1,044	883
Interest income	(73)	(90)
Accretion of decommissioning liabilities (note 12)	999	920
Other	39	76
Total	\$ 9,491	\$ 11,889

18. SHARE-BASED PAYMENTS

(a) Omnibus Incentive Plan (Incentive Plan)

The Company has an Omnibus Incentive Plan that limits the total number of common shares that may be issued on exercise of all share-based compensation arrangements outstanding at any time to 10% of the number of common shares issued and outstanding for Options, 5% of the number of common shares issued and outstanding for RSU's and 1% of the number of common shares issued and outstanding for DSU's. The Incentive Plan is administered by the Corporate Governance, Environmental, Health and Safety Committee ("CGEHS"), subject to the limits imposed by the Incentive Plan.

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Options

The Incentive Plan includes options which may be granted to eligible persons as defined under the Incentive Plan. The CGEHS Committee sets the exercise price, expiry date and vesting terms for each option grant provided that no options will be granted at a discount to market prices and no option will have a term exceeding ten years.

A summary of the stock options issued and outstanding as at December 31, 2025 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2023	222	\$ 10.48
Expired	(93)	(11.07)
Granted	286	6.00
Outstanding, December 31, 2024	415	7.26
Expired	(37)	(16.50)
Granted	280	6.14
Outstanding, December 31, 2025	658	6.26
Exercisable, December 31, 2025	165	\$ 6.80

Below is a summary of outstanding stock options at December 31, 2025:

Grant Date	Term	Number of Options ('000)	Exercise Price
May 30, 2022	5 Years	27	\$ 11.00
August 28, 2023	5 Years	65	\$ 6.00
January 4, 2024	5 Years	9	\$ 6.00
April 15, 2024	5 Years	277	\$ 6.00
March 21, 2025	5 Years	280	\$ 6.14

On January 4, 2024, the Company granted 9,000 options at an exercise price of \$6.00 per option. The options granted vest 1/3 on each of January 4, 2025, January 4, 2026 and January 4, 2027 and have a five-year term.

On April 15, 2024, the Company granted 277,000 options at an exercise price of \$6.00 per option. The options granted vest 1/3 on each of April 15, 2025, April 15, 2026 and April 15, 2027 and have a five-year term.

On March 21, 2025, the Company granted 280,411 options at an exercise price of \$6.14 per option. The options granted vest 1/3 on each of March 21, 2026, March 21, 2027 and March 21, 2028 and have a five-year term.

The fair value of the stock options granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	January 4, 2024	April 15, 2024	March 21, 2025
Number of options (#000's)	9	277	280
Exercise price (\$/share)	\$ 6.00	\$ 6.00	\$ 6.14
Stock price on grant date (\$/share)	\$ 4.50	\$ 5.75	\$ 6.14
Expected life (years)	5.0	5.0	5.0
Risk-free interest rate	3.74%	3.77%	2.66%
Expected volatility ¹	80%	80%	50%
Option fair value (per option)	\$ 2.74	\$ 3.77	\$ 2.84
Estimated forfeiture rate	0%	0%	0%
Expected dividend yield	0%	0%	0%

¹ Expected volatility was determined based on an average of volatilities of similar publicly traded entities in the Company's peer group.

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During the year ended December 31, 2024, 93,400 stock options expired with a weighted average exercise price of \$11.07 per stock option

During the year ended December 31, 2025, 37,100 stock options expired with a weighted average exercise price of \$16.50 per stock option.

Restricted Share Units (“RSU’s”)

The Incentive Plan includes RSU’s which may be granted to eligible persons as defined under the Incentive Plan for no additional consideration. The CGEHS committee sets the expiry date and vesting terms for each RSU grant.

A summary of RSU’s issued and outstanding at December 31, 2025 is as follows:

	Number of RSU’s
Outstanding, December 31, 2023	120
Exercised	(38)
Expired	(1)
Granted	134
Outstanding, December 31, 2024	215
Exercised	(18)
Granted	141
Outstanding, December 31, 2025	338
Vested, December 31, 2025	88

Below is a summary of outstanding RSU’s at December 31, 2025.

Grant Date	Number of RSU’s (000’s)
May 30, 2022	27
August 28, 2023	49
January 4, 2024	3
April 15, 2024	118
March 21, 2025	141

On January 4, 2024, the Company granted 4,400 RSU’s which vest 1/3 on each of January 4, 2025, January 4, 2026 and January 4, 2027.

On April 15, 2024, the Company granted 130,125 RSU’s which vest 1/3 on each of April 15, 2025, April 15, 2026 and April 15, 2027.

On March 21, 2025, the Company granted 140,805 RSU’s which vest 1/3 on each of March 21, 2026, March 21, 2027 and March 21, 2028.

The Company’s weighted average share price for the grants in 2025 was \$6.14 (\$2024 - 5.71).

During the year ended December 31, 2025, 18,356 RSUs were exercised resulting in 18,356 common shares being issued. During the year ended December 31, 2025, share capital was increased by the fair value of the RSU’s on the day they were exercised, at a weighted average price of \$5.40 per common share, for a total of \$102 thousand, with a corresponding decrease to share-based compensation reserve.

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Deferred Share Units (“DSU’s”)

The Incentive Plan includes DSU’s which may be granted to non-employee directors for no additional consideration. The CGEHS Committee sets the amount of DSU’s to be granted to each of the participants for each calendar year, and the date that the grant becomes effective, with DSU’s vesting one year following grant date.

A summary of DSU’s issued and outstanding at December 31, 2025 is as follows:

	Number of DSU’s
Outstanding, December 31, 2023	20
Granted	40
Forfeited	(10)
Outstanding, December 31, 2024	50
Granted	40
Outstanding, December 31, 2025	90
Vested, December 31, 2025	50

Below is a summary of outstanding DSU’s at December 31, 2025.

Grant Date	Number of DSU’s (000’s)	Vesting Date
August 28, 2023	15	August 28, 2024
April 15, 2024	15	April 15, 2025
November 22, 2024	20	November 22, 2025
March 21, 2025	20	March 21, 2026
November 13, 2025	20	November 13, 2026

The Company’s weighted average share price for the grants in 2025 was \$5.40 (2024 - \$5.93).

(b) Performance Share Units (“PSU’s”)

The Company has a PSU plan, for officers, employees and consultants “the PSU Plan”. The PSU Plan is administered by the CGEHS Committee, subject to the limits imposed by the PSU Plan. Under the PSU Plan, the CGEHS Committee sets the vesting terms and conditions for each PSU grant.

The fair value of the PSU’s is determined on grant date based on the dollar value granted. PSU’s issued to participants are held by the plan trustee and held in trust until such time the PSU’s vest. Common shares, from time to time, are acquired in the open market by an independent trustee and are held in trust for the potential future settlement of award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlement. For the year ended December 31, 2025, the trustee purchased 503,535 common shares for a total cost of \$2.7 million and as at December 31, 2025, the trustee held 985,595 common shares to be distributed under the PSU plan. PSU’s will be settled in equity in the amount equal to the fair value of the PSU on the date they vest. The fair value is expensed over the vesting term and represents the fair value for the graded vested portion of the PSU’s outstanding.

Below is a summary of outstanding PSU’s, based on their historical fair value at grant date:

Balance, December 31, 2023	\$	609
Granted		1,806
Balance, December 31, 2024		2,415
Granted		1,960
Balance, December 31, 2025	\$	4,375

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Below is a summary of outstanding PSU's at December 31, 2025:

Grant Date	Performance Date	Amount of PSU's (000's)
August 28, 2023	August 3, 2026	\$ 609
January 4, 2024	January 4, 2027	22
April 15, 2024	April 15, 2027	802
October 10, 2024	October 10, 2027	982
March 21, 2025	March 21, 2028	980
November 14, 2025	November 14, 2028	980

(c) Employee Share Purchase Plan

The Employee Share Purchase Plan ("ESPP") allows eligible employees to purchase common shares of the Company, and the Company will match 100% of the employee's contribution, up to a maximum equal to the lesser of i) 7.5% of the employee's base earnings; and ii) \$100,000. The common shares of the Company are acquired through normal market purchases on the TSX-V consistent with the timing of the employee's remuneration. The cost of the shares purchased to match the employee's contribution is expensed as incurred and included in share-based compensation expense. The employer contributions are subject to certain vesting conditions

(d) Share-based Compensation Expense

	Year ended December 31,	
	2025	2024
Options	\$ 823	\$ 601
RSUs	768	529
PSUs	1,106	478
DSUs	242	131
ESPP	263	248
Total share-based compensation	3,202	1,987
Less: capitalized amounts (note 8)	(877)	-
Total share-based compensation expense	\$ 2,325	\$ 1,987

A forfeiture rate of 0% was used when recording share-based compensation for all share-based payments as it is expected that all eligible persons and non-employee directors will continue with the Company over the vesting period, and/or, all share-based awards will be exercised.

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19. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

Source/(use) of cash	Year ended December 31,	
	2025	2024
Accounts receivable	\$ 9,537	\$ (7,938)
Deposits and prepaid expenses	(454)	(367)
Accounts payable and accrued liabilities	(3,126)	4,723
Changes in non-cash working capital	\$ 5,957	\$ (3,582)
The above figure relates to:		
Operating activities	\$ 10,520	\$ (3,099)
Financing activities	(12)	(921)
Investing activities	(4,551)	438
Changes in non-cash working capital	\$ 5,957	\$ (3,582)
Interest paid	\$ 7,482	\$ 10,848
Taxes paid (recovered)	\$ -	\$ -

20. FINANCIAL RISK MANAGEMENT

The Board of Directors has the overall responsibility for the establishment and oversight and execution of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor those risks.

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- market risk; and
- liquidity risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. There were no changes to the Company's risk management policies or processes since the year ended December 31, 2024.

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(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk at period end is as follows:

	December 31, 2025	December 31, 2024
Cash	\$ 4,564	\$ 1,811
Accounts receivable	17,094	26,631
Deposits	692	504
Commodity contracts	12,503	2,084
Reclamation deposits	18	18
Total	\$ 34,871	\$ 31,048

Cash

Cash consist of amounts on deposit with Canadian chartered banks. The Company manages exposure of cash, if any, by selecting financial institutions with high credit ratings.

Accounts receivable:

Substantially all of the Company's oil and natural gas production, pipeline transportation revenues and other revenues are carried out under standard industry terms. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit-worthy purchasers. Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. Approximately 25% (2024 – 24%) of accounts receivable is due from one counterparty, which is a reputable multi-national entity with nominal credit risk. Receivables from partners are typically collected within one to three months of the bill being issued to the partner. The Company attempts to mitigate the risk from receivables with partners by obtaining partner approval of significant capital expenditures prior to the expenditure. The receivables, however, are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint asset partners as disagreements occasionally arise that increase the potential for non-collection. To further mitigate collection risk, the Company has the ability to obtain the partners' share of capital expenditures in advance of a project. The Company does not typically obtain collateral from oil and natural gas marketers or joint asset partners; however, the Company does have the ability to withhold production from partners in the event of non-payment.

The Company's accounts receivable are aged as follows:

	December 31, 2025	December 31, 2024
Current (less than 90 days)	\$ 15,125	\$ 24,281
Past due (more than 90 days)	1,969	2,350
Total	\$ 17,094	\$ 26,631

As at December 31, 2025, management believes all receivables net of provision for expected credit losses of \$325 thousand (2024 - \$344 thousand) will be collected.

Commodity contracts:

The Company is exposed to losses in the event of non-performance by counterparties to commodity contracts. All of the Company's commodity contracts are with Canadian chartered banks as the counterparty. The Company manages the exposure of commodity contract risk, if any, by selecting financial institutions with high credit ratings.

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(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates, will affect the Company's cash flow, income (loss) or the value of its financial instruments. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return. Numerous factors beyond Highwood's control influence the marketability and pricing of commodities, which may experience significant volatility. These factors include uncertainties in supply and demand driven by government policies, global economic conditions, sanctions and tariffs, shifts in global trade flows, changes in interest rate and inflation, actions by OPEC+, political and geopolitical instability, regulatory changes, ongoing conflicts, and other macroeconomic or political developments. Specifically, adverse changes in U.S.-Canada-Mexico trade relations, particularly regarding tariffs and energy, could negatively affect Highwood given the integration of North American energy markets.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's financial instruments are indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rates between the Canadian and United States dollar. The Company has United States dollar ("USD") receivables and payables along with commodity contracts, with future cash payments directly impacted by the exchange rate in effect at the time of payment. At December 31, 2025, the Company had \$1.3 million in cash, \$197 thousand in accounts receivable and \$8.6 million accounts payable denominated in USD (2024 - \$1.3 million in cash, \$1.2 million in accounts receivable and \$5.7 million accounts payable).

Interest rate risk

Interest rate risk is the risk that future cashflows will fluctuate as result in changes in market interest rates. The Company is subject to interest rate risk related to its exposure to interest rate fluctuations on its ARCA, which bears a floating rate of interest. A 1% interest rate increase or decrease on the full amount outstanding of \$106 million (note 10) would decrease or increase net income by approximately \$816 thousand for the year ended December 31, 2025.

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also North American and global economic events that dictate the levels of supply and demand. The nature of the Company's operations results in exposure to fluctuations in commodity prices. The Company's production is sold using "spot" pricing with prices fixed at the time of transfer of custody or on the basis of a monthly average market price.

The Company has the following commodity contracts outstanding as at December 31, 2025 as required under the ARCA (note 10):

Swaps:

Product	Notional Volume	Term	Contract Price (CAD/GJ)	Index
Natural Gas	1,500GJ/day	April 1, 2025 to December 31, 2026	\$ 3.13 - \$ 3.20	AECO
Natural Gas	300GJ/day	November 1, 2025 to March 31, 2026	\$ 3.50	AECO
Natural Gas	3,000GJ/day	April 1, 2025 to March 31, 2027	\$ 3.15 - \$ 3.40	AECO
Natural Gas	400GJ/day	May 1, 2025 to March 31, 2028	\$ 3.00	AECO
Natural Gas	400GJ/day	July 1, 2025 to March 31, 2028	\$ 3.05	AECO
Natural Gas	1,200GJ/day	November 1, 2025 to March 31, 2028	\$ 3.00 - \$ 3.02	AECO
Natural Gas	400GJ/day	October 1, 2025 to March 31, 2028	\$ 3.01	AECO
Natural Gas	400GJ/day	January 1, 2027 to March 31, 2028	\$ 3.09	AECO

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Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
Crude Oil	100bbls/day	October 1, 2024 to March 31, 2026	\$ 96.50	WTI - NYMEX
Crude Oil	100bbls/day	November 1, 2024 to March 31, 2026	\$ 95.00	WTI - NYMEX
Crude Oil	100bbls/day	February 1, 2025 to December 31, 2026	93.00	WTI - NYMEX
Crude Oil	300bbls/day	April 1, 2025 to December 31, 2026	\$ 93.00 - \$ 93.31	WTI - NYMEX
Crude Oil	100bbls/day	July 1, 2025 to March 31, 2026	\$ 91.15	WTI - NYMEX
Crude Oil	100bbls/day	July 1, 2025 to June 30, 2026	\$ 91.50	WTI - NYMEX
Crude Oil	100bbls/day	October 1, 2025 to March 31, 2026	\$ 97.00	WTI - NYMEX
Crude Oil	100bbls/day	October 1, 2025 to September 30, 2026	\$ 93.00	WTI - NYMEX
Crude Oil	400bbls/day	October 1, 2025 to December 31, 2026	\$ 92.00 - \$ 94.00	WTI - NYMEX
Crude Oil	600bbls/day	January 1, 2026 to December 31, 2026	\$ 90.50 - \$ 96.00	WTI - NYMEX

Product	Notional Volume	Term	Contract Price (USD/bbl)	Index
Crude Oil	200bbls/day	January 1, 2026 to December 31, 2026	\$ 66.00	WTI - NYMEX
Crude Oil	300bbls/day	April 1, 2026 to March 31, 2027	\$ 65.00 - \$ 66.00	WTI - NYMEX

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
MSW Differential	1,000bbls/day	January 1, 2026 to December 31, 2026	\$ 5.50 - \$ 6.75	TMX-1A-SW

Electricity:

Product	Notional Volume	Term	Contract Price (CAD/MWh)	Index
Electricity	500 MWh/month	September 1, 2024 to July 31, 2026	\$ 55.75	Alberta Power Pool – AESO (Flat)

The commodity contracts had a total fair value at December 31, 2025 of an asset of \$12.5 million (2024 – asset of \$2.1 million and liability of \$687 thousand). The corresponding unrealized gain/loss for the year ended December 31, 2025 was a gain of \$11.1 million (2024 – loss of \$4.5 million), and is included in the statement of income and comprehensive income. Total realized gain for the year ended December 31, 2025 was \$7.8 million (2024 – \$2.4 million) and is also included in the statement of income and comprehensive income.

For the year ended December 31, 2025, a \$0.10/bbl increase/decrease in oil prices and a \$0.10/GJ in natural gas prices would have a negative/positive impact on net income of approximately \$404 thousand.

Subsequent to December 31, 2025, the Company entered into the following commodity contracts:

Swaps:

Product	Notional Volume	Term	Contract Price (USD/bbl)	Index
Crude Oil	100bbls/day	March 1, 2026 to March 31, 2027	\$ 66.25	WTI - NYMEX
Crude Oil	100bbls/day	April 1, 2026 to March 31, 2027	\$ 66.20	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2027 to June 30, 2027	\$ 65.00	WTI - NYMEX
Crude Oil	1,000bbls/day	January 1, 2027 to December 31, 2027	\$ 65.00 - \$ 69.00	WTI - NYMEX
Crude Oil	300bbls/day	April 1, 2027 to December 31, 2027	\$ 67.00 - \$ 68.00	WTI - NYMEX
Crude Oil	200bbls/day	January 1, 2028 to December 31, 2028	\$ 65.00 - \$ 66.00	WTI - NYMEX

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Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
Crude Oil	200bbls/day	March 1, 2026 to May 31, 2026	\$ 105.00 - \$ 127.00	WTI - NYMEX
Crude Oil	100bbls/day	March 9, 2026 to December 31, 2026	\$ 110.00	WTI - NYMEX
Crude Oil	100bbls/day	April 1, 2026 to December 31, 2026	\$ 99.50	WTI - NYMEX

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
MSW Differential	500bbls/day	April 1, 2026 to December 31, 2026	\$ 4.75	TMX-1A-SW

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities as they become due. The Company's financial liabilities, excluding commodity contracts consist of accounts payable and accrued liabilities, and bank debt.

At December 31, 2025, the Company had a working capital deficit of \$11.4 million, excluding commodity contract asset and liability, current portion of decommissioning liability, and current portion of lease liabilities. The capital-intensive nature of the Company's operations may create a working capital deficiency position during periods with high levels of capital investment. The working capital deficit at December 31, 2025, was mainly driven by the capital program incurred during the fourth quarter. 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. The maturity date of the bank debt is August 2, 2027; therefore, all bank debt has been classified as long-term.

The Company monitors liquidity risk through cost control, debt and equity management policies. Strategies include continuously monitoring of forecast and actual cash flows, financing activities and available credit available under the ARCA. The nature of the oil and gas industry is very capital intensive. The Company prepares annual capital expenditure budgets and utilizes authorizations for expenditures and capital committees for projects to manage capital expenditures.

The Company may need to conduct asset sales, equity issues or issue debt if liquidity risk increases in a given period. Liquidity risk may increase as a result of potential revisions to the Company's ARCA, which is subject to semi-annual reviews. 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 believes it has sufficient funds and operating cash flows to meet foreseeable obligations by actively monitoring its credit facilities and coordinating payment and revenue cycles each month. 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 actively monitors covenants associated with the credit facilities and was in compliance as at December 31, 2025.

The following table details the Company's financial liabilities, excluding commodity contracts, as at December 31, 2025:

	Total	<1 year	1-3 years
Accounts payable and accrued liabilities	\$ 35,915	\$ 35,915	\$ -
Bank debt	105,299	-	105,299
Lease liabilities	211	211	-
Total financial liabilities	\$ 141,425	\$ 36,126	\$ 105,299

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21. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities; and
- To maximize shareholder return through enhancing share value.

The Company's capital structure may be adjusted by issuing or repurchasing equity and/or debt instruments, modifying capital spending programs and disposing of assets. Management continually reviews its approach to capital management, particularly when there are major changes to the Company such as major acquisitions and believes this approach is appropriate. The Company's key capital management measures include adjusted EBITDA, adjusted funds flow, free funds flow and net debt, which are calculated and described below. There have been no changes to the Company's capital management strategies during the year ended December 31, 2025. These capital management measures are not standardized and therefore may not be comparable with the calculation of similar measures by other entities.

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, 2025	December 31, 2024
Adjusted current assets ¹	\$ 24,491	\$ 31,928
Adjusted current liabilities ¹	(35,915)	(39,041)
Adjusted working capital	(11,424)	(7,113)
Bank debt	(105,299)	(90,719)
Total net debt	\$ (116,723)	\$ (97,832)

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

The increase in net debt during the year ended December 31, 2025 is mainly due to the capital expenditures incurred in the current year.

EBITDA, Adjusted EBITDA, Adjusted Funds Flow, Free Funds Flow

EBITDA and Adjusted EBITDA

The Company considers EBITDA and 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. EBITDA is calculated by adjusting cash flows from operating activities for changes in non-cash working changes, interest and decommissioning expenditures. 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.

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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:

	Year ended December 31,	
	2025	2024
Cash flow from operating activities	\$ 56,397	\$ 65,777
Change in non-cash operating working capital	(10,520)	3,357
Net interest ¹	7,409	10,010
Adjusted EBITDA	53,286	79,144
Decommissioning expenditures	2,054	1,616
EBITDA	55,340	80,760
Net interest ¹	(7,409)	(10,010)
Adjusted funds flow	47,931	70,750
Capital expenditures, net	(59,578)	(66,451)
Free funds flow	\$ (11,647)	\$ 4,299

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

The decrease in EBITDA, Adjusted EBITDA, Adjusted funds flow and Free funds flow for the year ended December 31, 2025, compared to the same period in 2024, is primarily due to lower production and lower realized commodity pricing.

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 ARCA (note 10).

22. RELATED PARTY TRANSACTIONS

(a) Key management compensation

The remuneration of the key management personnel of the Company, which includes directors and officers is set out below in aggregate:

	Year ended December 31,	
	2025	2024
Salaries, bonuses and consulting fees	\$ 1,740	\$ 2,751
Share based compensation	2,073	1,360
Total key management compensation	\$ 3,813	\$ 4,111

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Total personnel expenses for employees, directors and management including share-based compensation were \$7.8 million for the year ended December 31, 2025 (2024 - \$7.2 million) of which \$3.1 million (2024 - \$3.6 million) has been included in general and administrative expenses, \$189 thousand (2024 - \$236 thousand) has been included in operating and transportation expenses, \$1.3 million was recorded to property, plant and equipment (2024 - \$1.4 million) and \$3.2 million (2024 - \$2.0 million) was recorded to share-based compensation.

23. SUBSEQUENT EVENTS

Subsequent to December 31, 2025, the Company granted 105,400 RSU's, 285,240 Options, \$905,350 worth of PSU's and 22,400 DSU's. The exercise price of the Options will be the market closing price on March 17, 2026.