HIGHWOOD

ASSET MANAGEMENT LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE AND SIX MONTHS ENDED JUNE 30, 2026

(unaudited)

Highwood Asset Management Ltd.

Condensed Interim Consolidated Statement of Financial Position

(all tabular amounts expressed in thousands of Canadian dollars)

(unaudited)

	Note	As at June 30, 2026	As at December 31, 2025
Assets			
Current assets			
Cash	13(a)	**$ 4,313**	$ 4,564
Accounts receivable	13(a)	**31,544**	17,094
Deposits and prepaid expenses	4	**3,493**	2,833
Commodity contracts	13(b)	**1,354**	11,996
Total current assets		**40,704**	36,487
Reclamation deposits		**18**	18
Commodity contracts	13(b)	**948**	507
Exploration and evaluation assets	3	**15,047**	11,528
Property, plant and equipment	4	**181,748**	255,406
Right-of-use assets		**43**	171
Deferred tax asset		**13,100**	17,917
Total assets		**$ 251,608**	$ 322,034
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 48,313**	$ 35,915
Commodity contracts	13(b)	**981**	-
Current portion of decommissioning liabilities	6	**2,100**	2,100
Current portion of lease liabilities		**53**	211
Total current liabilities		**51,447**	38,226
Bank debt	5	**7,391**	105,299
Decommissioning liabilities	6	**22,052**	24,446
Total liabilities		**80,890**	167,971
Shareholders' Equity			
Share capital	7	**57,203**	58,281
Warrant reserve	8	**1,062**	1,062
Share-based compensation reserve	11	**9,233**	7,715
Retained earnings		**103,220**	87,005
Total equity		**170,718**	154,063
Total liabilities and shareholders' equity		**$ 251,608**	$ 322,034

Subsequent events (note 5, 7 (d), 8, 11(b), 13(b))

Commitments (note 13(c))

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

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

Highwood Asset Management Ltd.

Condensed Interim Consolidated Statement of Income and Comprehensive Income

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

(unaudited)

	Note	Three Months Ended, June 30, 2026	Three Months Ended, June 30, 2025	Six Months Ended, June 30, 2026	Six Months Ended, June 30, 2025
Revenue					
Petroleum and natural gas sales	9	**$ 34,586**	$ 24,973	**$ 64,560**	$ 52,953
Royalties		**(8,081)**	(5,004)	**(12,318)**	(11,742)
Transportation pipeline revenues		**345**	577	**710**	1,176
Royalty and other income		**1,398**	928	**2,454**	1,794
		28,248	21,474	**55,406**	44,181
Realized gain (loss) on commodity contracts	13(b)	**(7,694)**	2,457	**(8,598)**	2,342
Unrealized gain (loss) on commodity contracts	13(b)	**14,121**	13,194	**(11,182)**	11,612
Total revenue, net of royalties and commodity contracts		**34,675**	37,125	**35,626**	58,135
Expenses					
Operating and transportation		**7,318**	6,704	**15,448**	13,674
General and administrative	4	**1,331**	1,932	**3,388**	3,797
Exploration and evaluation expenditures	3	**1**	-	**15**	87
Depletion and depreciation	4, 6	**5,477**	6,444	**11,841**	12,450
Share-based compensation	4, 11	**660**	701	**1,224**	1,176
Total expenses		**14,787**	15,781	**31,916**	31,184
Operating income		**19,888**	21,344	**3,710**	26,951
Other income (expenses)					
Gain on disposal of oil and natural gas properties	3, 4, 6	**22,144**	-	**22,144**	-
Transaction costs		**(19)**	(10)	**(19)**	(10)
Finance expenses	10	**(2,396)**	(2,326)	**(4,803)**	(4,660)
Total other income (expenses)		**19,729**	(2,336)	**17,322**	(4,670)
Income before taxes		**39,617**	19,008	**21,032**	22,281
Deferred tax expense		**8,899**	5,623	**4,817**	6,541
Income and comprehensive income for the period		**$ 30,718**	$ 13,385	**$ 16,215**	$ 15,740
Income per share:	7(c)				
Basic		$ 2.19	$ 0.92	$ 1.15	$ 1.08
Diluted		$ 2.11	$ 0.89	$ 1.11	$ 1.05

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

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

(all tabular amounts expressed in thousands of Canadian dollars)

(unaudited)

	Note	Share capital, net of treasury shares	Warrant reserve	Share-based compensation reserve	Retained earnings	Total equity
Balance, January 1, 2025		$ 60,850	$ 1,062	$ 4,877	$ 65,298	$ 132,087
Exercise of restricted share units	11	76	-	(76)	-	-
Purchase of shares held in trust	7, 11	(1,312)	-	-	-	(1,312)
Share-based compensation	4, 11 (d)	-	-	1,391	-	1,391
Income and comprehensive income for the period		-	-	-	15,740	15,740
Balance, June 30, 2025		$ 59,614	$ 1,062	$ 6,192	$ 81,038	$ 147,906
Balance, January 1, 2026		**$ 58,281**	**$ 1,062**	**$ 7,715**	**$ 87,005**	**$ 154,063**
Exercise of restricted share units	**11**	**163**	**-**	**(163)**	**-**	**-**
Purchase of shares held in trust	**7, 11**	**(1,241)**	**-**	**-**	**-**	**(1,241)**
Share-based compensation	**4, 11 (d)**	**-**	**-**	**1,681**	**-**	**1,681**
Income and comprehensive income for the period		**-**	**-**	**-**	**16,215**	**16,215**
Balance, June 30, 2026		**$ 57,203**	**$ 1,062**	**$ 9,233**	**$ 103,220**	**$ 170,718**

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Highwood Asset Management Ltd.
Condensed Interim Consolidated Statement of Cash Flows

(all tabular amounts expressed in thousands of Canadian dollars) (unaudited)	Note	Three months ended, June 30, 2026	Three months ended, June 30, 2025	Six months ended, June 30, 2026	Six months ended, June 30, 2025
Cash provided by (and used in)					
Operating activities					
Income for the period		**$ 30,718**	$ 13,385	**$ 16,215**	$ 15,740
Items not involving cash:					
Unrealized loss (gain) on commodity contracts	13(b)	**(14,121)**	(13,194)	**11,182**	(11,612)
Exploration and evaluation expenditures	3	**1**	-	**15**	87
Depletion and depreciation expense	4, 6	**5,477**	6,444	**11,841**	12,450
Finance expense	10	**450**	567	**899**	1,115
Deferred tax expense		**8,899**	5,623	**4,817**	6,541
Share-based compensation	11	**568**	570	**1,090**	1,003
Other		**19**	9	**222**	64
Gain on disposal of oil and natural gas properties	4	**(22,144)**	-	**(22,144)**	-
Cash abandonment expenditures	6	**-**	(9)	**(16)**	(89)
Change in non-cash working capital	12	**6,735**	2,689	**(2,191)**	7,037
Net cash from operating activities		**16,602**	16,084	**21,930**	32,336
Financing activities					
Payments of lease obligations		**(82)**	(94)	**(165)**	(187)
Bank debt	5	**(98,333)**	1,731	**(97,999)**	4,785
Debt issue costs	5	**(301)**	(470)	**(301)**	(484)
Purchase of shares held in trust	7, 11	**(621)**	(702)	**(1,241)**	(1,312)
Changes in non-cash working capital	12	**7**	462	**7**	448
Net cash from (used) in financing activities		**(99,330)**	927	**(99,699)**	3,250
Investing activities					
Additions to property, plant and equipment	4	**(1,684)**	(7,088)	**(10,658)**	(39,757)
Additions to exploration and evaluation assets	3	**(3,628)**	(1,928)	**(5,068)**	(3,485)
Proceeds on disposition of oil and natural gas properties	3, 4, 6	**94,181**	-	**94,181**	-
Proceeds on disposition of assets held for sale		**-**	-	**-**	1,054
Transaction costs		**(19)**	(10)	**(19)**	(10)
Change in non-cash working capital	12	**(1,924)**	(13,490)	**(918)**	4,529
Net cash from (used in) investing activities		**86,926**	(22,516)	**77,518**	(37,669)
Change in cash		**$ 4,198**	$ (5,505)	$ (251)	$ (2,083)
Cash, beginning of period		**115**	5,233	4,564	1,811
Cash, (bank overdraft), end of period		**$ 4,313**	$ (272)	$ 4,313	$ (272)
Cash (bank overdraft) is comprised of:					
Balance with bank (USD Account)		**$ 923**	$ 2,227	**$ 923**	$ 2,227
Balance with bank – (overdraft) (CAD Account)		**$ 3,390**	$ (2,499)	**$ 3,390**	$ (2,499)
Supplemental cash flow information	12				

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

1. REPORTING ENTITY

Highwood Asset Management Ltd. (the "Company") is a public company engaged in the ownership and 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 was 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 ("TSXV") under the symbol "HAM" and "HAM.WT".

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries at June 30, 2026, 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.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 19, 2026.

2. BASIS OF PREPARATION

(a) Statement of compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (IAS) 34, "Interim Financial Reporting", under IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB). Certain information and disclosures normally included in the annual consolidated financial statements have been condensed or omitted.

The condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2025 and the notes thereto.

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except as detailed in the material accounting policy information disclosed in note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2025. All material accounting policy information and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those of the previous financial year.

(b) Management's significant accounting judgments, estimates and assumptions

The timely preparation of the condensed interim 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.

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

Significant estimates, judgments and assumptions made by management in the preparation of these condensed interim financial statements can be found in note 2(d) of the Company's annual consolidated financial statements for the year ended December 31, 2025. There have been no changes during the six months ended June 30, 2026 related to significant estimates and judgments used in the preparation of the condensed interim consolidated financial statements, other than mentioned below:

(i) Contingent consideration

Contingent consideration receivable or payable arising from the acquisition or disposition of assets or businesses is recognized when the Company becomes party to the contractual arrangement and the amount can be reliably measured. Contingent consideration is initially measured at fair value based on the terms of the arrangement and management's best estimate of the expected future cash flows, including the probability, timing and amount of any payments or receipts.

For asset acquisitions or dispositions, contingent consideration is included in the determination of the cost of the assets acquired or the proceeds on disposition when the consideration is probable and can be measured reliably. Where the contingent consideration is not probable or cannot be measured reliably at the transaction date, it is recognized when the contingency is resolved or when the amount becomes reliably measurable.

3. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets are comprised of the following:

	June 30, 2026	December 31, 2025
Balance, beginning of period	**$ 11,528**	$ 8,044
Additions	**5,068**	4,204
Acquisition	**-**	47
Disposition (note 4)	**(1,534)**	-
Transfers to property, plant and equipment (note 4)	**-**	(680)
Land lease expiries	**(15)**	(87)
Balance, end of period	**$ 15,047**	$ 11,528

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 six months ended June 30, 2026 mainly related to undeveloped land and the renewal of undeveloped mineral leases.

During the six months ended June 30, 2026, the Company recorded a disposition of $1.5 million related to its Wilson Creek property (note 4).

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

4. PROPERTY, PLANT AND EQUIPMENT

COSTS		**June 30, 2026**		December 31, 2025
Balance, beginning of period	**$**	**319,815**	$	262,994
Change in decommissioning liabilities (note 6)		**1,050**		(3,664)
Additions		**11,249**		57,883
Acquisitions (dispositions)		**(104,050)**		1,922
Transferred from exploration and evaluation assets (note 3)		**-**		680
Balance, end of period	**$**	**228,064**	$	319,815
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT				
Balance, beginning of period	**$**	**(64,409)**	$	(40,493)
Disposition		**29,869**		-
Depletion and depreciation		**(11,776)**		(23,916)
Balance, end of period	**$**	**(46,316)**	$	(64,409)
Net book value	**$**	**181,748**	$	255,406

During the three and six months ended June 30, 2026, the Company capitalized $400 thousand and $790 thousand, respectively (three and six months ended June 30 2025 - $300 thousand and $710 thousand) of general and administrative costs and $282 thousand and $591 thousand, respectively (three and six months ended June 30, 2025 - $217 thousand and $388 thousand) of share-based compensation costs directly related to exploration and drilling activities.

Disposition of Wilson Creek Oil and Natural Gas Properties

On June 30, 2026, the Company closed the disposition of its Wilson Creek oil and natural gas properties for total consideration of up to $112 million. Consideration was made up of cash proceeds of $105 million, which was reduced to $98.3 million after interim closing adjustments from the effective date of April 1, 2026 to the closing date, as well as up to an aggregate of $7 million in contingent consideration. The disposed properties had a carrying value in property, plant and equipment of $74.2 million, exploration and evaluation assets of $1.5 million, deposits and prepaid expenses of $187 thousand, and decommissioning liabilities of $3.9 million. As a result of the disposition, the Company recognized a gain of $22.1 million during the six months ended June 30, 2026. Transaction costs totaling $4.1 million were included and presented as a reduction to the gain recognized.

The contingent consideration shall be paid in four quarterly contingent payments for the third quarter of 2026, fourth quarter of 2026, first quarter of 2027 and second quarter of 2027 (each a “Relevant Quarter”), each up to an individual maximum of $1.75 million. For each Relevant Quarter, Highwood will receive an amount equal to $116.7 thousand multiplied by the number of whole US dollars per barrel (US$/bbl) that the WTI Reference Price (the arithmetic average of the daily closing settlement price for WTI Crude, expressed as US$/bbl of the New York Mercantile Exchange for all trading days during that relevant quarter) exceeds the minimum threshold amount up to the maximum threshold amount, in each case for the Relevant Quarter, as set out below:

Calendar Quarter	Minimum Threshold (US$/bbl)	Maximum Threshold (US$/bbl)
Q3 2026	$85.00	$100.00
Q4 2026	$80.00	$ 95.00
Q1 2027	$75.00	$ 90.00
Q2 2027	$72.50	$ 87.50

At June 30, 2026, no amounts have been recognized related to contingent consideration.
The consideration received is subject to finalization of customary adjustments 180 days following the closing date.

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Depletion

Future development costs of $440.9 million (December 31, 2025 - $445.7 million) associated with the development of the Company's proved plus probable reserves were included in the calculation of depletion for the three and six months ended June 30, 2026. Future development costs are only included for CGUs with production.

Impairment and Impairment Reversal

As at June 30, 2026, no impairment losses or reversals were recognized.

5. BANK DEBT

	June 30, 2026	December 31, 2025
Credit facilities		
Operating Facility	**$ -**	$ -
Syndicated prime loans	**8,000**	3,000
Syndicated CORRA loans	**-**	103,000
Total loan facility	**$ 8,000**	$ 106,000
Deferred debt issuance costs	**(1,893)**	(1,745)
Amortization of debt issue costs (note 10)	**1,284**	1,044
Balance credit facilities, end of period	**$ 7,391**	$ 105,299

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 $75 million with a syndicate of banks. The ARCA is comprised of revolving credit facilities consisting of a $5 million operating facility and a syndicated loan facility to a maximum of $70 million. The ARCA allows the Company to enter into Letters of Credit up to a maximum of $10 million. During the second quarter of 2026, the term out date of the ARCA was amended from August 2, 2026 to August 2, 2027 as well as a decrease in the syndicated facility from a maximum of $130 million and the operating facility from a maximum of $10 million. The decrease in the ARCA occurred in congruence with the Wilson Creek disposition (note 4). Furthermore, the Company was granted permission under the ARCA to enter into an unsecured demand revolving letter of credit facility with Export Development Canada ("EDC Facility"). The EDC Facility allows the Company to enter in Letters of Credit up to a maximum of USD$30 million subject to limitations as outlined in the ARCA.

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% 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 June 30, 2026, 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 $75 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 November 30, 2026. The ARCA includes operating restrictions on the Company, including (among other things), limitations on acquisitions, distributions, dividends, payments relating to the EDC Facility 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 $70 million at June 30, 2026. At June 30, 2026, the Company is in compliance with this requirement.

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. At June 30, 2026, the Company is in compliance with these requirements. In conjunction with the disposition of oil and natural gas properties (note 4), the Company unwound several commodity contracts for proceeds of $1.3 million. The settlement proceeds have been included in realized gain (loss) on commodity contracts.

At June 30, 2026, the Company had $80 thousand in issued and outstanding letters of credit to suppliers of brokered commodities. Subsequent to June 30, 2026, the Company entered into two additional short term letters of credit in the amount of $3.2 million and USD$3.5 million to a suppliers of brokered commodities, both of which will expire in 2026.

6. 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 $24.2 million as at June 30, 2026 (December 31, 2025 - $26.5 million) based on an undiscounted and uninflated total future liability of $44.2 million (December 31, 2025 - $51.3 million) and discounted using a long-term risk-free rate of 3.77% (December 31, 2025 - 3.85%) and an inflation rate of 2.00% (December 31, 2025 - 2.00%). The expected timing of decommissioning expenditures extends to 2074. As at June 30, 2026, no funds have been specifically set aside to settle these obligations. Management expects future expenditures to be funded from cash flows from operating activities.

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

The following table summarizes changes in the decommissioning liabilities:

	June 30, 2026	December 31, 2025
Balance, beginning of period	**$ 26,546**	$ 29,062
Change in discount rate	**744**	(5,411)
Change in cash flow estimates [1]	**200**	1,544
New development activity and acquisition	**43**	2,406
Disposition (note 4)	**(3,865)**	-
Abandonment expenditures	**(16)**	(2,054)
Accretion expense (note 10)	**500**	999
Balance, end of period	**$ 24,152**	$ 26,546
Expected to be settled within one year	**$ 2,100**	$ 2,100
Expected to be settled beyond one year	**$ 22,052**	$ 24,446

1 Change in estimates for the six months ended June 30, 2026 was a result of minor changes in estimated future abandonment and reclamation costs.

7. 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, January 1, 2025	14,671	$ 60,850
Repurchase of common shares held in trust (note 11(b))	(503)	(2,671)
Issued on exercise of restricted share units (note 11(a))	18	102
Balance, December 31, 2025	14,186	$ 58,281
Repurchase of common shares held in trust (note 11(b))	(268)	(1,241)
Issued on exercise of restricted share units (note 11(a))	28	163
Balance, June 30, 2026	13,946	$ 57,203

c) Income per share

	Three months ended June 30, 2026			Three month ended June 30, 2025		
	Income	**Common shares (000's)**	**Income per share**	Income	Common shares (000's)	Income per share
Income - basic	**$ 30,718**	**14,010**	**$ 2.19**	$ 13,385	14,560	$ 0.92
Dilutive effect	**-**	**532**	**-**	-	413	-
Income - diluted	**$ 30,718**	**14,542**	**$ 2.11**	$ 13,385	14,973	$ 0.89

	Six months ended June 30, 2026			Six month ended June 30, 2025		
	Income	**Common shares (000's)**	**Income per share**	Income	Common shares (000's)	Income per share
Income - basic	**$ 16,215**	**14,064**	**$ 1.15**	$ 15,740	14,564	$ 1.08
Dilutive effect	**-**	**524**	**-**	-	413	-
Income - diluted	**$ 16,215**	**14,588**	**$ 1.11**	$ 15,740	14,977	$ 1.05

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

For the three months ended June 30, 2026, 654,360 options and all warrants were excluded (three months ended June 30, 2025 - all options and warrants were excluded) as they were anti-dilutive.

For the six months ended June 30, 2026 and 2025, 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.

d) Normal Course Issuer Bid

Subsequent to June 30, 2026, the TSXV approved the Company's normal course issuer bid ("NCIB"). Pursuant to the NCIB, the Company may purchase for cancellation, from time to time, as it considers advisable, up to a maximum of 567,538 common shares of the Company between July 7, 2026 and July 6, 2027. Subsequent to June 30, 2026, the Company repurchased and cancelled 28,638 common shares at a weighted average price of $5.04 per share for a cost of $144 thousand.

8. WARRANTS

Issued and outstanding	Number of Warrants (000's)	Exercise Price
Balance, December 31, 2025 and June 30, 2026	3,150	$ 7.50
Exercisable, December 31, 2025 and June 30, 2026	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. On August 3, 2026, the warrants expired unexercised.

9. 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.

	Three months ended June 30,		**Six months ended June 30,**	
	2026	2025	**2026**	2025
Oil	**$ 29,955**	$ 20,722	**$ 55,231**	$ 44,063
Natural Gas Liquids	**3,195**	2,352	**5,814**	5,058
Natural Gas	**1,436**	1,899	**3,515**	3,832
Total	**$ 34,586**	$ 24,973	**$ 64,560**	$ 52,953

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

10. FINANCE EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	**2026**	2025
Interest on bank debt	**$ 1,961**	$ 1,771	**$ 3,927**	$ 3,574
Amortization of debt issue costs (note 5)	**196**	300	**392**	599
Interest income	**(15)**	(12)	**(23)**	(29)
Accretion of decommissioning liabilities (note 6)	**251**	257	**500**	493
Other	**3**	10	**7**	23
Total	**$ 2,396**	$ 2,326	**$ 4,803**	$ 4,660

11. 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.

Options

A summary of the stock options issued and outstanding as at June 30, 2026 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2025	415	$ 7.26
Expired	(37)	(16.50)
Granted	280	6.14
Outstanding, December 31, 2025	658	6.26
Granted	285	4.82
Forfeited	(7)	-
Outstanding, June 30, 2026	936	$ 5.83
Exercisable, June 30, 2026	353	$ 6.41

Below is a summary of outstanding stock options at June 30, 2026:

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	277	$ 6.14
March 16, 2026	5 Years	281	$ 4.82

On March 16, 2026, the Company granted 285,240 options at an exercise price of $4.82 per option. The options granted vest 1/3 on each of March 16, 2027, March 16, 2028 and March 16, 2029 and have a five-year term.

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

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:

	March 16, 2026
Number of options (#000's)	285
Exercise price ($/share)	$ 4.82
Stock price on grant date ($/share)	$ 4.69
Expected life (years)	5.0
Risk-free interest rate	2.99%
Expected volatility[1]	50%
Option fair value (per option)	$ 2.15
Estimated forfeiture rate	0%
Expected dividend yield	0%

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

During the six months ended June 30, 2026, 7,397 stock options were forfeited.

Restricted Share Units ("RSU's")

A summary of RSU's issued and outstanding at June 30, 2026 is as follows:

	Number of RSU's
Outstanding, January 1, 2025	215
Exercised	(18)
Granted	141
Outstanding, December 31, 2025	338
Exercised	(27)
Granted	105
Forfeited	(4)
Outstanding, June 30, 2026	412
Vested, June 30, 2026	152

Below is a summary of outstanding RSU's at June 30, 2026.

Grant Date	**Number of RSU's (000's)**
May 30, 2022	27
August 28, 2023	49
January 4, 2024	2
April 15, 2024	106
March 21, 2025	124
March 16, 2026	104

On March 16, 2026, the Company granted 105,400 RSU's which vest 1/3 on each of March 16, 2027, March 16, 2028 and March 16, 2029.

The Company's weighted average share price for the grant in 2026 was $4.69 (June 30, 2025 – $6.14).

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

During the six months ended June 30, 2026, 27,649 RSUs were exercised resulting in 27,649 common shares being issued. During the six months ended June 30, 2026, share capital was increased by the fair value of the RSU's on the day they were exercised, at a weighted average price of $4.69 per common share, for a total of $163 thousand, with a corresponding decrease to share-based compensation reserve.

During the six months ended June 30, 2026, 3,737 RSUs were forfeited.

Deferred Share Units ("DSU's")

A summary of DSU's issued and outstanding at June 30, 2026 is as follows:

	Number of DSU's
Outstanding, January 1, 2025	50
Granted	40
Outstanding, December 31, 2025	90
Granted	22
Outstanding, June 30, 2026	112
Vested, June 30, 2026	70

Below is a summary of outstanding DSU's at June 30, 2026.

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 14, 2025	20	November 14, 2026
March 16, 2026	22	March 16, 2027

The Company's weighted average share price for the grant in 2026 was $4.69.

(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.

During the six months ended June 30, 2026, the trustee purchased 267,950 common shares for a total cost of $1.2 million and as at June 30, 2026, the trustee held 1,253,545 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.

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

Balance, January 1, 2025	$	2,415
Granted		1,960
Balance, December 31, 2025		4,375
Granted		905
Balance, June 30, 2026	$	5,280

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

Below is a summary of outstanding PSU's at June 30, 2026:

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
March 16, 2026	March 16, 2029	905

Subsequent to June 30, 2026, it was determined by the board that the performance criteria for the August 28, 2023 grant were met with a performance factor of 1.1. $250 thousand of the grant was waived by the recipient. As a result, 69,877 common shares that were held by the trustee were distributed at a weighted average price of $5.50 per common share.

(c) Share-based Compensation Expense

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	**2026**	2025
Options	**$ 191**	$ 223	**$ 398**	$ 413
RSUs	**169**	216	**365**	368
PSUs	**440**	283	**813**	491
DSUs	**50**	65	**105**	119
ESPP	**92**	131	**134**	173
Total share-based compensation	**942**	918	**1,815**	1,564
Less: capitalized amounts (note 4)	**(282)**	(217)	**(591)**	(388)
Total share-based compensation expense	**$ 660**	$ 701	**$ 1,224**	$ 1,176

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.

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

12. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

	Three months ended June 30,		Six months ended June 30,	
Source/(use) of cash	**2026**	2025	**2026**	2025
Accounts receivable	**$ 9,485**	$ (1,518)	**$ (14,653)**	$ 3,988
Deposits and prepaid expenses	**(1,186)**	(2,136)	**(847)**	(2,023)
Accounts payable and accrued liabilities	**(3,481)**	(6,685)	**12,398**	10,049
Changes in non-cash working capital	**$ 4,818**	$ (10,339)	**$ (3,102)**	$ 12,014
The above figure relates to:				
Operating activities	**$ 6,735**	$ 2,689	**$ (2,191)**	$ 7,037
Financing activities	**7**	462	**7**	448
Investing activities	**(1,924)**	(13,490)	**(918)**	4,529
Changes in non-cash working capital	**$ 4,818**	$ (10,339)	**$ (3,102)**	$ 12,014
Interest paid	**$ 1,961**	$ 1,771	**$ 3,927**	$ 3,574
Taxes paid (recovered)	**$ -**	$ -	**$ -**	$ -

13. 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, 2025.

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

(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:

	June 30, 2026	December 31, 2025
Cash	**$ 4,313**	$ 4,564
Accounts receivable	**31,544**	17,094
Deposits	**668**	692
Commodity contracts	**2,302**	12,503
Reclamation deposits	**18**	18
Total	**$ 38,845**	$ 34,871

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. At June 30, 2026, receivables from petroleum and natural gas marketers were approximately $10.7 million. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit-worthy purchasers. Approximately 49% (December 31, 2025 – 50%) of amounts due from petroleum and natural gas marketers is due from one counterparty, which is a reputable multi-national entity with investment grade credit ratings.

Receivables from brokered commodities and other related activities are normally collected on the 25th day of the month following when product was delivered. At June 30, 2026, receivables from brokered commodities and other related activities were approximately $19.5 million. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit-worthy purchasers. Approximately 62% (December 31, 2025 – 4%) of amounts due from brokered commodities and other related activities is due from one counterparty, which is a reputable multi-national entity with investment grade credit ratings. In addition this same counterparty makes up approximately 47% of accounts payable and accrued liabilities, with a net balance owing of approximately $10.7 million.

Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. At June 30, 2026, receivables from joint interest partners were approximately $1.9 million. 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 joint asset partners; however, the Company does have the ability to withhold production from partners in the event of non-payment.

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

The Company's accounts receivable are aged as follows:

	June 30, 2026	December 31, 2025
Current (less than 90 days)	**$ 28,952**	$ 15,125
Past due (more than 90 days)	**2,592**	1,969
Total	**$ 31,544**	$ 17,094

As at June 30, 2026, management believes all receivables net of provision for expected credit losses of $528 thousand (December 31, 2025 - $325 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.

(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 June 30, 2026, the Company had $650 thousand in cash, $9.5 million in accounts receivable and $17.7 million accounts payable denominated in USD (December 31, 2025 - $1.3 million in cash, $197 thousand in accounts receivable and $8.6 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 $8 million (note 5) would decrease or increase net income by approximately $31 thousand for the six months ended June 30, 2026.

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

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 June 30, 2026 as required under the ARCA (note 5):

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	1,500GJ/day	April 1, 2025 to March 31, 2027	$ 3.15 - $ 3.20	AECO
Natural Gas	400GJ/day	January 1, 2027 to March 31, 2028	$ 3.09	AECO

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
Crude Oil	100bbls/day	April 1, 2025 to December 31, 2026	$ 93.00	WTI - NYMEX
Crude Oil	200bbls/day	October 1, 2025 to December 31, 2026	$ 93.00 - $ 94.00	WTI - NYMEX
Crude Oil	200bbls/day	January 1, 2026 to December 31, 2026	$ 93.00 - $ 94.50	WTI – NYMEX
Crude Oil	100bbls/day	April 1, 2026 to December 31, 2026	$ 99.50	WTI – NYMEX

Product	Notional Volume	Term	Contract Price (USD/bbl)	Index
Crude Oil	100bbls/day	January 1, 2026 to December 31, 2026	$ 66.00	WTI - NYMEX
Crude Oil	400bbls/day	April 1, 2026 to March 31, 2027	$ 65.00 - $ 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 - $ 70.00	WTI – NYMEX
Crude Oil	300bbls/day	April 1, 2027 to December 31, 2027	$ 67.00 - $ 68.00	WTI – NYMEX
Crude Oil	200bbls/day	July 1, 2027 to December 31, 2027	$ 70.00 - $ 71.00	WTI – NYMEX
Crude Oil	800bbls/day	January 1, 2028 to December 31, 2028	$ 65.00 - $ 70.00	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
MSW Differential	500bbls/day	April 1, 2026 to December 31, 2026	$ 4.75	TMX-1A-SW

Product	Notional Volume	Term	Contract Price (USD/bbl)	Index
MSW Differential	200bbls/day	May 1, 2026 to September 30, 2026	$ (2.30)	TMR-FIN-SW
MSW Differential	200bbls/day	May 1, 2026 to December 31, 2026	$ (1.00)	TMR-FIN-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)

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

The commodity contracts had a total fair value at June 30, 2026 of an asset of $2.3 million and a liability of $981 thousand (December 31, 2025 - asset of $12.5 million). The corresponding unrealized gain/loss for the three and six months ended June 30, 2026 was a gain of $14.1 million and a loss of $11.2 million, respectively (three and six months ended June 30, 2025 – unrealized gain of $13.2 million and $11.6 million), and is included in the statement of income and comprehensive income. Total realized loss for the three and six months ended June 30, 2026 was $7.7 million and $8.6 million, respectively (three and six months ended June 30, 2025 - gain of $2.5 million and $2.3 million) and is also included in the statement of income and comprehensive income.

For the six months ended June 30, 2026, 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 $254 thousand.

Subsequent to June 30, 2026, the Company entered into the following commodity contracts:

Swaps:

Product	Notional Volume	Term	Contract Price (USD/bbl)	Index
MSW Differential	550bbls/day	January 1, 2027 to December 31, 2027	$ 3.90 - $ 4.25	TMR-FIN-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.

At June 30, 2026, the Company had a working capital deficit of $9.0 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 June 30, 2026, was mainly driven by the capital program incurred during the first half of the year along with settlement of payables for brokered commodities activities. 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 1, 2028; 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 June 30, 2026.

The following table details the Company's financial liabilities, excluding commodity contracts, as at June 30, 2026:

	Total	**<1 year**	**1-3 years**
Accounts payable and accrued liabilities	**$ 48,313**	$ 48,313	$ -
Bank debt	**7,391**	-	7,391
Lease liabilities	**53**	53	-
Total financial liabilities	**$ 55,757**	$ 48,366	$ 7,391

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

In addition to the financial liabilities above, the Company entered into a new lease for its existing office space. The agreement takes effect in September 2026 and has a term of five years. Gross payment obligations related to the new lease, excluding occupancy costs, are approximately $600 thousand annually.

14. 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 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 three and six months ended June 30, 2026. 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:

	June 30, 2026	December 31, 2025
Adjusted current assets[1]	**$ 39,350**	$ 24,491
Adjusted current liabilities[1]	**(48,313)**	(35,915)
Adjusted working capital	**(8,963)**	(11,424)
Bank debt	**(7,391)**	(105,299)
Total net debt	**$ (16,354)**	$ (116,723)

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

The decrease in net debt during the six months ended June 30, 2026 is mainly due to the repayment of bank debt in conjunction with the disposition of the Company's Wilson Creek oil and natural gas properties during the current quarter (note 4).

EBITDA, Adjusted Funds Flow, Free Funds Flow

EBITDA

The Company considers 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.

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

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.

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") and decommissioning expenditures.

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

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	**2026**	2025
Cash flow from operating activities	**$ 16,602**	$ 16,084	**$ 21,930**	$ 32,336
Change in non-cash operating working capital	**(6,735)**	(2,689)	**2,191**	(7,037)
Net interest[1]	**1,946**	1,759	**3,904**	3,545
Decommissioning expenditures	**-**	9	**16**	89
EBITDA	**11,813**	15,163	**28,041**	28,933
Net interest[1]	**(1,946)**	(1,759)	**(3,904)**	(3,545)
Adjusted funds flow	**9,867**	13,404	**24,137**	25,388
Decommissioning expenditures	**-**	(9)	**(16)**	(89)
Capital expenditures, net	**88,869**	(9,016)	**78,455**	(42,188)
Free funds flow	**$ 98,736**	$ 4,379	**$ 102,576**	$ (16,889)

Note 1: Net interest is interest on bank debt less interest income

The decrease in EBITDA and Adjusted funds flow for the three months ended June 30, 2026, compared to the same period in 2025, is primarily due to losses on commodity contracts.

During the six months ended June 30, 2026, the Company realized strong overall commodity prices while also incurring losses on commodity contracts, and this contributed to the slight overall decrease in EBITDA, and Adjusted funds flow, compared to the same period in 2025.

Increased Free funds flow for the three and six months ended June 30, 2026 was primarily due to the disposition of the Company's Wilson Creek property (note 4), compared to the same periods last year.