HIGHWOOD
ASSET MANAGEMENT LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2025
(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 March 31, 2025	As at December 31, 2024
Assets			
Current assets			
Cash	14(a)	**$ 5,233**	$ 1,811
Accounts receivable	3, 14(a)	**21,125**	26,631
Deposits and prepaid expenses		**2,266**	2,379
Assets held for sale	5	**-**	1,107
Commodity contracts	14(b)	**164**	1,469
Total current assets		**28,788**	33,397
Reclamation deposits		**18**	18
Acquisition deposit		**-**	476
Commodity contracts	14(b)	**459**	615
Exploration and evaluation assets	4	**9,561**	8,044
Property, plant and equipment	5	**253,198**	222,501
Right-of-use assets		**381**	456
Deferred tax asset		**25,701**	26,619
Total assets		**$ 318,106**	$ 292,126
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 55,775**	$ 39,041
Commodity contracts	14(b)	**808**	443
Current portion of decommissioning liabilities	7	**1,600**	1,600
Current portion of lease liabilities		**317**	317
Total current liabilities		**58,500**	41,401
Bank debt	6	**94,058**	90,719
Commodity contracts	14(b)	**-**	244
Lease liabilities		**133**	213
Decommissioning liabilities	7	**30,979**	27,462
Total liabilities		**183,670**	160,039
Shareholders' Equity			
Share capital	8	**60,247**	60,850
Warrant reserve	9	**1,062**	1,062
Share-based compensation reserve	12	**5,474**	4,877
Retained earnings		**67,653**	65,298
Total equity		**134,436**	132,087
Total liabilities and shareholders' equity		**$ 318,106**	$ 292,126

Subsequent events (note 14)

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 (Loss) and Comprehensive Income (Loss)

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

	Note	**Three Months Ended March 31, 2025**	Three Months Ended March 31, 2024
Revenue			
Petroleum and natural gas sales	10	**$ 27,980**	$ 29,089
Royalties		**(6,738)**	(5,833)
Transportation pipeline revenues		**599**	689
Royalty and other income		**866**	572
		22,707	24,517
Realized gain (loss) on commodity contracts	14(b)	**(115)**	722
Unrealized gain (loss) on commodity contracts	14(b)	**(1,582)**	(9,270)
Total revenue, net of royalties and commodity contracts		**21,010**	15,969
Expenses			
Operating and transportation		**6,970**	6,205
General and administrative	5	**1,865**	1,430
Exploration and evaluation expenditures	4	**87**	128
Depletion and depreciation	5, 7	**6,006**	5,426
Share-based compensation	5, 12	**475**	209
Total expenses		**15,403**	13,398
Operating income		**5,607**	2,571
Other income (expenses)			
Transaction costs		**-**	(104)
Finance expenses	11	**(2,334)**	(3,116)
Total other income (expenses)		**(2,334)**	(3,220)
Income (loss) before taxes		**3,273**	(649)
Deferred tax recovery (expense)		**(918)**	105
Income (loss) and comprehensive income (loss) for the period		**$ 2,355**	$ (544)
Income (loss) per share:	8(c)		
Basic		$ 0.16	$ (0.04)
Diluted		$ 0.16	$ (0.04)

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, 2024		$ 62,440	$ 1,062	$ 3,349	$ 37,348	$ 104,199
Exercise of restricted share units	12	185	-	(185)	-	-
Purchase of shares held in trust	8, 12	(375)	-	-	-	(375)
Share-based compensation	12	-	-	156		156
Loss and comprehensive loss for the period		-	-	-	(544)	(544)
Balance, March 31, 2024		$ 62,250	$ 1,062	$ 3,320	$ 36,804	$103,436
Balance, January 1, 2025		**$ 60,850**	**$ 1,062**	**$ 4,877**	**$ 65,298**	**$ 132,087**
Exercise of restricted share units	**12**	**7**	**-**	**(7)**	**-**	**-**
Purchase of shares held in trust	**8, 12**	**(610)**	**-**	**-**	**-**	**(610)**
Share-based compensation	**5, 12**	**-**	**-**	**604**	**-**	**604**
Income and comprehensive income for the period		**-**	**-**	**-**	**2,355**	**2,355**
Balance, March 31, 2025		**$ 60,247**	**$ 1,062**	**$ 5,474**	**$ 67,653**	**$ 134,436**

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)		**Three Months Ended March 31,**	
(unaudited)	**Note**	**2025**	**2024**
Cash provided by (and used in)			
Operating activities			
Income (loss) for the period		**$ 2,355**	$ (544)
Items not involving cash:			
Unrealized loss on commodity contracts	14(b)	**1,582**	9,270
Exploration and evaluation expenditures	4	**87**	128
Depletion and depreciation expense	5, 7	**6,006**	5,426
Finance expense	11	**548**	408
Deferred tax expense (recovery)		**918**	(105)
Share-based compensation	12	**433**	156
Other		**55**	88
Cash abandonment expenditures	7	**(80)**	(100)
Change in long-term accounts payable and accrued liabilities		**-**	(71)
Change in non-cash working capital	13	**4,348**	(3,239)
Net cash from operating activities		**16,252**	11,417
Financing activities			
Payments of lease obligations		**(93)**	(62)
Purchase of shares held in trust	8, 12	**(610)**	(375)
Bank debt	6	**3,054**	-
Debt issue costs	6	**(14)**	-
Changes in non-cash working capital	13	**(14)**	362
Net cash from (used in) financing activities		**2,323**	(75)
Investing activities			
Additions to property, plant and equipment	5	**(32,669)**	(24,145)
Additions to exploration and evaluation assets	4	**(1,557)**	(1,512)
Proceeds on disposition of assets held for sale	5	**1,054**	-
Transaction costs		**-**	(104)
Additions to right-of-use assets		**-**	(32)
Change in non-cash working capital	13	**18,019**	15,416
Net cash used in investing activities		**(15,153)**	(10,377)
Change in cash		**$ 3,422**	$ 965
Cash, beginning of period		**1,811**	2,289
Cash, end of period		**$ 5,233**	$ 3,254
Supplemental cash flow information	13		

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 & 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 condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries at March 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.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 14, 2025.

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 International Financial Reporting Standards (IFRS Accounting Standards) as issued by the International Accounting Standards Board (IASB). Certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS Accounting Standards 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, 2024 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, 2024. 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. 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 and judgments can be found in note 2(d) of the Company's annual consolidated financial statements for the year ended December 31, 2024. There have been no changes during the three months ended March 31, 2025 related to significant estimates and judgments used in the preparation of the condensed interim consolidated financial statements.

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

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	March 31, 2025	December 31, 2024
Petroleum and natural gas marketers	**$ 17,346**	$ 24,227
Joint interest partners	**2,131**	1,658
Road use receivable	**487**	509
Royalty and other income	**83**	31
Other	**1,422**	550
Allowance for doubtful accounts	**(344)**	(344)
	$ 21,125	$ 26,631

4. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets are comprised of the following:

	March 31, 2025	December 31, 2024
Balance, beginning of period	**$ 8,044**	$ 1,461
Additions	**1,557**	12,499
Acquisition	**47**	-
Transfers to property, plant and equipment (note 5)	**-**	(5,761)
Land lease expiries	**(87)**	(155)
Balance, end of period	**$ 9,561**	$ 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 three months ended March 31, 2025 mainly related to undeveloped mineral leases and undeveloped upstream oil and gas lands.

At March 31, 2025, there were no indicators of impairment and therefore an impairment test was not performed.

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5. PROPERTY, PLANT AND EQUIPMENT

COSTS		March 31, 2025		December 31, 2024
Balance, beginning of period	**$**	**262,994**	$	204,621
Change in decommissioning liabilities (note 7)		**1,306**		(1,444)
Additions		**32,840**		54,056
Acquisition		**2,499**		-
Transferred from exploration and evaluation assets (note 4)		**-**		5,761
Balance, end of period	**$**	**299,639**	$	262,994
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT				
Balance, beginning of period	**$**	**(40,493)**	$	(14,947)
Depletion and depreciation		**(5,948)**		(25,546)
Balance, end of period	**$**	**(46,441)**	$	(40,493)
Net book value	**$**	**253,198**	$	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 three months ended March 31, 2025, the Company capitalized $410 thousand (three months ended March 31, 2024 - $100 thousand) of general and administrative costs and $171 thousand (three month ended March 31, 2024 - $nil) of share-based compensation costs directly related to exploration and drilling activities.

Depletion

Future development costs of $419.5 million (December 31, 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 three months ended March 31, 2025. Future development costs are only included for CGUs with production.

Impairment and Impairment Reversal

The Company assesses many factors when determining if an impairment test should be performed. At March 31, 2025, the Company conducted an assessment of impairment indicators for the Company's CGUs. No indicators of impairment at March 31, 2025 were identified and therefore an impairment test was not performed.

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

6. BANK DEBT

	March 31, 2025	December 31, 2024
Credit facilities		
Syndicated prime loans	$ 5,000	$ 11,500
Syndicated CORRA loans	90,000	80,000
Total Syndicated loan facility	$ 95,000	$ 91,500
Operating facility	-	446
Total draw, end of period	$ 95,000	$ 91,946
Debt issue costs incurred	(2,339)	(2,325)
Amortization of debt issue costs (note 11)	1,397	1,098
Balance credit facilities, end of period	$ 94,058	$ 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 $120 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 $110 million. The ARCA allows the Company to enter into Letters of Credit up to a maximum of $20 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 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 March 31, 2025, the Company had an effective interest rate of prime plus 3.00% per annum on prime-based loans under the ARCA and CORRA plus 4.00% 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 $120 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, 2025. 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 $110 million at March 31, 2025. At March 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, at or in excess of US$60.00/bbl (or the Canadian equivalent). In addition, the Company shall not enter into commodity contracts where the volume exceeds (a) 75% of expected production for the 12 months following the month in which the agreement is entered into (b) 65% of expected production for the 13 through to 24 months following the month in which the agreement is entered into (c) 50% of expected production for the 25 through 36 months following the month which the agreement is entered into and (d) 30% of the expected production for the 37 to 48 months which the agreement is entered into. At March 31, 2025, the Company is in compliance with these requirements.

At March 31, 2025, the Company had $1.5 million in issued and outstanding letters of credit to suppliers of brokered commodities while credit is being established.

7. 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 $32.6 million as at March 31, 2025 (December 31, 2024 - $29.1 million) based on an undiscounted and uninflated total future liability of $51.6 million (December 31, 2024 - $48.1 million) and discounted using a long-term risk-free rate of 3.23% (December 31, 2024 - 3.33%) and an inflation rate of 2.00% (December 31, 2024 - 2.00%). The expected timing of decommissioning expenditures extends to 2074. As at March 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:

	March 31, 2025	December 31, 2024
Balance, beginning of period	**$ 29,062**	$ 31,089
Change in discount rate	**1,157**	(3,950)
Change in cash flow estimates [1]	**(51)**	1,681
New development activity and acquisition	**2,255**	938
Abandonment expenditures	**(80)**	(1,616)
Accretion expense (note 11)	**236**	920
Balance, end of period	**$ 32,579**	$ 29,062
Expected to be settled within one year	**$ 1,600**	$ 1,600
Expected to be settled beyond one year	**$ 30,979**	$ 27,462

1 Change in estimates for the three months ended March 31, 2025 was a result of changes in estimated future abandonment and reclamation costs.

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

8. 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, 2024	14,935	$ 62,440
Repurchase of common shares held in trust (note 12)	(302)	(1,801)
Issued on exercise of restricted share units (note 12)	38	211
Balance, December 31, 2024	14,671	$ 60,850
Repurchase of common shares held in trust (note 12)	(104)	(610)
Issued on exercise of restricted share units (note 12)	1	7
Balance, March 31, 2025	14,568	$ 60,247

c) Income (loss) per share

	March 31, 2025			March 31, 2024		
	Income	**Common shares (000's)**	**Income per share**	Loss	Common shares (000's)	Loss per share
Income (loss) - basic	**$ 2,355**	**14,616**	**$ 0.16**	$ (544)	14,937	$ (0.04)
Dilutive effect	**-**	**425**	**-**	-	110	-
Income (loss) - diluted	**$ 2,355**	**15,041**	**$ 0.16**	$ (544)	15,047	$ (0.04)

For the three months ended March 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.

9. WARRANTS

Issued and outstanding	Number of Warrants (000's)	Exercise Price
Balance, January 1, 2024	3,150	$ 7.50
Balance, December 31, 2024 and March 31, 2025	3,150	$ 7.50
Exercisable, March 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 March 31, 2025, the remaining life of the warrants is 1.34 years.

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

10. 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 March 31,	
	2025	2024
Oil	**$ 23,341**	$ 25,473
Natural Gas Liquids	**2,706**	2,016
Natural Gas	**1,933**	1,600
Total	**$ 27,980**	$ 29,089

11. FINANCE EXPENSE

	Three months ended March 31,	
	2025	2024
Interest on bank debt	**$ 1,803**	$ 2,285
Interest on promissory note	**-**	454
Amortization of debt issue costs (note 6)	**299**	166
Interest income	**(17)**	(31)
Accretion of decommissioning liabilities (note 7)	**236**	229
Other	**13**	13
Total	**$ 2,334**	$ 3,116

12. 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.

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

Options

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

	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2024	222	$ 10.48
Expired	(93)	(11.07)
Granted	286	6.00
Outstanding, December 31, 2024	415	7.26
Granted	280	6.14
Outstanding, March 31, 2025	695	6.81
Exercisable, March 31, 2025	88	$ 11.91

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

Grant Date	Term	Number of Options ('000)	Exercise Price
August 27, 2020	5 Years	37	$ 16.50
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 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:

	March 21, 2025
Number of options (#000's)	280
Exercise price ($/share)	$ 6.14
Stock price on grant date ($/share)	$ 6.14
Expected life (years)	5.0
Risk-free interest rate	2.66%
Expected volatility[1]	50%
Option fair value (per option)	$ 2.84
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.

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

Restricted Share Units ("RSU's")

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

	Number of RSU's
Outstanding, January 1, 2024	120
Exercised	(38)
Expired	(1)
Granted	134
Outstanding, December 31, 2024	215
Exercised	(1)
Granted	141
Outstanding, March 31, 2025	355
Vested, March 31, 2025	41

Below is a summary of outstanding RSU's at March 31, 2025.

Grant Date	**Number of RSU's (000's)**
May 30, 2022	27
August 28, 2023	54
January 4, 2024	3
April 15, 2024	130
March 21, 2025	141

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.

During the three months ended March 31, 2025, 1,466 RSU's were exercised resulting in 1,466 common shares being issued. During the three months ended March 31, 2025, share capital was increased by the fair value of the RSU's on the day they were exercised, being $4.50 per common share, for a total of $7 thousand, with a corresponding decrease to share-based compensation reserve.

Deferred Share Units ("DSU's")

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

	Number of DSU's
Outstanding, January 1, 2024	20
Granted	40
Forfeited	(10)
Outstanding, December 31, 2024	50
Granted	20
Outstanding, March 31, 2025	70
Vested, March 31, 2025	15

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

Below is a summary of outstanding DSU's at March 31, 2025.

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

On March 21, 2025, the Company granted 20,000 DSU's which vest on March 21, 2026.

The Company's weighted average share price for the grants in 2025 was $6.14.

(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. PSUs 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 three months ended March 31, 2025, the trustee purchased 103,766 common shares for a total cost of $610 thousand and as at March 31, 2025, the trustee held 585,826 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, January 1, 2024	$ 609
Granted	1,806
Balance, December 31, 2024	2,415
Granted	980
Balance, March 31, 2025	$ 3,395

Below is a summary of outstanding PSU's at March 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

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

(c) Share-based Compensation Expense

	Three months ended March 31, 2025	2024
Options	$ **190**	$ 24
RSU's	**152**	59
PSU's	**208**	53
DSU's	**54**	20
ESPP	**42**	53
Total share-based compensation	**646**	209
Less: capitalized amounts (note 5)	**(171)**	-
Total share-based compensation expense	$ **475**	$ 209

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.

13. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

Source/(use) of cash	Three Months ended March 31, 2025	2024
Accounts receivable	$ **5,506**	$ (4,512)
Deposits and prepaid expenses	**113**	392
Accounts payable and accrued liabilities	**16,734**	16,659
Changes in non-cash working capital	$ **22,353**	$ 12,539

	Three Months ended March 31, 2025	2024
The above figure relates to:		
Operating activities	$ **4,348**	$ (3,239)
Financing activities	**(14)**	362
Investing activities	**18,019**	15,416
Changes in non-cash working capital	$ **22,353**	$ 12,539
Interest paid	$ **1,803**	$ 2,285
Taxes paid	$ **-**	$ -

14. 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.

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

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.

(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:

	March 31, 2025	December 31, 2024
Cash	**$ 5,233**	$ 1,811
Accounts receivable	**21,125**	26,631
Deposits	**523**	504
Commodity contracts	**623**	2,084
Reclamation deposits	**18**	18
Total	**$ 27,522**	$ 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% (December 31, 2024 – 24%) of accounts receivable is due from one counterparty, which is a reputable multi-national entity with nominal credit risk. In addition, approximately 59% (three month period ended March 31, 2024 – 34%) of petroleum and natural gas sales are received from this same counterparty. 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.

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

The Company's accounts receivable are aged as follows:

	March 31, 2025	December 31, 2024
Current (less than 90 days)	**$ 19,115**	**$ 24,281**
Past due (more than 90 days)	**2,010**	**2,350**
Total	**$ 21,125**	**$ 26,631**

As at March 31, 2025, management believes all receivables net of provision for expected credit losses of $344 thousand (December 31, 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.

(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, with future cash payments directly impacted by the exchange rate in effect at the time of payment. At March 31, 2025, the Company had $1.7 million in account receivable and $5.2 million accounts payable denominated in USD (December 31, 2024 - $1.2 million in account 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 $95.0 million (note 6) would decrease or increase net income by approximately $183 thousand for the three months ended March 31, 2025.

(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 at March 31, 2025 as required under the ARCA (note 6):

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	800GJ/day	November 1, 2025 to March 31, 2028	$ 3.00	AECO
Natural Gas	400GJ/day	October 1, 2025 to March 31, 2028	$ 3.01	AECO

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
Crude Oil	200bbls/day	April 1, 2024 to September 30, 2025	$ 95.75 - $ 100.00	WTI - NYMEX
Crude Oil	200bbls/day	May 1, 2024 to October 31, 2025	$ 102.50 - $ 104.00	WTI - NYMEX
Crude Oil	300bbls/day	May 1, 2024 to December 31, 2025	$ 105.00 - $ 106.00	WTI - NYMEX
Crude Oil	100bbls/day	October 1, 2024 to September 30, 2025	$ 95.50	WTI - NYMEX
Crude Oil	100bbls/day	October 1, 2024 to December 31, 2025	$ 101.00	WTI - NYMEX
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	November 1, 2024 to July 31, 2025	$ 95.00	WTI - NYMEX
Crude Oil	200bbls/day	January 1, 2025 to December 31, 2025	$ 92.00 - $ 92.23	WTI - NYMEX
Crude Oil	100bbls/day	February 1, 2025 to December 31, 2026	93.00	WTI - NYMEX
Crude Oil	500bbls/day	April 1, 2025 to September 30, 2025	$ 94.00 - $ 95.00	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 June 30, 2026	$ 91.50	WTI - NYMEX
Crude Oil	100bbls/day	October 1, 2025 to March 31, 2026	$ 97.00	WTI - NYMEX
Crude Oil	200bbls/day	October 1, 2025 to September 30, 2026	$ 93.00 - $ 96.00	WTI - NYMEX
Crude Oil	400bbls/day	October 1, 2025 to December 31, 2026	$ 92.00 - $ 94.00	WTI - NYMEX
Crude Oil	500bbls/day	January 1, 2026 to December 31, 2026	$ 93.00 - $ 96.00	WTI - NYMEX

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
MSW Differential	100bbls/day	April 1, 2024 to September 30, 2025	$ 4.75	TMX-1A-SW
MSW Differential	500bbls/day	June 1, 2024 to September 30, 2025	$ 3.75	TMX-1A-SW
MSW Differential	600bbls/day	January 1, 2025 to December 31, 2025	$ 4.75 - $ 5.25	TMX-1A-SW
MSW Differential	650bbls/day	May 1, 2025 to December 31, 2025	$ 6.25 - $ 6.40	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)

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The commodity contracts had a total fair value at March 31, 2025 of a liability of $185 thousand (December 31, 2024 – asset of $1.4 million). The corresponding unrealized loss for the three months ended March 31, 2025 was $1.58 million (three months ended March 31, 2024 – $9.27 million) and is included in the statement of income (loss) and comprehensive income (loss). Total realized gain (loss) for the three months ended March 31, 2025 was $(115 thousand) (three months ended March 31, 2024 – gain of $722 thousand) and is also included in the statement of income (loss) and comprehensive income (loss).

For the three months ended March 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 $489 thousand.

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

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
MSW Differential	200bbls/day	October 1, 2025 to December 31, 2025	$ 6.25	TMX-1A-SW
MSW Differential	750bbls/day	January 1, 2026 to December 31, 2026	$ 6.75	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 March 31, 2025, the Company had a working capital deficit of $27.2 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 March 31, 2025, was mainly driven by the capital program incurred during the first quarter of 2025. 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, 2026; 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. 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 at March 31, 2025.

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

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

	Total	**<1 year**	**1-3 years**
Accounts payable and accrued liabilities	**$ 55,775**	$ 55,775	$ -
Bank debt	**94,058**	-	94,058
Lease liabilities	**450**	317	133
Total financial liabilities	**$ 150,283**	$ 56,092	$ 94,191

15. 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 three months ended March 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:

	March 31, 2025	December 31, 2024
Adjusted current assets[1]	**$ 28,624**	$ 31,928
Adjusted current liabilities[1]	**(55,775)**	(39,041)
Adjusted working capital	**(27,151)**	(7,113)
Bank debt	**(94,058)**	(90,719)
Total net debt	**$ (121,209)**	$ (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 three months ended March 31, 2025 is due to the capital expenditures incurred in the first quarter.

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

Adjusted EBITDA, Adjusted Funds Flow, Free Funds Flow

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

	Three months ended March 31,	
	2025	2024
Cash flow from operating activities	**$ 16,252**	$ 11,417
Change in non-cash working capital and long-term payables	**(4,348)**	3,310
Net interest[1]	**1,786**	2,708
Adjusted EBITDA	**13,690**	17,435
Decommissioning expenditures	**80**	100
Net interest[1]	**(1,786)**	(2,708)
Adjusted funds flow	**11,984**	14,827
Capital expenditures, net	**(33,172)**	(25,657)
Free funds flow	**$ (21,188)**	$ (10,830)

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

The decrease in Adjusted EBITDA, Adjusted funds flow and Free funds flow for the three months ended March 31, 2025, compared to the same period in 2024, is primarily due to increased capital expenditures during the current period.

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 6).