



HIGHWOOD

ASSET MANAGEMENT LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2024
(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 2024	As at December 31 2023
Assets			
Current assets			
Cash		\$ 3,254	\$ 2,289
Accounts receivable	3, 16(a)	23,205	18,693
Deposits and prepaid expenses		1,620	1,862
Assets held for sale	5	1,107	1,107
Commodity contracts	16(b)	-	5,548
Total current assets		29,186	29,499
Reclamation deposits		18	18
Commodity contracts	16(b)	-	476
Exploration and evaluation assets	4	2,845	1,461
Property, plant and equipment	5	204,895	189,674
Right-of-use assets		96	739
Deferred tax asset		35,317	35,212
Total assets		\$ 272,357	\$ 257,079
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 49,775	\$ 33,570
Commodity contracts	16(b)	2,210	-
Current portion of promissory note	7	8,202	4,248
Current portion of decommissioning liabilities	8	1,600	1,600
Current portion of lease liabilities		94	178
Total current liabilities		61,881	39,596
Bank debt	6	72,630	72,464
Accounts payable and accrued liabilities	16(c)	159	220
Commodity contracts	16(b)	1,186	-
Promissory note	7	7,000	10,500
Lease liabilities		-	611
Decommissioning liabilities	8	26,065	29,489
Total liabilities		168,921	152,880
Shareholders' Equity			
Share capital	9	62,250	62,440
Warrant reserve	10	1,062	1,062
Share-based compensation reserve	13	3,320	3,349
Retained earnings		36,804	37,348
Total equity		103,436	104,199
Total liabilities and shareholders' equity		\$ 272,357	\$ 257,079

Commitments (note 15), Subsequent events (note 13, 16(b), 16(c))

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Approved by the Board:

“Signed”, Stephen J Holyoake, Director

“Signed”, Ryan Mooney, Director

Highwood Asset Management Ltd.
Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

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

	Note	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Revenue			
Petroleum and natural gas sales	11	\$ 29,089	\$ 958
Royalties		(5,833)	(305)
Transportation pipeline revenues		689	748
Royalty and other income		572	390
		24,517	1,791
Realized gain on commodity contracts	16(b)	722	-
Unrealized loss on commodity contracts	16(b)	(9,270)	-
Total revenue, net of royalties and commodity contracts		15,969	1,791
Expenses			
Operating and transportation		6,205	662
General and administrative		1,430	785
Exploration and evaluation expenditures		128	-
Depletion and depreciation	5, 8	5,426	236
Share-based compensation	13	209	59
Total expenses		13,398	1,742
Operating income		2,571	49
Other expenses			
Transaction costs		(104)	-
Finance expenses	12	(3,116)	(46)
Total other expenses		(3,220)	(46)
Income (loss) before taxes		(649)	3
Deferred tax recovery (expense)		105	(30)
Loss and comprehensive loss for the period		\$ (544)	\$ (27)
Loss per share:			
	9(c)		
Basic		\$ (0.04)	\$ 0.00
Diluted		\$ (0.04)	\$ 0.00

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 (Deficit)	Total equity
Balance, January 1, 2023		\$ 16,564	\$ -	\$ 2,929	\$ (8,796)	\$ 10,697
Share-based compensation	13	-	-	59	-	59
Loss and comprehensive loss for the period		-	-	-	(27)	(27)
Balance, March 31, 2023		\$ 16,564	\$ -	\$ 2,988	\$ (8,823)	\$ 10,729
Balance, January 1, 2024		\$ 62,440	\$ 1,062	\$ 3,349	\$ 37,348	\$ 104,199
Exercise of restricted share units	13	185	-	(185)	-	-
Purchase of shares held in trust	9, 13	(375)	-	-	-	(375)
Share-based compensation	13	-	-	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

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	2024	2023
Cash provided by (and used in)			
Operating activities			
Loss for the period		\$ (544)	\$ (27)
Items not involving cash:			
Unrealized loss on commodity contracts	16(b)	9,270	-
Exploration and evaluation expenditures	4	128	-
Depletion and depreciation expense	5, 8	5,426	236
Finance expense	12	408	34
Deferred tax (recovery) expense		(105)	30
Share-based compensation	13	156	59
Other		88	(54)
Cash abandonment expenditures	8	(100)	(6)
Change in long-term accounts payable and accrued liabilities		(71)	(126)
Change in non-cash working capital	14	(3,239)	(470)
<i>Net cash from (used in) operating activities</i>		11,417	(324)
Financing activities			
Payments of lease obligations		(62)	(6)
Bank debt, net of repayments	6	-	350
Purchase of shares held in trust	13	(375)	-
Changes in non-cash working capital	14	362	-
<i>Net cash from (used) in financing activities</i>		(75)	344
Investing activities			
Additions to property, plant and equipment	5	(24,145)	(677)
Additions to exploration and evaluation assets	4	(1,512)	(8)
Proceeds on dispositions of exploration and evaluation assets		-	75
Transaction costs		(104)	-
Lease additions		(32)	-
Change in non-cash working capital	14	15,416	332
<i>Net cash used in investing activities</i>		(10,377)	(278)
Change in cash		\$ 965	\$ (258)
Cash, beginning of period		2,289	6
Cash, (bank overdraft), end of period		\$ 3,254	\$ (252)
Supplemental cash flow information	14		

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Highwood Asset Management Ltd.
Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2024 and 2023

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

1. REPORTING ENTITY

Highwood Asset Management Ltd. (the “Company”) is a public company engaged in the ownership & oversight of various operations with a primary focus on oil and gas production, with operations also in midstream energy and land holdings of metallic minerals. The Company incorporated in Alberta, Canada on August 24, 2012. The Company conducts its operations in Western Canada, primarily in the province of Alberta. The Company’s principal place of business is located at #500, 600 - 3rd Avenue SW, Calgary, Alberta, T2P 0G5.

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, 2024, Castlegate Energy Partnership, 2312882 Alberta Ltd., Cataract Creek Environmental Ltd., Renewable EV Battery Cleantech Corp. and 2339364 Alberta Ltd.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 15, 2024.

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”, using accounting policies consistent with International Financial Reporting Standards (IFRS) 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 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, 2023 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, 2023. 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 (loss) 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.

A full list of 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, 2023. There have been no changes during the three months ended March 31, 2024 related to significant estimates and judgments used in the preparation of the consolidated financial statements.

Highwood Asset Management Ltd.
Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2024 and 2023

(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, 2024	December 31, 2023
Petroleum and natural gas marketers	\$ 20,142	\$ 15,133
Joint interest partners	2,321	2,731
Road use receivable	486	454
Royalty and other income	33	33
Other	567	686
Allowance for doubtful accounts	(344)	(344)
	\$ 23,205	\$ 18,693

4. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets are comprised of the following:

	March 31, 2024	December 31, 2023
Balance, beginning of period	\$ 1,461	\$ 951
Additions	1,512	1,372
Dispositions	-	(21)
Transfers to property, plant and equipment (note 5)	-	(626)
Land lease expiries	(128)	(215)
Balance, end of period	\$ 2,845	\$ 1,461

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

Additions during the three months ended March 31, 2024 mainly related to undeveloped mining and mineral leases and undeveloped upstream oil and gas lands.

At March 31, 2024, there were no indicators of impairment.

Highwood Asset Management Ltd.
Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2024 and 2023

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

5. PROPERTY, PLANT AND EQUIPMENT

COSTS	March 31, 2024	December 31, 2023
Balance, beginning of period	\$ 204,621	\$ 20,984
Change in decommissioning liabilities (note 11)	(3,565)	27,288
Additions	24,154	17,395
Acquisitions (note 6)	-	139,510
Transferred from exploration and evaluation assets (note 7)	-	626
Transferred to assets held for sale	-	(1,182)
Balance, end of period	\$ 225,210	\$ 204,621
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT		
Balance, beginning of period	\$ (14,947)	\$ (7,951)
Depletion and depreciation	(5,368)	(7,071)
Transferred to assets held for sale	-	75
Balance, end of period	\$ (20,315)	\$ (14,947)
Net book value	\$ 204,895	\$ 189,674

During 2023, the Company listed its previous office space for sale and believes the sale will occur within nine months. Therefore, these assets have been classified as assets held for sale at March 31, 2024. The held for sale assets have no associated liabilities.

During the three months ended March 31, 2024, the Company capitalized \$100 thousand (three months ended March 31, 2023 - \$nil) of general and administrative costs directly related to exploration and drilling activities.

Depletion

Future development costs of \$333.5 million (December 31, 2023 - \$349.3 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, 2024. 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, 2024, the Company conducted an assessment of impairment indicators for the Company's CGUs. No indicators of impairment at March 31, 2024 were identified.

6. BANK DEBT

	March 31, 2024	December 31, 2023
Credit facilities		
Syndicated loan facility	\$ 73,500	\$ 73,500
Operating facility	-	-
Total draw, end of period	\$ 73,500	\$ 73,500
Debt issue costs incurred	(1,251)	(1,251)
Amortization of debt issue costs (note 12)	381	215
Balance credit facilities, end of period	\$ 72,630	\$ 72,464

Highwood Asset Management Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2024 and 2023

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

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 \$100 million with a syndicate of banks. The ARCA is comprised of revolving credit facilities consisting of a \$10 million operating facility and a syndicated loan facility to a maximum of \$90 million. The ARCA allows the Company to enter into Letters of Credit up to a maximum of \$20 million.

The ARCA bears interest at the Bank’s prime rate plus an applicable margin of 250bps to 500bps on prime rate loans and 350bps to 650bps 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, 2024, the Company had an effective interest rate of prime plus 4.75% per annum on prime-based loans under the ARCA.

The ARCA has a revolving period of 364 days, extendible annually at the request of the Company, subject to approval of the lenders thereunder. If not extended, the ARCA is anticipated to automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period and the Company will not be entitled to any further drawdowns. The borrowing base for the ARCA is \$100 million, and is subject to semi-annual redeterminations based on the production profile of the borrowing base properties and other relevant matters as determined by the lenders, including a review of the Company’s annual reserve report, prepared by the Company’s independent qualified reserves evaluator and internally prepared updates thereto. If after a borrowing base determination or re-determination, a borrowing base shortly exists, the Company would be required to repay any amounts borrowed in excess of the borrowing base within 60 days. The ARCA is secured by a first priority security interest including a general security agreement and floating charge demand debenture over all the Company’s present and future property, assets and undertakings. The next semi-annual redetermination is scheduled for May 31, 2024. The ARCA include operating restrictions on the Company, including (among other things), limitations on acquisitions, distributions, dividends and hedging arrangements. The ARCA includes industry standard reporting requirements and financial covenants. With respect to financial covenants, the Company is required to maintain a minimum Liability Management Rating, as defined by the Alberta Energy Regulator, of 2.00:1:00. The maximum utilization allowed on the New Credit Facility is 90% of the total commitments of the lenders, with the total commitment being \$100 million at March 31, 2024. At March 31, 2024, the Company is in compliance with this requirement.

The Company was required to enter into commodity contracts with an aggregate notional quantity of at least 65% of the next 18 months expected production from proved developed producing properties, on a boe/day basis, at or in excess of US\$70.00/bbl (or the Canadian equivalent) for a period of 18 months from the execution of the New Credit Facilities, after which, the Company is required to enter into commodity contracts with an aggregate notional quantity of at least 50% of the next 6 months expected production and rolling monthly from proved developed producing properties, on a boe/day basis, at or in excess of US\$60.00/bbl (or the Canadian equivalent). At March 31, 2024, the Company is in compliance with this requirement. 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 in 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, 2024, the Company had approximately \$6.4 million (\$4.7 million in United States dollars) in issued and outstanding letters of credit to suppliers of brokered commodities while credit is being established.

Highwood Asset Management Ltd.
Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2024 and 2023

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

7. PROMISSORY NOTE

	March 31, 2024	December 31, 2023
Principal balance	\$ 14,000	\$ 14,000
Accrued interest (note 12)	1,202	748
Balance, end of period	\$ 15,202	\$ 14,748
Current portion	\$ 8,202	\$ 4,248
Non-current portion	\$ 7,000	\$ 10,500

The Promissory Note, which is held by a related party, matures on July 1, 2025 and provides for payments, equal to \$3.5 million each, commencing October 1, 2024 and thereafter on January 1, 2025, April 1, 2025 and July 1, 2025, with the outstanding principal (if any) due in full on maturity. The Promissory Note bears interest at 13% per annum payable quarterly on October 1, 2024, January 1, 2025, April 1, 2025 and July 1, 2025; all payments/repayments (of both principal and interest) under the Promissory Note are subject to certain terms and conditions under the ARCA (note 6). All obligations under the Promissory Note are fully and unconditionally personally guaranteed by Joel MacLeod, the Executive Chairman of the Company, in an amount limited to \$3 million. The Promissory Note is secured by a Security Interest on the assets of the Company, subordinated to the ARCA.

8. 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 periods. The Company has estimated the net present value of the decommissioning liabilities to be \$27.7 million as at March 31, 2024 (December 31, 2023 - \$31.1 million) based on an undiscounted and uninflated total future liability of \$47.6 million (December 31, 2023 - \$47.3 million) and discounted using a long-term risk-free rate of 3.34% (December 31, 2023 - 3.02%) and an inflation rate of 2.00% (December 31, 2023 - 2.00%). The expected timing of decommissioning expenditures extends to 2074.

The following table summarizes changes in the decommissioning liabilities:

	March 31, 2024	December 31, 2023
Balance, beginning of period	\$ 31,089	\$ 2,358
Change in discount rate	(3,878)	8,701
Change in cash flow estimates ⁽¹⁾	100	758
Acquisitions	-	19,878
Additions	225	161
Abandonment expenditures	(100)	(1,364)
Accretion expense (note 12)	229	597
Balance, end of period	\$ 27,665	\$ 31,089
Expected to be settled within one period	\$ 1,600	\$ 1,600
Expected to be settled beyond one period	\$ 26,065	\$ 29,489

¹ Change in estimates for the Three months ended March 31, 2024 is a result of changes in estimated future abandonment and reclamation costs.

Highwood Asset Management Ltd.
Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2024 and 2023

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

9. SHARE CAPITAL

a) Authorized

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

b) Issued and outstanding common shares

	Number of Shares (000's)	Stated Value
Balance, December 31, 2022	6,037	16,564
Common shares issued for cash proceeds from equity financing	5,833	33,833
Common shares issued for cash from private placement	467	2,707
Common shares issued as Boulder Acquisition consideration	1,500	8,700
Common shares issued as Shale Acquisition consideration	1,277	7,407
Purchase of shares held in trust for performance share units	(179)	(1,000)
Cash share issue costs (net of tax recovery)	-	(5,771)
Balance, December 31, 2023	14,935	\$ 62,440
Repurchase of common shares held in trust (note 13)	(67)	(375)
Issued on exercise of restricted share units (note 13)	34	185
Balance, March 31, 2024	14,902	\$ 62,250

c) Loss per share

	March 31, 2024			March 31, 2023		
	Loss	Common shares (000's)	Loss per share	Loss	Common shares (000's)	Loss per share
Loss - basic	\$ (544)	14,937	\$ (0.04)	\$ (27)	6,037	\$ 0.00
Dilutive effect of options		110	-		69	-
Loss - diluted	\$ (544)	15,047	\$ (0.04)	\$ (27)	6,106	\$ 0.00

For the three months ended March 31, 2024 and 2023, 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.

10. WARRANTS

	Number of Warrants (000's)	Exercise Price
Issued and outstanding		
Balance, December 31, 2022	-	\$ -
Warrants issued from equity financing	2,917	7.50
Warrants issued from private placement	233	7.50
Balance, December 31, 2023 and March 31, 2024	3,150	\$ 7.50
Exercisable, March 31, 2024	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, 2024, the remaining life of the warrants is 2.34 years.

Highwood Asset Management Ltd.
Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2024 and 2023

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

11. 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 product sales.

	Three months ended March 31,	
	2024	2023
Oil	\$ 25,473	\$ 958
Natural Gas Liquids	2,016	-
Natural Gas	1,600	-
Total	\$ 29,089	\$ 958

12. FINANCE EXPENSE

	Three months ended March 31,	
	2024	2023
Interest on bank debt	\$ 2,285	\$ 12
Interest on promissory note (note 7)	454	-
Amortization of debt issue costs (note 6)	166	-
Interest income	(31)	-
Accretion of decommissioning liabilities (note 8)	229	17
Other	13	17
Total	\$ 3,116	\$ 46

13. SHARE-BASED PAYMENTS

The Incentive Plans of the Company limit the total number of common shares that may be issued on exercise of Options, RSU's, PSU's and DSU's outstanding at any time under the specific Incentive Plans to 10% of the number of common shares issued and outstanding (less the number of common shares reserved for issuance under any other share-based compensation arrangement of the Company) for Options, 240,000 for RSU's and 1% of the number of common shares issued and outstanding for DSU's.

A forfeiture rate of 0% was used when recording share-based compensation for all share-based payments as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period, and or, all share-based awards will be exercised. Stock price on date of grant was determined by the price of common shares issued on the date of grant and based on publicly available information. Expected volatility was determined based on an average of volatilities of similar publicly traded entities in Company's peer group.

Options

The Company has a stock option plan for officers, directors, employees and consultants ("the Option Plan"). Under the Option Plan, the Board of Directors sets the exercise price, expiry date and vesting terms for each option grant provided that no options will be granted at a discount to market prices and no option will have a term exceeding ten years.

Highwood Asset Management Ltd.
Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2024 and 2023

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

A summary of the stock options issued and outstanding as at March 31, 2024 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2022	176	\$ 11.58
Expired	(19)	5.30
Granted	65	6.00
Outstanding, December 31, 2023	222	10.48
Expired	(72)	-
Granted	9	6.00
Outstanding, March 31, 2024	159	10.90
Exercisable, March 31, 2024	76	\$ 15.65

The weighted average contractual term of all outstanding options at March 31, 2024 is 3.00 years.

Below is a summary of outstanding stock options:

Grant Date	Term	Number of Options ('000)	Exercise Price
October 31, 2019	5 Years	21	\$ 18.00
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

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

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

	January 4, 2024
Number of options (#000's)	9
Exercise price (\$/share)	\$ 6.00
Stock price on grant date (\$/share)	\$ 4.50
Expected life (years)	5.0
Risk-free interest rate	3.74%
Expected volatility	80%
Option fair value (per option)	\$ 2.74
Estimated forfeiture rate	0%
Expected dividend yield	0%

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

Restricted Share Units ("RSU's")

The Company has a RSU plan, for officers, directors, employees and consultants "the RSU Plan". The RSU Plan is administered by the Corporate Governance, Environmental, Health and Safety Committee which has the power, subject to the limits imposed by the RSU Plan, to: (i) award RSUs; (ii) determine the terms under which RSUs are granted; (iii) interpret the RSU Plan and adopt, amend and rescind such administrative guidelines and other rules and regulations relating to the RSU Plan; and (iv) make all other determinations and take all other actions in connection with the implementation and administration of the RSU Plan.

Highwood Asset Management Ltd.
Notes to the Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2024 and 2023

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

A summary of RSU's issued and outstanding at March 31, 2024 is as follows:

	Number of RSU's
Outstanding, December 31, 2022	61
Granted	59
Outstanding, December 31, 2023	120
Exercised	(33)
Expired	(1)
Granted	4
Outstanding, March 31, 2024	90
Exercisable, March 31, 2024	18

The weighted average contractual term of all outstanding RSU's at March 31, 2024 is 2.22 years.

Below is a summary of outstanding RSU's.

Grant Date	Expiry Date	Number of RSU's (000's)
May 30, 2022	December 31, 2024	27
August 28, 2023	December 31, 2026	59
January 4, 2024	December 31, 2027	4

The RSU's that were scheduled to expire December 31, 2023, were automatically extended under section 4.9(d) of the RSU plan. During the three months ended March 31, 2024, 33,600 RSUs were exercised resulting in 33,600 common shares being issued. Share capital was increased by the fair value of the RSU's on the day there were exercised, being \$5.30 per common share, totalling \$185 thousand, with a corresponding decrease to share-based compensation reserve.

On January 4, 2024, the Company granted 4,400 RSU's exercisable for no consideration. The RSU's granted vest 1/3 on each of January 4, 2025, January 4, 2026 and January 4, 2027 and expire on December 31, 2027.

The fair value of the RSU's issued and granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	January 4, 2024
Number of RSU's (#000's)	4
Exercise price (\$/share)	\$ -
Stock price on grant date (\$/share)	\$ 4.50
Expected life (years)	4
Risk-free interest rate	3.74%
Expected volatility	80%
Option fair value (per option)	\$ 4.50
Estimated forfeiture rate	0%
Expected dividend yield	0%

On April 15, 2024, the Company granted 130,125 RSU's exercisable for no consideration. The RSU's granted vest 1/3 on each of April 15, 2025, April 15, 2026 and April 15, 2027 and expire on December 31, 2027.

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Performance Share Units (“PSUs”)

The Company has a PSU plan, for officers, employees and consultants “the PSU Plan”. The PSU Plan is administered by the Corporate Governance and Compensation Committee, subject to the limits imposed by the PSU Plan. Under the PSU Plan, the Board of Directors sets the vesting terms for each PSU grant.

The fair value of the PSUs 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, 2024, the trustee purchased 67,660 common shares for a total cost of \$375 thousand and as at March 31, 2024, the trustee held 246,310 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 PSUs outstanding.

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

Balance, December 31, 2022	\$ -
Granted	609
Balance, December 31, 2023	609
Granted	22
Balance, March 31, 2024	\$ 631

On January 4, 2024, the Company granted \$22 thousand worth of PSU’s. The PSU’s granted vest on January 4, 2027, subject to the sole discretion of the Board of Directors.

On April 15, 2024, the Company granted \$802 thousand worth of PSU’s. The PSU’s granted vest on April 15, 2027, subject to the sole discretion of the Board of Directors.

Below is a summary of outstanding PSU’s:

Grant Date	Expiry Date	Amount of PSU’s (000’s)
August 28, 2023	August 3, 2026	\$ 609
January 4, 2024	January 4, 2027	22

Deferred Share Units (“DSUs”)

The Company has a DSU plan for directors (“the DSU Plan”). The DSU Plan is administered by the Corporate Governance and Compensation Committee. The Corporate Governance and Compensation Committee authorizes the amounts of DSU’s to be granted to each of the participants for each calendar year, and the date that the grant becomes effective, with DSU’s vesting one year following grant date.

A summary of DSU’s issued and outstanding at March 31, 2024 is as follows:

	Number of DSU’s
Outstanding, December 31, 2022	-
Granted	20
Outstanding, December 31, 2023 and March 31, 2024	20
Exercisable, March 31, 2024	-

The weighted average contractual term of all outstanding DSU’s at March 31, 2024 is 2.34 years.

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Below is a summary of outstanding DSU's.

Grant Date	Expiry Date	Number of DSU's (000's)
August 28, 2023	August 27, 2026	20

On April 15, 2024, the Company granted 20,000 DSU's exercisable for no consideration. The DSU's granted vest on April 15, 2025.

Employee Share Purchase Plan

The Employee Share Purchase Plan ("ESPP") allows eligible employees to purchase common shares of the Company and the Company will match 100% of the employee's contribution, up to a maximum equal to the lesser of i) 7.5% of the employee's base earnings; and ii) \$100,000. The common shares of the Company are acquired through normal market purchases on the TSXV consistent with the timing of the employee's remuneration. The cost of the shares purchased to match the employee's contribution is expensed as incurred and included in share-based compensation expense. On January 1 of each calendar year, the employer contributions made in respect of the contribution periods between January 1 and June 30 of the prior calendar year will vest. On July 1 of each calendar year, the employer contributions made in respect of the contribution periods between July 1 and December 31 of the prior calendar year will vest.

Share-based Compensation

	Three months ended March 31,	
	2024	2023
Options	\$ 24	\$ 22
RSUs	59	37
PSUs	53	-
DSUs	20	-
ESPP	53	-
Total share-based compensation expense	\$ 209	\$ 59

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14. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

Source/(use) of cash	Three months ended March 31,	
	2024	2023
Accounts receivable	\$ (4,512)	\$ (354)
Deposits and prepaid expenses	392	(230)
Accounts payable and accrued liabilities	16,659	446
Changes in non-cash working capital	\$ 12,539	\$ (138)

	Three months ended March 31,	
	2024	2023
The above figure relates to:		
Operating activities	\$ (3,239)	\$ (470)
Financing activities	362	-
Investing activities	15,416	332
Changes in non-cash working capital	\$ 12,539	\$ (138)

Interest paid	\$ 2,285	\$ 12
Taxes paid (recovered)	\$ -	\$ -

15. COMMITMENTS

At March 31, 2024, the Company had the following commitments with respect to accounts payable and accrued liabilities with long-term payment plans:

Minimum future payments for accounts payable and accrued liabilities with long-term payment plans:

	Within 1 year	After 1 year but not more than 5 years	Total
Accounts payable and accrued liabilities	\$ 384	\$ 166	\$ 550

16. 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. 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, 2023.

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(a) Credit risk

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

	March 31, 2024	December 31, 2023
Cash	\$ 3,254	\$ 2,289
Accounts receivable	23,205	18,693
Deposits	939	1,003
Commodity contracts	-	6,024
Reclamation deposits	18	18
Total	\$ 27,416	\$ 28,027

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:

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.

The Company's accounts receivable are aged as follows:

	March 31, 2024	December 31, 2023
Current (less than 90 days)	\$ 20,885	\$ 16,986
Past due (more than 90 days)	2,320	1,707
Total	\$ 23,205	\$ 18,693

As at March 31, 2024, management believes all receivables net of provision for expected credit losses of \$344 thousand (December 31, 2023 - \$344 thousand) will be collected.

(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.

Foreign currency risk

The Company's financial instruments are only 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. At March 31, 2024, the Company had \$1.7 million in account receivable and \$3.7 million accounts payable denominated in United States dollars (December 31, 2023 - \$1.4 million in account receivable and \$4.0 million accounts payable).

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Interest rate risk

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 \$73.5 million (note 7) would decrease or increase net income (loss) by approximately \$141 thousand for the three months ended March 31, 2024. Fluctuations in interest rates may affect the fair value of financial assets and liabilities bearing interest at fixed rates.

Commodity price risk

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, 2024 as required under the ARCA (note 6):

Swaps:

Product	Notional Volume	Term	Contract Price (CAD/GJ)	Index
Natural Gas	4,600GJ/day	Sept 1, 2023 to March 31, 2025	\$ 3.00 - \$ 3.05	AECO
Natural Gas	2,500GJ/day	April 1, 2025 to December 31, 2026	\$ 3.13 - \$ 3.40	AECO
Natural Gas	2,000GJ/day	April 1, 2025 to March 31, 2027	\$ 3.15 - \$ 3.25	AECO
Natural Gas	1,000GJ/day	January 1, 2027 to March 31, 2027	\$ 3.40	AECO

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
Crude Oil	200bbls/day	March 1, 2024 to December 31, 2024	\$ 100.25 - \$ 101.05	WTI - NYMEX
Crude Oil	1,250bbls/day	April 1, 2024 to June 30, 2024	\$ 101.40 - \$ 110.95	WTI - NYMEX
Crude Oil	200bbls/day	April 1, 2024 to September 30, 2025	\$ 95.75 - \$ 100.00	WTI - NYMEX
Crude Oil	1,200bbls/day	July 1, 2024 to September 30, 2024	\$ 99.30 - \$ 108.00	WTI - NYMEX
Crude Oil	1,150bbls/day	October 1, 2024 to December 31, 2024	\$ 97.45 - \$ 105.50	WTI - NYMEX
Crude Oil	100bbls/day	October 1, 2024 to September 30, 2025	\$ 95.50	WTI - NYMEX
Crude Oil	100bbls/day	November 1, 2024 to July 31, 2025	\$ 95.00	WTI - NYMEX
Crude Oil	870bbls/day	January 1, 2025 to March 31, 2025	\$ 95.55 - \$ 103.15	WTI - NYMEX
Crude Oil	400bbls/day	April 1, 2025 to September 30, 2025	\$ 94.00 - \$ 95.00	WTI - NYMEX
Crude Oil	100bbls/day	May 1, 2025 to October 31, 2025	\$ 102.50	WTI - NYMEX

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

The commodity contracts had a total fair value at March 31, 2024 of a liability of \$3.40 million (December 31, 2023 – asset of \$6.02 million). The corresponding unrealized loss for the three months ended March 31, 2024 were \$9.27 million, (three months ended March 31, 2023 – \$nil) and is included in the statement of loss and comprehensive loss. Total realized gain for the three months ended March 31, 2024 were \$722 thousand (three months ended March 31, 2023 – \$nil) and are also included in the statement of loss and comprehensive loss.

For the three months ended March 31, 2024, 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 \$449 thousand.

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Subsequent to March 31, 2024, the Company entered into the following commodity contracts:

Swaps:

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
Crude Oil	200bbls/day	April 8, 2024 to June 30, 2024	\$ 115.50	WTI - NYMEX
Crude Oil	100bbls/day	May 1, 2024 to October 31, 2025	\$ 104.00	WTI - NYMEX
Crude Oil	300bbls/day	May 1, 2024 to December 31, 2025	\$ 105.00 - \$ 106.00	WTI - NYMEX

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
MSW Differential	200bbls/day	June 1, 2024 to December 31, 2025	\$ 3.35	ICE-1A-SW
MSW Differential	500bbls/day	June 1, 2024 to September 30, 2025	\$ 3.75	ICE-1A-SW

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities as they become due. The Company's financial liabilities, excluding commodity contracts consist of accounts payable and accrued liabilities, promissory note and bank debt. A portion of accounts payable and accrued liabilities is being paid on a long-term payment plan as disclosed in note 15.

At March 31, 2024, the Company had a working capital deficit of \$31.1 million, excluding current portion of decommissioning obligations. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows and available capacity on the Company's ARCA. At March 31, 2024, the Company has classified \$159 thousand of accounts payable and accrued liabilities as long-term (December 31, 2023 - \$220 thousand) as the vendor has agreed to a payment plan that extends beyond 12 months. At March 31, 2024, the Company has classified \$7 million of promissory notes as long-term as payments extend beyond 12 months. The maturity date of the bank debt is August 2, 2025; therefore, bank debt has been classified as long-term.

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, 2024.

The following table details the Company's financial liabilities, excluding commodity contracts, as at March 31, 2024:

	Total	<1 year	1-3 years	4-5 years
Accounts payable and accrued liabilities	\$ 49,775	\$ 49,616	\$ 159	\$ -
Bank debt	72,630	-	72,630	-
Promissory note	15,202	8,202	7,000	-
Lease liabilities	94	94	-	-
Total financial liabilities	\$ 137,701	\$ 57,912	\$ 79,789	\$ -

Subsequent to March 31, 2024, the Company entered into a new lease for head office space. The lease begins September 1, 2024, with access to no later than June 1, 2024 and will expire on August 31, 2026 with monthly payments of \$27.5 thousand.

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17. 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. As a result of the recent acquisitions, the Company has revised its key capital management measures to include adjusted EBITDA, adjusted funds flow, free funds flow and net debt, which are calculated and described below. 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, 2024	December 31, 2023
Adjusted current assets ¹	\$ 29,186	\$ 23,951
Adjusted current liabilities ¹	(57,977)	(37,818)
Adjusted working capital	(28,791)	(13,867)
Bank debt	(72,630)	(72,464)
Promissory note – long term portion	(7,000)	(10,500)
Other long-term obligations	(159)	(220)
Total net debt	\$ (108,580)	\$ (97,051)

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

Adjusted EBITDA

The Company considers adjusted EBITDA to be a key capital management measure as it demonstrates the Company's profitability, operating and financial performance with respect to cash flow generation, adjusted for interest related to its capital structure. Adjusted EBITDA is calculated by adjusting cash flows from operating activities for changes in non-cash working changes and interest.

Adjusted funds flow

The Company considers adjusted funds flow to be a key capital management measure as it demonstrates the Company's ability to generate required funds to manage production levels and fund future capital investment. The Company calculates adjusted funds flow as adjusted EBITDA less net interest and adjusting for decommissioning expenditures incurred.

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Free funds flow

The Company considers free funds flow to be a key capital management measure as it is used to measure liquidity and efficiency of the Company by measuring the funds available after capital investment available for debt repayment, to pursue acquisitions and shareholder distributions. The Company calculates free funds flow as adjusted funds flow less expenditures on property, plant and equipment and exploration and evaluation assets (collectively, the “capital expenditures”).

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

	Three months ended	
	March 31,	
	2024	2023
Cash flow from operating activities	\$ 11,417	\$ (324)
Change in non-cash working capital and long-term payables	3,310	596
Net interest ¹	2,708	12
Adjusted EBITDA	17,435	284
Decommissioning expenditures	100	6
Net interest ¹	(2,708)	(12)
Adjusted funds flow	14,827	278
Capital expenditures, net	(25,657)	(610)
Free funds flow	\$ (10,830)	\$ (332)

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

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).