



HIGHWOOD

ASSET MANAGEMENT LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2025
(unaudited)

Highwood Asset Management Ltd.

Condensed Interim Consolidated Statement of Financial Position

(all tabular amounts expressed in thousands of Canadian dollars)

(unaudited)		As at September 30, 2025	As at December 31, 2024
	Note		
Assets			
Current assets			
Cash	14(a)	\$ 2,126	\$ 1,811
Accounts receivable	3, 14(a)	22,546	26,631
Deposits and prepaid expenses		4,752	2,379
Assets held for sale	5	-	1,107
Commodity contracts	14(b)	7,533	1,469
Total current assets		36,957	33,397
Reclamation deposits		18	18
Acquisition deposit		-	476
Commodity contracts	14(b)	1,270	615
Exploration and evaluation assets	4	11,918	8,044
Property, plant and equipment	5	251,396	222,501
Right-of-use assets		238	456
Deferred tax asset		19,861	26,619
Total assets		\$ 321,658	\$ 292,126
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 37,154	\$ 39,041
Commodity contracts	14(b)	-	443
Current portion of decommissioning liabilities	7	1,600	1,600
Current portion of lease liabilities		289	317
Total current liabilities		39,043	41,401
Bank debt	6	107,102	90,719
Commodity contracts	14(b)	-	244
Lease liabilities		-	213
Decommissioning liabilities	7	27,307	27,462
Total liabilities		173,452	160,039
Shareholders' Equity			
Share capital	8	58,933	60,850
Warrant reserve	9	1,062	1,062
Share-based compensation reserve	12	6,925	4,877
Retained earnings		81,286	65,298
Total equity		148,206	132,087
Total liabilities and shareholders' equity		\$ 321,658	\$ 292,126

Subsequent events (notes 6, 12 and 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 and Comprehensive Income**

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

	Note	Three Months Ended, September 30,		Nine Months Ended, September 30,	
		2025	2024	2025	2024
Revenue					
Petroleum and natural gas sales	10	\$ 23,753	\$ 34,201	\$ 76,706	\$ 102,019
Royalties		(4,927)	(8,958)	(16,669)	(22,533)
Transportation pipeline revenues		462	662	1,638	2,049
Royalty and other income		849	730	2,643	2,358
		20,137	26,635	64,318	83,893
Realized gain on commodity contracts	14(b)	2,395	949	4,737	1,332
Unrealized gain (loss) on commodity contracts	14(b)	(4,206)	10,470	7,406	3,106
Total revenue, net of royalties and commodity contracts		18,326	38,054	76,461	88,331
Expenses					
Operating and transportation		6,914	5,825	20,588	19,391
General and administrative	5	1,677	1,305	5,474	5,217
Exploration and evaluation expenditures	4	-	-	87	147
Depletion and depreciation	5, 7	6,212	6,471	18,662	19,027
Share-based compensation	5, 12	594	579	1,770	1,382
Total expenses		15,397	14,180	46,581	45,164
Operating income		2,929	23,874	29,880	43,167
Other expenses					
Transaction costs		-	(37)	(10)	(144)
Finance expenses	11	(2,464)	(2,977)	(7,124)	(9,134)
Total other expenses		(2,464)	(3,014)	(7,134)	(9,278)
Income before taxes		465	20,860	22,746	33,889
Deferred tax expense		(217)	(4,755)	(6,758)	(7,853)
Income and comprehensive income for the period		\$ 248	\$ 16,105	\$ 15,988	\$ 26,036
Income per share:					
	8(c)				
Basic		\$ 0.02	\$ 1.09	\$ 1.10	\$ 1.75
Diluted		\$ 0.02	\$ 1.07	\$ 1.07	\$ 1.72

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	211	-	(211)	-	-
Purchase of shares held in trust	8, 12	(1,126)	-	-	-	(1,126)
Share-based compensation	12 (c)	-	-	1,176	-	1,176
Income and comprehensive income for the period		-	-	-	26,036	26,036
Balance, September 30, 2024		\$ 61,525	\$ 1,062	\$ 4,314	\$ 63,384	\$ 130,285
Balance, January 1, 2025		\$ 60,850	\$ 1,062	\$ 4,877	\$ 65,298	\$ 132,087
Exercise of restricted share units	12	102	-	(102)	-	-
Purchase of shares held in trust	8, 12	(2,019)	-	-	-	(2,019)
Share-based compensation	5, 12 (c)	-	-	2,150	-	2,150
Income and comprehensive income for the period		-	-	-	15,988	15,988
Balance, September 30, 2025		\$ 58,933	\$ 1,062	\$ 6,925	\$ 81,286	\$ 148,206

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)

(all tabular amounts expressed in thousands of Canadian dollars)		Three months ended, September 30,		Nine months ended, September 30	
(unaudited)	Note	2025	2024	2025	2024
Cash provided by (and used in)					
Operating activities					
Income for the period		\$ 248	\$ 16,105	\$ 15,988	\$ 26,036
Items not involving cash:					
Unrealized loss (gain) on commodity contracts	14(b)	4,206	(10,470)	(7,406)	(3,106)
Exploration and evaluation expenditures	4	-	-	87	147
Depletion and depreciation expense	5, 7	6,212	6,471	18,662	19,027
Finance expense	11	510	520	1,625	1,328
Deferred tax expense		217	4,755	6,758	7,853
Share-based compensation	12	549	512	1,552	1,176
Other		-	(80)	64	(130)
Cash abandonment expenditures	7	(337)	(135)	(426)	(246)
Change in non-cash working capital	13	(4,356)	(1,225)	2,681	(4,676)
<i>Net cash from operating activities</i>		7,249	16,453	39,585	47,409
Financing activities					
Payments of lease obligations		(86)	(39)	(273)	(146)
Purchase of shares held in trust	8, 12	(707)	(336)	(2,019)	(1,126)
Bank debt	6	11,269	4,757	16,054	3,500
Debt issue costs	6	(35)	(560)	(519)	(1,000)
Changes in non-cash working capital	13	(460)	348	(12)	1,170
<i>Net cash from financing activities</i>		9,981	4,170	13,231	2,398
Investing activities					
Additions to property, plant and equipment	5	(6,740)	(16,254)	(46,497)	(43,335)
Additions to exploration and evaluation assets	4	(719)	(4,494)	(4,204)	(12,117)
Proceeds on disposition of assets held for sale	5	-	-	1,054	-
Transaction costs		-	(37)	(10)	(144)
Lease additions		-	-	-	(32)
Change in non-cash working capital	13	(7,373)	6,043	(2,844)	9,424
<i>Net cash used in investing activities</i>		(14,832)	(14,742)	(52,501)	(46,204)
Change in cash		\$ 2,398	\$ 5,881	\$ 315	\$ 3,603
Cash (bank overdraft), beginning of period		(272)	11	1,811	2,289
Cash, end of period		\$ 2,126	\$ 5,892	\$ 2,126	\$ 5,892
Supplemental cash flow information	13				

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Highwood Asset Management Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

Three and nine months ended September 30, 2025 and 2024

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

(unaudited)

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 September 30, 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 November 13, 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 IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB). Certain information and disclosures normally included in the annual consolidated financial statements have been condensed or omitted.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements as at and for the year ended December 31, 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 nine months ended September 30, 2025 related to significant estimates and judgments used in the preparation of the condensed interim consolidated financial statements.

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

Three and nine months ended September 30, 2025 and 2024

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

(unaudited)

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	September 30, 2025	December 31, 2024
Petroleum and natural gas marketers	\$ 20,124	\$ 24,227
Joint interest partners	1,303	1,658
Road use receivable	309	509
Royalty and other income	21	31
Other	1,114	550
Allowance for doubtful accounts	(325)	(344)
	\$ 22,546	\$ 26,631

4. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets are comprised of the following:

	September 30, 2025	December 31, 2024
Balance, beginning of period	\$ 8,044	\$ 1,461
Additions	4,204	12,499
Acquisition	47	-
Transfers to property, plant and equipment (note 5)	(290)	(5,761)
Land lease expiries	(87)	(155)
Balance, end of period	\$ 11,918	\$ 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 nine months ended September 30, 2025 mainly related to undeveloped mineral leases and undeveloped upstream oil and gas lands.

During the nine months ended September 30, 2025, the Company determined that \$290 thousand (year ended December 31, 2024 - \$5.8 million) of exploration and evaluation assets were technically feasible and commercially viable, resulting in these costs being transferred to plant, property and equipment.

At September 30, 2025, there were no indicators of impairment and therefore an impairment test was not performed.

Highwood Asset Management Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

Three and nine months ended September 30, 2025 and 2024

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

(unaudited)

5. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2025	December 31, 2024
COSTS		
Balance, beginning of period	\$ 262,994	\$ 204,621
Change in decommissioning liabilities (note 7)	(2,505)	(1,444)
Additions	47,096	54,056
Acquisition	2,499	-
Transferred from exploration and evaluation assets (note 4)	290	5,761
Balance, end of period	\$ 310,374	\$ 262,994
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT		
Balance, beginning of period	\$ (40,493)	\$ (14,947)
Depletion and depreciation	(18,485)	(25,546)
Balance, end of period	\$ (58,978)	\$ (40,493)
Net book value	\$ 251,396	\$ 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 and nine months ended September 30, 2025, the Company capitalized \$280 thousand and \$990 thousand, respectively, (three and nine months ended September 30, 2024 - \$400 thousand and \$1.17 million) of general and administrative costs and \$211 thousand and \$599 thousand, respectively, (three and nine months ended September 30, 2024 - \$nil) of share-based compensation costs directly related to exploration and drilling activities.

Depletion

Future development costs of \$428.5 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 and nine months ended September 30, 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 September 30, 2025, the Company conducted an assessment of impairment indicators for the Company's CGUs. No indicators of impairment at September 30, 2025 were identified and therefore an impairment test was not performed.

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

Three and nine months ended September 30, 2025 and 2024

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6. BANK DEBT

	September 30, 2025	December 31, 2024
Credit facilities		
Syndicated prime loans	\$ 5,000	\$ 11,500
Syndicated CORRA loans	103,000	80,000
Total Syndicated loan facility	\$ 108,000	\$ 91,500
Operating facility	-	446
Total draw, end of period	\$ 108,000	\$ 91,946
Debt issue costs incurred	(2,844)	(2,325)
Amortization of debt issue costs (note 11)	1,946	1,098
Balance credit facilities, end of period	\$ 107,102	\$ 90,719

The Company has an Amended and Restated Credit Agreement (the “ARCA”). The ARCA is comprised of senior secured extendible revolving credit facilities in the aggregate principal amount of up to \$140 million with a syndicate of banks. The ARCA is comprised of revolving credit facilities consisting of a \$10 million operating facility and a syndicated loan facility to a maximum of \$130 million. The ARCA allows the Company to enter into Letters of Credit up to a maximum of \$20 million. During the second quarter of 2025, the term out date was amended from August 2, 2025 to August 2, 2026 as well as an increase to the syndicated loan facility from a maximum of \$110 million.

The ARCA bears interest which is payable monthly at the Bank’s prime rate plus an applicable margin of 2.50% to 5.00% on prime rate loans and 3.50% to 6.00% on margin on SOFR loans, margin on 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 September 30, 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 \$140 million, and is subject to semi-annual redeterminations based on the production profile of the borrowing base properties and other relevant matters as determined by the lenders, including a review of the Company’s annual reserve report, prepared by the Company’s independent qualified reserves evaluator and internally prepared updates thereto. If after a borrowing base determination or re-determination, a borrowing base shortfall exists, the Company would be required to repay any amounts borrowed in excess of the borrowing base within 60 days. The ARCA is secured by a first priority security interest including a general security agreement and floating charge demand debenture over all the Company’s present and future property, assets and undertakings. The next semi-annual redetermination is scheduled for November 30, 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 \$130 million at September 30, 2025. At September 30, 2025, the Company is in compliance with this requirement.

Highwood Asset Management Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

Three and nine months ended September 30, 2025 and 2024

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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 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 September 30, 2025, the Company is in compliance with these requirements.

At September 30, 2025, the Company had \$2.25 million in issued and outstanding letters of credit to suppliers of brokered commodities. Subsequent to September 30, 2025, the letters of credit were cancelled.

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 \$28.9 million as at September 30, 2025 (December 31, 2024 - \$29.1 million) based on an undiscounted and uninflated total future liability of \$51.7 million (December 31, 2024 - \$48.1 million) and discounted using a long-term risk-free rate of 3.61% (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 September 30, 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:

	September 30, 2025	December 31, 2024
Balance, beginning of period	\$ 29,062	\$ 31,089
Change in discount rate	(3,113)	(3,950)
Change in cash flow estimates ⁽¹⁾	290	1,681
New development activity and acquisition	2,349	938
Abandonment expenditures	(426)	(1,616)
Accretion expense (note 11)	745	920
Balance, end of period	\$ 28,907	\$ 29,062
Expected to be settled within one year	\$ 1,600	\$ 1,600
Expected to be settled beyond one year	\$ 27,307	\$ 27,462

¹ Change in estimates for the nine months ended September 30, 2025 was a result of changes in estimated future abandonment and reclamation costs.

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

Three and nine months ended September 30, 2025 and 2024

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

(unaudited)

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)	(361)	(2,019)
Issued on exercise of restricted share units (note 12)	18	102
Balance, September 30, 2025	14,328	\$ 58,933

c) Income per share

Three months ended September 30, 2025				Three month ended September 30, 2024		
	Income	Common shares (000's)	Income per share		Common shares (000's)	Income per share
Income - basic	\$ 248	14,390	\$ 0.02	\$ 16,105	14,801	\$ 1.09
Dilutive effect	-	408	-	-	246	-
Income - diluted	\$ 248	14,798	\$ 0.02	\$ 16,105	15,047	\$ 1.07

Nine months ended September 30, 2025				Nine month ended September 30, 2024		
	Income	Common shares (000's)	Income per share		Common shares (000's)	Income per share
Income - basic	\$ 15,988	14,504	\$ 1.10	\$ 26,036	14,871	\$ 1.75
Dilutive effect	-	408	-	-	246	-
Income - diluted	\$ 15,988	14,912	\$ 1.07	\$ 26,036	15,117	\$ 1.72

For the three and nine months ended September 30, 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

	Number of Warrants (000's)	Exercise Price
Issued and outstanding		
Balance, January 1, 2024	3,150	\$ 7.50
Balance, December 31, 2024 and September 30, 2025	3,150	\$ 7.50
Exercisable, September 30, 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 September 30, 2025, the remaining life of the warrants is 0.84 years.

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

Three and nine months ended September 30, 2025 and 2024

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

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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 September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
Oil	\$ 21,157	\$ 31,494	\$ 65,220	\$ 92,241
Natural Gas Liquids	2,312	2,158	7,370	6,636
Natural Gas	284	549	4,116	3,142
Total	\$ 23,753	\$ 34,201	\$ 76,706	\$ 102,019

11. FINANCE EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
Interest on bank debt	\$ 1,983	\$ 2,007	\$ 5,557	\$ 6,513
Interest on promissory note	-	459	-	1,366
Amortization of debt issue costs (note 6)	249	258	848	585
Interest income	(29)	(9)	(58)	(73)
Accretion of decommissioning liabilities (note 7)	252	228	745	681
Other	9	34	32	62
Total	\$ 2,464	\$ 2,977	\$ 7,124	\$ 9,134

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.

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

Three and nine months ended September 30, 2025 and 2024

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

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Options

A summary of the stock options issued and outstanding as at September 30, 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
Expired	(37)	(16.50)
Granted	280	6.14
Outstanding, September 30, 2025	658	6.26
Exercisable, September 30, 2025	165	\$ 6.80

Below is a summary of outstanding stock options at September 30, 2025:

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

On 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.

On August 27, 2025, 37,100 stock options were cancelled/forfeited with a weighted average exercise price of \$16.50 per stock option.

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Restricted Share Units (“RSU’s”)

A summary of RSU’s issued and outstanding at September 30, 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	(18)
Granted	141
Outstanding, September 30, 2025	338
Vested, September 30, 2025	88

Below is a summary of outstanding RSU’s at September 30, 2025.

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

On 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 nine months ended September 30, 2025, 18,356 RSUs were exercised resulting in 18,356 common shares being issued. During the nine months ended September 30, 2025, share capital was increased by the fair value of the RSU’s on the day they were exercised, at a weighted average price of \$5.40 per common share, for a total of \$102 thousand, with a corresponding decrease to share-based compensation reserve.

Deferred Share Units (“DSU’s”)

A summary of DSU’s issued and outstanding at September 30, 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, September 30, 2025	70
Vested, September 30, 2025	30

Below is a summary of outstanding DSU’s at September 30, 2025.

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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.

Subsequent to September 30, 2025, the Company granted 20,000 DSU's which vest on November 14, 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. PSU's issued to participants are held by the plan trustee and held in trust until such time the PSU's vest. Common shares, from time to time, are acquired in the open market by an independent trustee and are held in trust for the potential future settlement of award values and are netted out of share capital, including the cumulative purchase cost, until they are distributed for future settlement. For the nine months ended September 30, 2025, the trustee purchased 361,308 common shares for a total cost of \$2.0 million and as at September 30, 2025, the trustee held 843,368 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, September 30, 2025	\$	3,395

Below is a summary of outstanding PSU's at September 30, 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

Subsequent to September 30, 2025, the Company granted \$980 thousand worth of PSU's.

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(c) Share-based Compensation Expense

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
Options	\$ 207	\$ 194	\$ 620	\$ 415
RSUs	204	167	572	381
PSUs	287	121	778	283
DSUs	62	30	181	97
ESPP	45	67	218	206
Total share-based compensation	805	579	2,369	1,382
Less: capitalized amounts (note 5)	(211)	-	(599)	-
Total share-based compensation expense	\$ 594	\$ 579	\$ 1,770	\$ 1,382

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:

	Three months ended September 30,		Nine months ended September 30,	
Source/(use) of cash	2025	2024	2025	2024
Accounts receivable	\$ 97	\$ 1,605	\$ 4,085	\$ (4,137)
Deposits and prepaid expenses	(350)	(617)	(2,373)	(241)
Accounts payable and accrued liabilities	(11,936)	4,178	(1,887)	10,296
Changes in non-cash working capital	\$ (12,189)	\$ 5,166	\$ (175)	\$ 5,918
The above figure relates to:				
Operating activities	\$ (4,356)	\$ (1,225)	\$ 2,681	\$ (4,676)
Financing activities	(460)	348	(12)	1,170
Investing activities	(7,373)	6,043	(2,844)	9,424
Changes in non-cash working capital	\$ (12,189)	\$ 5,166	\$ (175)	\$ 5,918
Interest paid	\$ 1,983	\$ 2,007	\$ 5,557	\$ 6,513
Taxes paid (recovered)	\$ -	\$ -	\$ -	\$ -

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.

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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:

	September 30, 2025	December 31, 2024
Cash	\$ 2,126	\$ 1,811
Accounts receivable	22,546	26,631
Deposits	532	504
Commodity contracts	8,803	2,084
Reclamation deposits	18	18
Total	\$ 34,025	\$ 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 23% (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 60% (nine-month period ended September 30, 2024 – 58%) 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.

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The Company's accounts receivable are aged as follows:

	September 30, 2025	December 31, 2024
Current (less than 90 days)	\$ 20,948	\$ 24,281
Past due (more than 90 days)	1,598	2,350
Total	\$ 22,546	\$ 26,631

As at September 30, 2025, management believes all receivables net of provision for expected credit losses of \$325 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 along with commodity contracts, with future cash payments directly impacted by the exchange rate in effect at the time of payment. At September 30, 2025, the Company had \$3.9 million in accounts receivable and \$6.4 million accounts payable denominated in USD (December 31, 2024 - \$1.2 million in accounts receivable and \$5.7 million accounts payable).

Interest rate risk

Interest rate risk is the risk that future cashflows will fluctuate as result in changes in market interest rates. The Company is subject to interest rate risk related to its exposure to interest rate fluctuations on its ARCA, which bears a floating rate of interest. A 1% interest rate increase or decrease on the full amount outstanding of \$108 million (note 6) would decrease or increase net income by approximately \$208 thousand and \$624 thousand for the three and nine months ended September 30, 2025, respectively.

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Commodity price risk

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

The Company has the following commodity contracts outstanding as at September 30, 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	400GJ/day	July 1, 2025 to March 31, 2028	\$ 3.05	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	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 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	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	300bbls/day	April 1, 2025 to December 31, 2026	\$ 93.00 - \$ 93.31	WTI - NYMEX
Crude Oil	100bbls/day	July 1, 2025 to March 31, 2026	\$ 91.15	WTI - NYMEX
Crude Oil	100bbls/day	July 1, 2025 to June 30, 2026	\$ 91.50	WTI - NYMEX
Crude Oil	100bbls/day	October 1, 2025 to March 31, 2026	\$ 97.00	WTI - NYMEX
Crude Oil	100bbls/day	October 1, 2025 to September 30, 2026	\$ 93.00	WTI - NYMEX
Crude Oil	400bbls/day	October 1, 2025 to December 31, 2026	\$ 92.00 - \$ 94.00	WTI - NYMEX
Crude Oil	600bbls/day	January 1, 2026 to December 31, 2026	\$ 90.50 - \$ 96.00	WTI - NYMEX

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

Product	Notional Volume	Term	Contract Price (CAD/bbl)	Index
MSW Differential	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
MSW Differential	400bbls/day	October 1, 2025 to December 31, 2025	\$ 5.50 - \$ 6.25	TMX-1A-SW
MSW Differential	1,000bbls/day	January 1, 2026 to December 31, 2026	\$ 5.50 - \$ 6.75	TMX-1A-SW

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Electricity:

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

The commodity contracts had a total fair value at September 30, 2025 of an asset of \$8.8 million (December 31, 2024 – asset of \$1.4 million). The corresponding unrealized gain/loss for the three and nine months ended September 30, 2025 was a loss of \$4.2 million and gain of \$7.4 million, respectively ((three and nine months ended September 30, 2024 – gain of \$10.5 million and \$3.1 million), and are included in the statement of income and comprehensive income. Total realized gain for the three and nine months ended September 30, 2025 were \$2.4 million and \$4.7 million, respectively (three and nine months ended September 30, 2024 – gain of \$949 thousand and \$1.3 million) and are also included in the statement of income and comprehensive income.

For the nine months ended September 30, 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 \$437 thousand.

Subsequent to September 30, 2025, the Company entered into the following commodity contracts:

Product	Notional Volume	Term	Contract Price (CAD/GJ)	Index
Natural Gas	400GJ/day	November 1, 2025 to March 31, 2028	\$ 3.02	AECO
Natural Gas	400GJ/day	January 1, 2027 to March 31, 2028	\$ 3.09	AECO

(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 September 30, 2025, the Company had a working capital deficit of \$7.7 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 September 30, 2025, was mainly driven by the capital program incurred during the first nine months 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, 2027; therefore, all bank debt has been classified as long-term.

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

The Company may need to conduct asset sales, equity issues or issue debt if liquidity risk increases in a given period. Liquidity risk may increase as a result of potential revisions to the Company's ARCA, which is subject to semi-annual reviews. The Company also maintains and monitors a certain level of cash flow which is used to partially finance all operating and capital expenditures. The Company believes it has sufficient funds and operating cash flows to meet foreseeable obligations by actively monitoring its credit facilities and coordinating payment and revenue cycles each month. However, there are no assurances that the lender will maintain the borrowing base at the current level, which may result in a borrowing base shortfall. If the Company cannot generate sufficient funds to meet the borrowing base shortfall it would constitute an event of default under the loan agreement and the bank could demand immediate repayment of the outstanding loan amount. The Company actively monitors covenants associated with the credit facilities and was in compliance as at September 30, 2025.

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The following table details the Company's financial liabilities, excluding commodity contracts, as at September 30, 2025:

	Total	<1 year	1-3 years
Accounts payable and accrued liabilities	\$ 37,154	\$ 37,154	\$ -
Bank debt	107,102	-	107,102
Lease liabilities	289	289	-
Total financial liabilities	\$ 144,545	\$ 37,443	\$ 107,102

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 and nine months ended September 30, 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:

	September 30, 2025	December 31, 2024
Adjusted current assets ¹	\$ 29,424	\$ 31,928
Adjusted current liabilities ¹	(37,154)	(39,041)
Adjusted working capital	(7,730)	(7,113)
Bank debt	(107,102)	(90,719)
Total net debt	\$ (114,832)	\$ (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 nine months ended September 30, 2025 is mainly due to the capital expenditures incurred in the current nine-month period.

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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 September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
Cash flow from operating activities	\$ 7,249	\$ 16,453	\$ 39,585	\$ 47,409
Change in non-cash working capital and long-term payables	4,356	1,342	(2,681)	4,934
Net interest ¹	1,954	2,457	5,499	7,806
Adjusted EBITDA	13,559	20,252	42,403	60,149
Decommissioning expenditures	337	135	426	246
Net interest ¹	(1,954)	(2,457)	(5,499)	(7,806)
Adjusted funds flow	11,942	17,930	37,330	52,589
Capital expenditures, net	(7,459)	(20,748)	(49,647)	(55,452)
Free funds flow	\$ 4,483	\$ (2,818)	\$ (12,317)	\$ (2,863)

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 and nine months ended September 30, 2025, compared to the same period in 2024, is primarily due to lower production and lower realized commodity pricing.

The Company makes adjustments to capital employed by monitoring economic conditions and investment opportunities. The Company generally relies on credit facilities and cash flows from operations to fund capital requirements. To maintain or modify its capital structure, the Company may issue new common or preferred shares, issue new subordinated debt, renegotiate existing debt terms, or repay existing debt. The Company is not currently subject to any externally imposed capital requirements, other than covenants on its ARCA (note 6).