HIGHWOOD
ASSET MANAGEMENT LTD.

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2023

May 30, 2023

Management's Discussion and Analysis

This management's discussion and analysis (MD&A) of operating and financial results of Highwood Asset Management Ltd. ("Highwood" or the "Company") is dated May 30, 2023, and is based on currently available information. It should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended December 31, 2022 and 2021 and the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2023. Unless otherwise noted, all financial information is presented in Canadian dollars, and is in accordance with International Financial Reporting Standards (IFRS). Additional information can be found at www.sedar.com and www.highwoodmgmt.com.

Refer to the end of the MD&A for commonly used abbreviations.

Readers should read "Forward-Looking Statements" at the end of the MD&A, which explains the basis for and limitations of statements throughout this report that are not historical facts and may be considered "forward-looking statements" under securities regulations.

All figures in tables are stated in thousands of Canadian dollars, except operational and per share amounts or as noted.

Description of Business

The Company is engaged in ownership and oversight of various operations including metallic minerals, oil production & midstream energy operations. Future growth focuses will include clean energy transition subsectors with a focus on Environment, Social and Governance ("ESG").

Q1 2023 Corporate Highlights and Outlook

- The focus of the first quarter of 2023 for the Company was on the evaluation of various acquisition opportunities. The Company has been reviewing and discussing several transactions, including discussions with financing partners. The Company filed a Short Form Base Shelf Prospectus in December of 2022 to help facilitate the Company's plan for future acquisitions and growth in a timely manner. Subsequent to March 31, 2023, the Company filed a Short Form Base Shelf Prospectus in New Brunswick and Manitoba and an Amended and Restated Short Form Base Shelf Prospectus in Alberta, Saskatchewan, British Columbia and Ontario for a maximum offering of $80.0 million.

- Within the upstream oil & gas production business unit, the Company delivered average production of 123 bbl./d of oil in the first quarter of 2023. Current net production from Highwood is approximately 105 bbl./d of oil with Deer Mountain temporarily shut in due to seasonal road bans.

- Net debt at March 31, 2023 was $710 thousand and the Company was in a working capital surplus position, excluding bank debt, of $197 thousand. The increase in net debt during the first quarter of 2023 is primarily driven by the capital activity during the quarter.

2023 First Quarter Operations

With the continued strong commodity prices and increased interest in Canadian energy, the Company's primary focus in the first quarter was reviewing and assessing several potential acquisitions for its upstream operations. The Company will continue to review and assess opportunities which are accretive to the Company as Highwood seeks to grow this segment of its operations. The Company will also assess land offerings in strategic areas where the Company sees significant growth opportunities.

Outlook

As of today, the Company is minimally drawn on its credit facility and has a working capital surplus, which provides considerable financial and operational flexibility. The Company remains open to completing accretive acquisitions through the balance of 2023 and beyond. The Company is currently engaged in several encouraging dialogues regarding various acquisitions and partnership opportunities.

While Highwood sold the majority of its producing oil assets in the first quarter of 2021, the Company has, and will continue to evaluate acquisition opportunities but will remain disciplined to pursue only those opportunities that are accretive with low to moderate liability profiles.

Highwood is continuing to evaluate its undeveloped lands for drilling opportunities, particularly on its W4 lands, which the Company anticipates drilling at least 2 wells by the end of 2024.

Corporately, the Company intends to build a growing profile of recurring free funds flow that will provide maximum flexibility for growth and / or other strategic M&A opportunities in a non-dilutive fashion.

ORGANIZATION OF THE MD&A

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PART 1 – OUR BUSINESS AND STRATEGY

Overview

Highwood is a junior asset manager with a current focus in both the upstream & midstream oil and gas space as well as early-stage resource evaluation in the mining sector. Highwood's intention is to eventually oversee various operations including ESG and other clean energy transition subsectors, which include metallic minerals, clean energy technologies, upstream and midstream oil & gas production & processing.

- ✓ **Shareholder Return Focus**

  Steering future acquisition and growth opportunities will be the pursuit of shareholder returns through accretive acquisitions and organic growth.

- ✓ **Diverse Industry Exposure**

  While today Highwood holds conventional oil & gas upstream and midstream assets as well as industrial mines & minerals permits, future focuses will include other energy subsectors including ESG and other clean energy transition infrastructure.

- ✓ **Sustainability**

  Committed to having a positive impact in the communities in which we operate – setting partnerships up for long term successes.

PART 2 – SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

Highwood Asset Management Ltd. – Consolidated Financial and Operating Highlights

(all tabular amounts expressed in thousands of Canadian dollars)

	Three months ended March 31, 2023	2022
Financial		
Oil and natural gas sales	**$ 958**	$ 1,151
Transportation pipeline revenues	**748**	797
Total revenues, net of royalties and commodity contracts [(1)]	**1,791**	1,618
Income (Loss)	**(27)**	456
Funds flow from (used in) operations[(6)]	**146**	875
Capital expenditures	**685**	138
Proceeds from dispositions	**75**	107
Working capital surplus (deficit), excluding current bank debt *(end of period)* [(2)]	**197**	363
Net debt [(3)]	**(710)**	(1,694)
Shareholders' equity *(end of period)*	**10,729**	8,529
Shares outstanding *(end of period)*	**6,037**	6,014
Options outstanding *(end of period)*	**176**	149
Restricted share units outstanding *(end of period)*	**61**	133
Weighted-average basic shares outstanding	**6,037**	6,014
Weighted-average diluted shares outstanding	**6,037**	6,170
Operations [(4)]		
Production		
Crude oil *(bills/d)*	**123**	120
Total *(boe/d)*	**123**	120
Benchmark prices		
Crude oil		
Canadian Light *(Cdn$/bbl)*	**99.80**	118.10
Average realized prices [(5)]		
Crude oil *(per bbl)*	**86.88**	106.92
Upstream Operating netback *(per boe)* [(6)]	**37.18**	49.33

(1) Includes unrealized gain and losses on commodity contracts
(2) Working capital surplus/deficit also excludes bank debt of $350 thousand (March 31, 2022 - $1.08 million).
(3) Net debt consists of bank debt and working capital surplus (deficit) excluding commodity contract assets and/or liabilities.
(4) For a description of the boe conversion ratio, see "Basis of Barrel of Oil Equivalent".
(5) Before hedging.
(6) See "Non-GAAP measures".

PART 3 – OPERATING SEGMENTS RESULTS

Basis of Presentation

The Company has three operating groups and a corporate and other segment, which collectively represent four operating segments for internal and external reporting purposes.

Our operating segments include:

- Metallic Minerals
- Midstream Operations
- Upstream Operations
- Corporate and Other

The corporate and other segment includes corporate functions of the Company, such as general and administrative expenses and are included in the select consolidated operating disclosures.

Summary of Results

Metallic Minerals

The metallic minerals segment includes industrial metal and mineral assets. During 2021, the Company amassed industrial metallic and mineral permits covering over 3.9 million acres in Alberta and British Columbia and issued its first National Instrument 43-101 Technical Report on Lithium from Brine on July 16, 2021 and an additional 43-101 Technical Report over the Ironstone prospective permits held by the Company on September 21, 2021. The Company also engaged the third-party resource evaluator to compile a 43-101 Resource Assessment specific to Drumheller, Alberta over the Lithium Brine prospective permits, which was completed February 21, 2022.

The 43-101 Resource Assessment specific to Drumheller, Alberta was released on February 28, 2022, and the results were encouraging to Highwood as the combined total initial inferred lithium-brine resource estimate at its Drumheller asset is 18.14Mt LCE.

Reporting Parameter	Leduc Aquifer Domain	Nisku Killam Barrier Reef Aquifer Domain	Nisku Platform/Basin Aquifer Domain
Aquifer volume (km^3)	670.559	23.669	123.323
Brine volume (km^3)	65.058	1.415	8.218
Average lithium concentration (mg/L)	48.3	41.4	25.5
Average porosity (%)	9.9	6.1	6.8
Average brine in pore space (%)	98.0	98.0	98.0
Total elemental Li resources (tonnes)	3,142,000	59,000	207,000
Total LCE (tonnes)	16,726,000	312,000	1,102,000

Note 1: Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no guarantee that all or any part of the mineral resource will be converted into a mineral reserve. The estimate of mineral resources may be materially affected by geology, environment, permitting, legal, title, taxation, social-political, marketing, or other relevant issues.
Note 2: The weights are reported in metric tonnes (1,000kg or 2,204.6lbs).
Note 3: Tonnage numbers are rounded to nearest 1,000 unit.
Note 4: In a 'confined' aquifer, effective porosity is a proxy for specific yield.
Note 5: The resource estimation was completed and reported using a cutoff of 20mg/L lithium.
Note 6: To describe the resource in terms of the industry standard, a conversion factor of 5.323 is used to convert elemental lithium to Li_2CO_3 or Lithium Carbonate Equivalent (LCE).

As the metallic minerals segment entails early-stage exploration projects, there was no revenue and minimal expenses associated with the segment for the three months ended March 31, 2023.

Highwood engaged 2 independent third party labs for extraction technology test work: Preliminary lithium extraction process development testing indicate that an ion exchange process holds reasonable prospects for eventual economic extraction of battery-grade lithium product from Highwood's lithium-brine. The labs' results showed a good lithium loading capacity and a good selectivity for lithium and demonstrated optimized lithium extraction results of 98.3%. Further testing for process development and process is justified and will commence later.

Expenditures of $nil was deployed within the metallic minerals segment for the three months ended March 31, 2023 (three months ended March 31, 2022 - $21 thousand). As Highwood assesses additional information on its lithium Sub-properties, Highwood will continue to evaluate value maximization paths for its lithium assets including a potential public pure play, low carbon intensity lithium company spinout. In the event that the Company, or a spinout of the Company, is successful in raising funds through an equity raise that is being contemplated, the Company plans, and may be required, under the equity raise to outlay significant exploration capital in the near future.

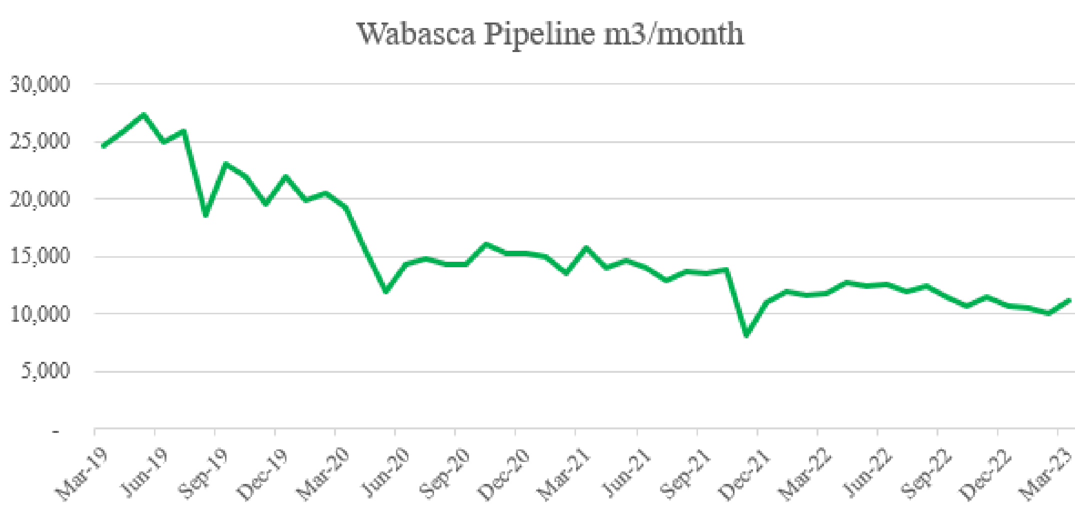
Lithium and Ironstone testing remains an ongoing focus for Highwood. Extraction technologies continue to be evaluated as well as potential go forward technology parties whom Highwood may elect to partner with moving forward.

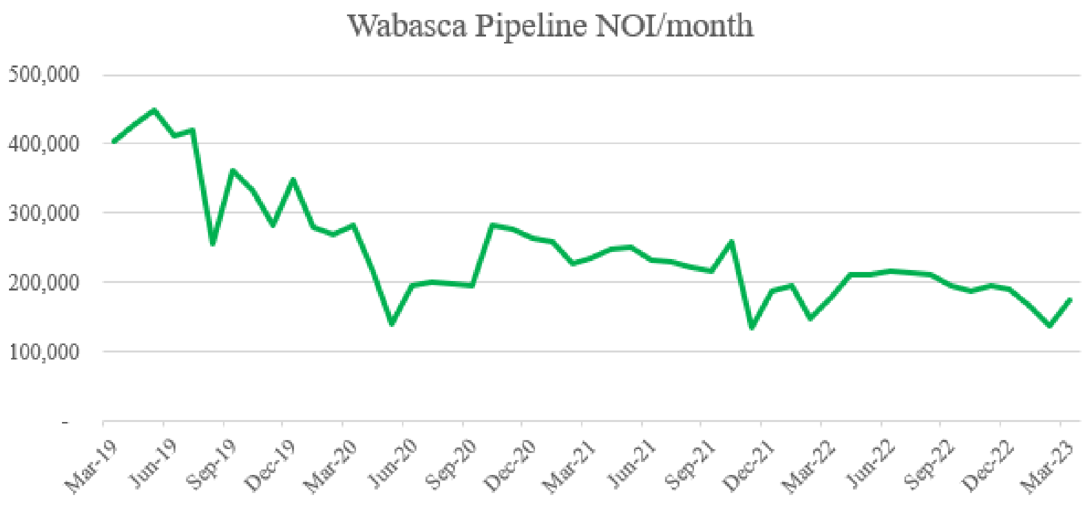
Midstream Operations

The midstream segment consists of the Company's Wabasca River Sales Pipeline and EVI Terminal. Transportation pipeline revenues relate to the Wabasca River Pipeline System that the Company has a 100% working interest in. Revenues are generated from a tariff charged to vendors who transport product on the pipeline. The EVI Terminal has a butane blending operation that generates revenues from the purchase and sale of butane. The EVI Terminal also has a heavy oil trucking facility which is currently not operational. However, the Company is assessing reactivating this portion of the terminal.

The Company's crude transmission line averaged 10,609 m3/month of throughput for the first quarter of 2023. Volumes were down slightly in the first quarter compared to the fourth quarter of 2022, but volumes are expected to increase and in the month of March volumes were 11,162 m3. The Company anticipates additional volumes coming onto the pipeline as area producers continue to revive capital activity in the continued strong price environment. The Company is encouraged by the capital activity in the first quarter of 2023 and expected capital activity in 2023 by producers in the area. The Company is also assessing reactivating the heavy oil trucking terminal at its EVI Terminal which would bring additional volumes onto the pipeline.

Revenue for the three months ended March 31, 2023 was $748 thousand, compared to $797 thousand for the three months ended March 31, 2022.



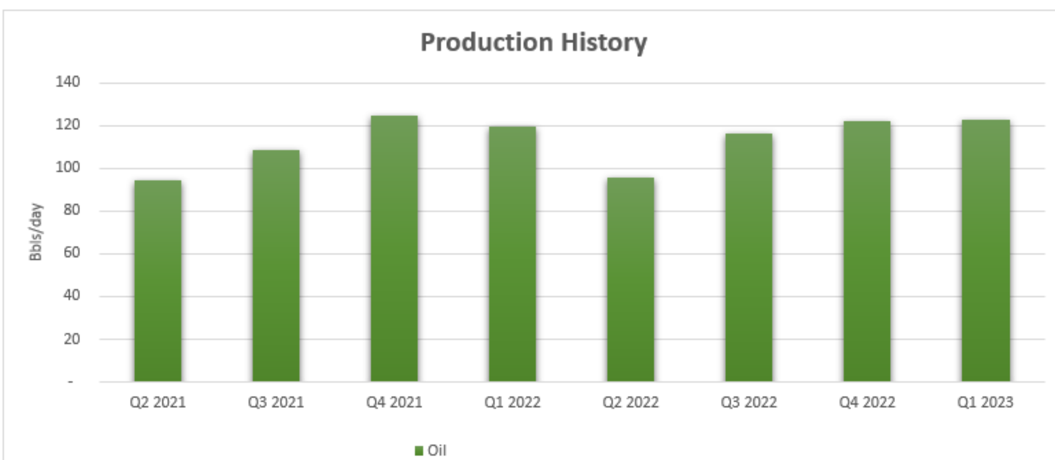


In addition, during the second half of 2022 and first quarter of 2023, the Company spent net capital of ~$267 thousand to reactivate the blending portion of its EVI terminal. The terminal was commissioned at the beginning of the fourth quarter of 2022 and will provide additional midstream revenues. The Company is assessing plans to reactivate the heavy oil trucking portion of the facility in 2023.

Upstream Operations

The upstream segment includes oil production with the upstream assets located in the Western Canada Sedimentary Basin.

Production



	Three months ended March 31, 2023	2022
Daily average volume		
Crude oil *(bbls/d)*	**123**	120
Total sales *(boe/d)*	**123**	120
Total sales *(boe)*	**11,027**	10,766
Production weighting		
Crude oil	**100%**	100%

Production for the first quarter of 2023 is consistent with the first quarter of 2022. The majority of the production in the first quarter of 2023 came from the Company's Saskatchewan CGU, which has remained consistent with prior periods.

Sales

Oil sales

	Three months ended March 31, 2023	2022
Crude oil	**$ 958**	$ 1,151
Average realized prices before hedging		
Crude oil *($/bbl)*	**86.88**	106.92

The decrease in oil sales from the three months ended March 31, 2023 to the comparative period in 2022 is primarily a lower realized price during the first quarter of 2023. While production remained fairly consistent, realized pricing was approximately 19% lower in the first quarter of 2023 compared to the first quarter of 2022. The decrease in pricing during the first quarter was mainly driven by concerns over recessions and the impact of bank failures that occurred in the first quarter of 2023. Over the short term, the Company anticipates continued price volatility. With respect to oil prices, a significant factor is the unknown impact of transportation constraints in Alberta, demand levels, as well as global inventory levels. The Company anticipates that there will be continued price volatility for at least the next several quarters as various dynamics play out. The Company continues to monitor current and forecasted pricing.

The Company's realized prices were consistent with the changes in the benchmark prices.

Royalties

	Three months ended March 31, 2023	2022
	$	$
Royalties	**305**	353
Per boe	**27.66**	32.79
Percentage of oil sales	**31.8%**	30.7%

Highwood's royalty burden includes crown, gross over-riding and freehold royalties applicable on the Company's production sales.

The decrease in royalties from the three months ended March 31, 2023 to the comparative period in 2022 is primarily driven by lower commodity pricing. The majority of the royalties come from the Saskatchewan CGU which is burdened by several gross over-riding royalties which results in a higher royalty percentage of oil sales. Royalties as a percentage of revenue are consistent and in line with expectations.

Upstream Operating and Transportation Expense

	Three months ended March 31,	
	2023	2022
	$	$
Operating and transportation	**243**	267
Per boe	**22.04**	24.80

Overall, total operating and transportation expense and on a per boe basis for the upstream segment are consistent between the three months ended March 31, 2023 compared to the comparative period in 2022. The Company has been actively working to reduce costs, mainly by conducting abandonment and reclamation work on the non-producing properties, which would reduce costs such as surface and mineral rentals.

Management continues to look at production and operating costs to identify additional efficiencies.

Netback Analysis

	Three months ended March 31,	
	2023	2022
	$/boe	$/boe
Average sales price	**86.88**	106.92
Royalties	**(27.66)**	(32.79)
Upstream Operating and transportation	**(22.04)**	(24.80)
Operating netback	**37.18**	49.33

The main reason for the decrease in operating netback for the three months ended March 31, 2023 compared to the three months ended March 31, 2022 is due to a decrease in average realized sales price. The average realized price for the three months ended March 31, 2023 was approximately 19% lower than the comparative period of 2022. Management continues to look at ways to maximize the operating netback.

Royalty Income

	Three months ended March 31,	
	2023	2022
	$	$
	136	-

During the third quarter of 2022, a producer drilled a successful well on a property where the Company holds a royalty interest. As a result, the Company received royalty income during the first quarter of 2023 of $136 thousand.

Butane Blending Income

	Three months ended March 31,	
	2023	2022
	$	$
	202	-

During the fourth quarter of 2022, the Company reactivated the butane blending facility at EVI.

PART 4 – SELECT CONSOLIDATED OPERATING DISCLOSURES

Risk Management

Highwood's cash flow is highly variable, in large part because oil and natural gas are commodities whose prices are determined by worldwide and/or regional supply and demand, transportation constraints, weather conditions, availability of alternative energy sources and other factors, all of which are beyond Highwood's control. World prices for oil and natural gas have remained fairly consistent in recent months but continue to be volatile.

Through most of 2022 and 2023, commodity prices have significantly recovered from the low prices of 2021 due to a combination of factors including, but not limited to, increasing worldwide demand for commodities and decreasing oil inventories. The Russia-Ukraine conflict in early 2022 has further added to the unpredictability of global markets and commodity prices. The impact of the Russia-Ukraine conflict continues to have a major impact of global markets and commodity prices today. During the first quarter of 2023, the failure of several banks in the United States and Switzerland along with fears of recessions have had a negative impact on commodity prices. However, they still remain well above the pricing seen during the COVID-19 pandemic.

Management of cash flow variability is an integral component of the Company's business strategy. Business conditions are monitored regularly and reviewed with the Board of Directors to establish risk management guidelines used by management in carrying out the Company's strategic risk management program.

The Company has elected not to use hedge accounting and, accordingly, the fair value of the financial contracts is recorded at each period-end. The fair value may change substantially from period to period depending on commodity forward strip prices for the financial contracts outstanding at the statement of financial position date. The change in fair value from period-end to period-end is reflected in the income for that period. As a result, income may fluctuate considerably.

At March 31, 2023 Highwood had no commodity contracts in place.

Commodity contracts are considered financial instruments, and the resulting derivative financial asset or liability was recorded on the Company's statement of financial position, with the unrealized gain or loss being recorded on the statement of income (loss) and comprehensive income (loss).

	Three months ended March 31,	
	2023	2022
	$	$
Unrealized gain on commodity contracts	**-**	23

General and Administrative (G&A)

	Three months ended March 31,	
	2023	2022
	$	$
G&A	**839**	565

G&A expenses increased during the three months ended March 31, 2023, compared to the respective period in 2022 mainly due to increased compensation and costs associated with the transactions the Company is evaluating. The Company is using third party consultants to assist with such items as environmental assessments, reserve assessments and more with respect to the transactions. The increase is also due to inflationary pressures which have increased costs of goods and services.

Stock-Based Compensation

	Three months ended March 31,	
	2023	2022
	$	$
Stock-based compensation	**59**	80

The decrease in stock-based compensation for the three month period ended March 31, 2023 from the comparative periods of 2022 is mainly due to the forfeiture of options and RSU's during 2022 along with options and RSU's issued in previous years fulling vesting before the first quarter of 2023.

At March 31, 2023 the Company had 176,000 options and 61,000 RSU's outstanding.

Depletion and Depreciation ("D&D")

	Three months ended March 31,	
	2023	2022
	$	$
D&D	**236**	94

The increase in D&D for the three months ended March 31, 2023, compared to the prior period, is mainly due to the impact on change in discount rate related to decommissioning liabilities for certain oil and gas properties that have a carrying value of $nil. D&D related to the producing assets is consistent with the prior periods.

For the three months ended March 31, 2023, D&D related to producing upstream assets was $106 thousand, compared to $124 thousand for the three months and year ended March 31, 2022. The slight decrease in 2023 is mainly due to increases in reserves associated with these assets.

For the three months ended March 31, 2023, D&D related to midstream assets was $82 thousand, compared to $75 thousand for the three months ended March 31, 2022.

For the three months ended March 31, 2023, D&D related to corporate assets was $15 thousand, compared to $nil for the three months ended March 31, 2022.

Impairment

Impairment of property, plant and equipment

2023

The Company assesses many factors when determining if an impairment test should be performed. At March 31, 2023, the Company conducted an assessment of impairment indicators for the Company's CGUs. In performing the review, management determined that the continued strength in commodity pricing and the impact this has on the economic performance of the Company's CGUs resulted in no indicators of impairment at March 31, 2023.

Finance Expenses

	Three months ended March 31, 2023	2022
	$	$
Interest on bank debt	**12**	20
Cash finance expenses	**12**	20
Accretion of decommissioning liabilities	**17**	12
Accretion of long-term accounts payable and accrued liabilities	**17**	21
Other expense	**-**	1
Non-cash finance expense	**34**	34
Total finance expenses	**46**	54

Interest on bank debt relates to interest and fees paid to Highwood's bankers to service the bank debt and bank overdraft. Interest on bank debt for the three month period ended March 31, 2023, compared to the three month period ended March 31, 2022, is mainly due to the reduction in the overall draw on the credit facility which is partially offset by higher interest rates.

Accretion of decommissioning liabilities for the three months ended March 31, 2023 is consistent with the comparative period of 2022.

Accretion of long-term accounts payable and accrued liabilities relates to a payment plan the Company entered into during 2023 with a vendor that expended the payments beyond 12 months.

Interest rates are based on the Company's most recent quarter net debt to cash flow ratio. Net debt is defined by the agreement as working capital deficit plus bank debt and cash flow is defined effectively as cash flow from operating activities before changes in non-cash working capital for the most recent quarter annualized and normalized for extraordinary and nonrecurring earnings, gains, and losses.

Deferred Income Tax

Deferred income tax was an expense of $30 thousand for the three months ended March 31, 2023, compared to an expense of $63 thousand for the three months ended March 31, 2022. The expense in the three months ended March 31, 2023 was mainly due to positive taxable income reducing non-capital losses available to the Company.

Income (Loss)

The Company incurred a loss of $27 thousand for the three months ended March 31, 2023, compared to income of $456 thousand for the comparative three months ended March 31, 2022. Loss for the three months ended March 31, 2023 was driven by a combination of lower commodity prices, increased depletion costs and increased G&A costs. Income for the three months ended March 31, 2022 was mainly a result of a increase in commodity prices generating higher netbacks.

	Three months ended March 31, 2023	2022
	$	$
Income (Loss)	**(27)**	456
Per share, basic	**0.00**	0.08
Per share, diluted	**0.00**	0.07

Supplemental Information

The following tables summarize key financial and operating information for the periods indicated:

Cash Flows used in Operating Activities

	Three Months Ended, March 31, 2023	March 31, 2022
Cash provided used in		
Operating activities		
Income (loss) for the period	**$ (27)**	$ 456
Items not involving cash:		
Unrealized gain on commodity contracts	**-**	(23)
Depletion and depreciation expense	**236**	94
Finance expense	**34**	34
Deferred tax expense	**30**	63
Stock-based compensation	**59**	80
Gain on disposal of assets	**(54)**	(107)
Gain on debt modification	**-**	(122)
Cash abandonment expenditures	**(6)**	-
Change in long-term accounts payable and accrued liabilities	**(126)**	400
Change in non-cash working capital	**(470)**	(896)
Net cash used in operating activities	**(324)**	(21)

Selected Quarterly Information

Three months ended	Mar. 31, 2023	Dec. 31, 2022	Sept. 30, 2022	June 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021	June 30, 2021
Financial ($000s, except per share amounts and share numbers)								
Oil sales	958	1,027	1,135	1,125	1,151	966	721	544
Transportation pipeline revenues	748	769	842	847	797	718	905	931
Income (loss)	(27)	62	241	1,487	456	(951)	150	(930)
Capital expenditures	685	362	1,526	19	138	3	79	74
Total assets *(end of quarter)*	17,904	16,841	16,718	16,274	15,746	15,883	16,389	18,005
Working capital surplus (deficit), excluding commodity contracts and bank debt *(end of quarter)*	197	411	531	1,512	340	(486)	(1,588)	(1,672)
Shareholders' equity *(end of quarter)*	10,729	10,697	10,508	10,128	8,529	7,993	8,836	8,570
Weighted-average basic shares outstanding *(000s)*	6,037	6,014	6,014	6,014	6,014	6,014	6,014	6,014
Operations								
Production								
Crude oil *(bbls/d)*	123	119	116	97	120	125	108	94
Total *(boe/d)*	123	119	116	97	120	125	108	94
Average realized prices *($)*								
Crude oil *(per bbl)*	86.88	93.44	106.27	127.37	106.92	84.06	72.26	63.30

Inherent to the nature of the energy industry, fluctuations in Highwood's quarterly oil sales, transportation pipeline revenues, cash flows from operating activities, and income or loss are primarily caused by variations in production volumes, realized commodity prices and the related impact on royalties, realized and unrealized gains/losses on financial instruments, changes in per-unit expenses, and deferred income taxes. Please refer to the Operating Segment Results and Select Consolidated Operating Disclosures sections above for an explanation of changes.

Capital Activity

	Three months ended March 31, 2023	2022
	$	$
Upstream operations		
Seismic and other pre-drilling costs	**8**	-
Midstream Operations		
Production equipment and facilities	**677**	138
	685	138

At March 31, 2023, the Company had E&E assets of $938 thousand (December 31, 2022 – $951 thousand). This amount is primarily made up of undeveloped land and metallic minerals permits. During the first quarter of 2023 the Company sold two sections of lands with a cost base of $21 thousand for proceeds of $75 thousand, resulting in a gain on disposal of assets of $54 thousand during the three months ended March 31, 2023.

At March 31, 2023, the Company had gross property and equipment of $21.69 million (December 31, 2022 - $20.99 million). This included developed land and costs associated with the wells the Company has drilled and acquired to date, the transportation pipelines the Company acquired in 2018, the EVI terminal that was recommissioned in 2022 and the office space and furniture the Company purchased in the third quarter of 2022.

PART 5 – CAPITALIZATION

Share Capital and Option Activity

As at March 31, 2023, the Company had 6,037,298 common shares, 175,868 options and 60,600 RSU's outstanding.

As at the date of this MD&A, the Company had 6,037,298 common shares, 157,000 options and 60,600 RSU's outstanding.

Liquidity and Capital Resources

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 consist of accounts payable and accrued liabilities, commodity contracts and bank debt, most of which are due within a year and lease liabilities. A portion of accounts payable and accrued liabilities is being paid on a long term payment plan. 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 also attempts to match its payment cycle with collection of oil and natural gas sales on the 25th of each month.

At March 31, 2023, the Company had a working capital surplus of $197 thousand, excluding bank debt. 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 through deleveraging transactions. The Company also has a credit facility (note 6) to facilitate the management of liquidity risk. At March 31, 2023, approximately $0.4 million was available under the credit facility. Subsequent to March 31, 2023, the maturity date on the operating facility was extended to October 31, 2023. At March 31, 2023, the Company has classified $557 thousand of accounts payable and accrued liabilities as long term (December 31, 2022 - $666 thousand) as the vendor has agreed to a payment plan that extends beyond 12 months.

The Company has a $2.92 million operating facility which could be drawn to a maximum of $1.0 million. This operating facility bears interest at the Bank's prime rate of bankers acceptance discount rates plus an applicable margin of 300bps to 550bps on prime rate loans and 400bps to 650bps on stamping fees related to bankers acceptances, determined by reference to the Company's net debt to cash flow ratio (as defined in the credit facility agreement). Interest on the credit facility is due monthly. This credit facility is secured by a $100.0 million debenture with a fixed and floating charge over all the assets of the Company. The operating facility matured January 31, 2023, at which time it was subject to customary reviews by the lenders. During the first quarter of 2023, the maturity was extended to February 28, 2023, March 31, 2023 and then April 30, 2023. In addition the operating facility was reduced to $1.0 million. Subsequent to March 31, 2023, the maturity date was extended to October 31, 2023.

The borrowing base can be determined at the sole discretion of the lender and any amount outstanding under the bank facility in excess of a newly established borrowing base must be repaid in full within 30 days. The lender has sole discretion on the determination of the borrowing base which is based predominantly on the Company's cash flows forecast from proved developed producing oil and natural gas reserves and midstream assets. The recovery of global commodity prices and increased interest in the Western Canadian energy sector has positively impacted the availability for credit within the industry.

The Company is required to maintain an adjusted working capital ratio of not less than 1.0:1.0, and such ratio is to be tested at the end of each fiscal quarter. Current ratio is defined as the ratio of (i) current assets, excluding financial derivatives to (ii) current liabilities, excluding financial derivatives, any amounts drawn under the bank facility and any current liabilities related to lease contracts. At March 31, 2023, the Company's current ratio was 1.27:1.0 (December 31, 2022 – 2.40:1:00). The Company is required to maintain a net debt to cash flow ratio no greater than 2.0:1.0 for each quarter. At March 31, 2023 the Company's net debt to cash flow ratio is 0.53:1.0 (December 31, 2022 – 0.16:1.0). For the purposes of the covenant, net debt is defined by the agreement as working capital deficit (excluding financial derivatives) plus bank debt and cash flow is defined as cash flow from operating activities before changes in non-cash working capital normalized for extraordinary and nonrecurring earnings, gains, and losses. Cashflows are determined as the trailing four quarters. The Company is allowed to enter into notional commodity contracts whose terms do not extend more than one month past the operating facility maturity date of October 31, 2023 and cannot exceed 60% of gross production volumes (by commodity) for the three month trailing period, at the time the contracts are entered into.

The bank facility has financial and hedging covenants as outlined in note 6 of the financial statements. The Company was in compliance with all its financial covenants at March 31, 2023. As planned production rates and forward prices for crude oil being traded in the futures market, management is forecasting it will be in compliance with financial covenants for the next 12 months. The Company forecasts that it can continue to meet its obligations including interest payments, general & administrative expenses and operating expenses within its internally generated cash flows. 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 has increased accounts payable and accrued liabilities by approximately $337 thousand during the three months period ending March 31, 2023 from December 31, 2022. The main reason for the increase is due to capital expenditures that were incurred during the first quarter. At March 31, 2023, the Company has classified $557 thousand of accounts payable and accrued liabilities as long term as the vendor has agreed to a payment plan that extends beyond 12 months.

The Company plans to meet foreseeable obligations by actively monitoring its credit facilities through use of the revolving debt, coordinating payment and revenue cycles each month and secure cash flows. The Company will also seek secondary financing to meet obligations if terms are considered to be economic by the Company. Future liquidity depends primarily on funds generated from operations, drawing on existing credit facilities and accessing debt and equity markets.

The oil and natural gas commodity price environment has been and continues to be volatile, however, prices have recently remained fairly consistent. Prices were down slightly during the first quarter of 2023 compared to the fourth quarter of 2022 mainly due to demand concerns and fears of recession. However, prices remain well above the lows experienced during the COVID-19 pandemic.

Off-Balance-Sheet Arrangements

The Company does not have any special-purpose entities nor is it a party to any arrangements that would be excluded from the statement of financial position.

Environmental Initiatives Affecting Highwood

The oil and gas industry has a number of environmental risks and hazards and is subject to regulation by all levels of government. Environmental legislation includes, but is not limited to, operational controls, site restoration requirements and restrictions on emissions of various substances produced in association with oil and natural gas operations. Compliance with such legislation could require additional expenditures and a failure to comply may result in fines and penalties which could, in the aggregate and under certain unlikely assumptions, become material. Operations are continuously monitored to minimize the environmental impact and capital is allocated to reclamation and other activities to mitigate the impact on the areas in which we operate.

Related-Party Transactions

The Company received legal advisory from a company where a partner is a director of the Company, DLA Piper (Canada) LLP. During the three months ended March 31, 2023, the legal expenses incurred were $31 thousand (three month period ended March 31, 2022 - $nil). As at March 31, 2023, $39 thousand (December 31, 2022 - $51 thousand) is included within accounts payable with respect to these charges.

PART 6 – ACCOUNTING POLICIES

Critical Accounting Judgments, Estimates and Policies

The Company's critical accounting judgements, estimates and policies are described in notes 2 and 3 to the December 31, 2022 annual consolidated financial statements as well as included in the Company's annual MD&A as at December 31, 2022. Certain accounting policies are identified as critical because they require management to make judgments and estimates based on conditions and assumptions that are inherently uncertain, and because the estimates are of material magnitude to revenue, expenses, funds flow from operations, income or loss and/or other important financial results. These accounting policies could result in materially different results should the underlying conditions change or the assumptions prove incorrect.

Non-GAAP Measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry. The term "operating netback" (oil and natural gas sales less royalties and production, operating and transportation expenses, all expressed on a per-unit-of-production basis) is not defined under IFRS, and may not be comparable with similar measures presented by other companies. Operating netback is a per-unit-of-production measure that may be used to assess the Company's performance and efficiency.

The term "working capital surplus (deficit), excluding bank debt" is not defined under IFRS, and may not be comparable with similar measures presented by other companies. Working capital surplus (deficit), excluding bank debt is included to show what the working capital relating to customers, vendors, and joint venture partners would be.

The term "funds flow from operations" is not defined under IFRS, and may not be comparable with similar measures presented by other companies. Funds flow from operations is included to show what the cash flow from operating activities would be prior to changes in working capital and changes in long-term accounts payable and accrued liabilities.

Basis of Barrel of Oil Equivalent

Petroleum and natural gas reserves and production volumes are stated as a "barrel of oil equivalent" (boe), derived by converting natural gas to oil equivalency in the ratio of 6,000 cubic feet of gas to one barrel of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6,000 cubic feet of gas to one barrel of oil is based on energy equivalency, which is primarily applicable at the burner tip, and does not represent a value equivalency at the wellhead. Readers are cautioned that boe figures may be misleading, particularly if used in isolation.

Forward-Looking Statements

This document contains certain forward-looking statements. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could influence actual results or events and cause them to differ materially from those stated, anticipated or implied. Such forward-looking statements necessarily involve risks including, without limitation, those associated with oil and natural gas exploration, property development, production, marketing and transportation, such as dry holes and non-commercial wells, facility and pipeline damage, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, production declines, health, safety and environmental risks, competition from other producers and the ability to access sufficient capital from internal and external sources. Forward-looking information typically includes statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project", or similar words suggesting future outcomes. The Company cautions readers and prospective investors in the Company's securities not to place undue reliance on forward-looking information as, by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Company.

Forward-looking information typically involves substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control. Such risks and uncertainties include, without limitation: financial risk of marketing reserves or metals & minerals at an acceptable price given market conditions; volatility in market prices for metals, minerals, oil and natural gas; delays in business operations; pipeline restrictions; blowouts; the risk of carrying out operations with minimal environmental impact; industry conditions including changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; uncertainties associated with estimating mining resources & oil and natural gas reserves; risks and uncertainties related to mining and oil & gas interests and operations on aboriginal lands; economic risk of finding and producing reserves at a reasonable cost; uncertainties associated with partner plans and approvals; operational matters related to non-operated properties; increased competition for, among other things, capital, acquisitions of mining permits, reserves and undeveloped lands; competition for and availability of qualified personnel or management; incorrect assessments of the value of acquisitions and exploration and development programs; unexpected geological, technical, drilling, construction, processing and transportation problems; availability of insurance; fluctuations in foreign exchange and interest rates; stock market volatility; general economic, market and business conditions; uncertainties associated with regulatory approvals; uncertainty of government policy changes; uncertainties associated with credit facilities and counterparty credit risk; changes in income tax laws, Crown royalty rates and incentive programs relating to the oil and gas industry; and other factors, many of which are outside the Company's control. The Company's actual results, performance or achievements could, therefore, differ materially from those expressed in, or implied by, these forward-looking estimates and whether or not any such actual results, performance or achievements transpire or occur, there can be no certainty as to what benefits or detriments the Company will derive therefrom.

The forward-looking information included herein is expressly qualified in its entirety by this cautionary statement. It is made as of the date hereof and the Company assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

Qualified Persons

All technical and scientific metallic mineral information discussed in this MD&A, including Inferred Mineral Resource estimates for the Company's early-stage lithium-brine mineral exploration project ("**Drumheller Lithium-Brine Project**"), has been reviewed and approved by D. Roy Eccles, P.Geol. (Senior Consulting Geologist and Chief Operations Officer, APEX Geoscience Ltd.), who is a Qualified Person for the purposes of National Instrument 43-101 — *Standard of Disclosure for Mineral Projects* of the Canadian Securities Administrators ("**NI 43-101**") and who is independent of Highwood. For further details, see the technical report entitled "*National Instrument 43-101 Technical Report, Initial Inferred Lithium-Brine Resource Estimations for Highwood Asset Management Ltd.'s Drumheller Property in South-Central Alberta, Canada*" with an effective date of February 21, 2023, which was prepared by D. Roy Eccles, P.Geol. (Senior Consulting Geologist and Chief Operations Officer, APEX Geoscience Ltd.) in accordance with NI 43-101 and is available under Highwood's SEDAR profile at www.sedar.com.

Abbreviations

The following summarizes the abbreviations used in this document:

Crude Oil and Natural Gas Liquids

bbl	barrel
Mbbl	thousand barrels
bbls/d	barrels per day
boe	barrel of oil equivalent
Mboe	thousand barrels of oil equivalent
boe/d	barrel of oil equivalent per day
NGL	natural gas liquids

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
GJ	Gigajoule; 1 Mcf of natural gas is about 1.05 GJ
MMBtu	million British thermal units; 1 GJ is about 0.95 MMBtu

Other

$000s	thousands of dollars
IFRS	International Financial Reporting Standards
IAS	International Accounting Standard

Corporate Information

BOARD OF DIRECTORS

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Calgary, Alberta

GREG MACDONALD
President & CEO
Highwood Asset Management Ltd.
Calgary, Alberta

STEPHEN HOLYOAKE
CEO, Fireweed Energy Ltd.
Calgary, Alberta

TREVOR WONG-CHOR
Partner, DLA Piper (Canada) LLP
Calgary, Alberta

RYAN MOONEY
Managing Director, Investment Banking,
Echelon Wealth Partners
Calgary, Alberta

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