SUBJECT TO COMPLETION, DATED JULY 5, 2023

A copy of this preliminary prospectus supplement (the "Prospectus Supplement") has been filed with the securities regulatory authorities in each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and New Brunswick but has not yet become final for the purpose of the sale of securities. Information contained in this Prospectus Supplement may not be complete and may have to be amended.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

*This Prospectus Supplement, together with the accompanying amended and restated short form base shelf prospectus dated May 19, 2023 for the Provinces of Alberta, British Columbia, Saskatchewan, and Ontario and the short form base shelf prospectus dated May 19, 2023 for the Provinces of New Brunswick and Manitoba to which it relates, as amended or supplemented (the "**Prospectus**"), and each document incorporated or deemed to be incorporated by reference therein constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities in those jurisdictions.*

***Information has been incorporated by reference in the Prospectus from documents filed with securities commissions or similar regulatory authorities in Canada**. Copies of the documents incorporated therein by reference may be obtained on request without charge from the secretary of Highwood Asset Management Ltd. at Suite 202, 221 – 10th Avenue SE, Calgary, Alberta, T2G 0V9, Telephone: (403) 719-0499, and are also available electronically at www.sedar.com.*

The securities offered hereunder have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States. Accordingly, except as permitted by the Agency Agreement (as defined herein) and pursuant to transactions exempt from registration under the U.S. Securities Act and under the securities laws of any applicable U.S. state, the securities offered hereunder may not be offered or sold in the United States (as defined herein) or to, or for the account or benefit of, U.S. Persons (as defined herein), unless an exemption from registration requirements of the U.S. Securities Act and applicable state laws is available. This Prospectus Supplement does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereunder within the United States. See "Plan of Distribution".

PRELIMINARY PROSPECTUS SUPPLEMENT
To the Short Form Base Shelf Prospectus dated May 19, 2023 for the Provinces of New Brunswick and Manitoba
and
To the Amended and Restated Short Form Base Shelf Prospectus dated May 19, 2023 for the Provinces of Alberta, British Columbia, Saskatchewan and Ontario

New Issue **July ●, 2023**

HIGHWOOD ASSET MANAGEMENT LTD.

$35,000,000
● Subscription Receipts
each representing the right to receive one Unit

This Prospectus Supplement of Highwood Asset Management Ltd. ("**Highwood**" or the "**Company**"), together with the accompanying Prospectus, qualifies the distribution (the "**Offering**") of ● subscription receipts of the Company (the "**Offered Receipts**") at a price of $● per Offered Receipt (the "**Offering Price**"). Each Offered Receipt will entitle the holder thereof to receive, without payment of additional consideration and without further action on the part of the holder thereof, one unit of the Company (a "**Unit**") upon closing of the Acquisitions (as defined herein). It is anticipated that the Offering Price will be $6.00 per Offered Receipt.

Each Unit is comprised of one Common Share (each, a "**Unit Share**") and one-half of one Common Share purchase warrant (each full warrant, a "**Warrant**"). Each Warrant is exercisable into one Common Share (a "Warrant Share") at an exercise price of $● per Warrant Share (the "Exercise Price") at any time prior to 5:00 p.m. (Calgary time) on the date that is 36 months from the issuance date of the Warrants. It is anticipated that the Exercise Price will be $7.50. The Warrants will be governed by a warrant indenture to be entered into on the Closing Date (as defined herein) between the Company and Odyssey Trust Company, as warrant agent. The Units will immediately separate into Unit Shares and Warrants upon distribution, and the Unit Shares and the Warrants will be issued separately. See "*Plan of Distribution*".

The Offering is being made pursuant to the terms and conditions of an agency agreement dated ●, 2023 (the "**Agency Agreement**") among the Company, RBC Dominion Securities Inc. ("**RBC**"), Echelon Wealth Partners Inc**.** ("**Echelon**"), Raymond James Ltd. ("**Raymond James**" and, collectively with RBC and Echelon, the "**Co-Lead Agents**"), ●, ● and ● (collectively with the Co-Lead Agents, the "**Agents**"). The Offering Price was determined by arm's length negotiation between the Company and the Co-Lead Agents, on behalf of the Agents, with reference to the prevailing market price of the common shares of the Company (the "**Common Shares**") and other factors. The Offering is being made concurrently in the Provinces of Alberta, British Columbia, Saskatchewan, New Brunswick, Manitoba and Ontario (collectively, the "**Offering Jurisdictions**") under the terms of this Prospectus Supplement. See "*Plan of Distribution*".

Price: $● per Offered Subscription Receipt

The gross proceeds from the sale of the Offered Receipts, less the Non-Escrowed Agents' Fee (as defined herein)), collectively, the "**Proceeds**", will be held by Odyssey Trust Company, as subscription receipt agent (the "**Subscription Receipt Agent**"), and invested in short-term obligations of, or guaranteed by, the Government of Canada, interest-bearing deposits with banks and other financial institutions with issuer credit ratings of at least A assigned by S&P Global Ratings or an equivalent rating from any other designated rating organization (as defined in NI 44-101 (as defined herein), guaranteed investment certificates of a Canadian Schedule I bank or other approved investments as set forth in the Subscription Receipt Agreement (as defined herein) until the earlier of (i) the delivery of the notice to be provided by the Company and acknowledged by RBC, on behalf of the Agents, to the Subscription Receipt Agent, certifying that the Escrow Release Condition (as defined herein) has been satisfied (the "**Escrow Release Notice**"), and (ii) the Termination Time (as defined herein), all pursuant to the terms and conditions of a subscription receipt agreement (the "**Subscription Receipt Agreement**") to be entered into on the Closing Date among the Company, the Subscription Receipt Agent and RBC, on its own behalf and on behalf of the other Agents. Any interest or other income earned on the investment or reinvestment of the Proceeds (the "**Earned Interest**" and, together with the Proceeds and any interest or other income earned on such Earned Interest, the "**Escrowed Funds**") from, and including, the Closing Date to, but excluding, the earlier of the delivery of the Escrow Release Notice and the Termination Time and will be held by the Subscription Receipt Agent, as escrow agent and bailee on behalf of the holders of Subscription Receipts, in accordance with the terms of the Subscription Receipt Agreement. See *"Description of the Securities Being Distributed — Subscription Receipts".*

Provided that the Acquisition Closing (as defined herein) occurs prior to the Termination Time, the Escrowed Funds, less the Escrowed Agents' Fee (as defined herein), will be released to the Company and each holder of a Subscription Receipt will receive, without payment of additional consideration and without further action, one Unit for each Subscription Receipt held. See *"Description of the Securities Being Distributed — Subscription Receipts"*. Highwood intends to use the net proceeds to partially fund the cash consideration payable in respect of the Acquisitions and for general working capital purposes. See *"Use of Proceeds"*.

If (i) the Acquisitions Closing does not occur on or before 5:00 p.m. (Eastern time) on September 8, 2023 (the "**Deadline**"), (ii) the Escrow Release Notice has not been delivered to the Subscription Receipt Agent on or before the Deadline, (iii) any of the Share Purchase Agreements is terminated on or before the Deadline, or (iv) Highwood advises the Subscription Receipt Agent and RBC, on behalf of the other Agents, or announces to the public that it does not intend to proceed with any of the Acquisitions (each, a "**Termination Event**" and the time of any such Termination Event, the "**Termination Time**"), the Subscription Receipt Agent will return to holders of Subscription Receipts from the Escrowed Funds, an amount per Subscription Receipt (the "**Termination Payment**") equal to the Offering Price plus a pro rata share of any Earned Interest, calculated from the Closing Date to, but excluding, the Termination Time, net of any applicable withholding taxes. The Termination Payment will be made from the balance of the Escrowed Funds at the Termination Time, provided that if the balance of the Escrowed Funds is insufficient to cover the aggregate of the Termination Payments, under the Subscription Receipt Agreement, Highwood will be required to pay to the Subscription Receipt Agent, as agent on behalf of the holders of Subscription Receipts, the deficiency between the amount of Escrowed Funds at the Termination Time and the aggregate of the Termination Payments due to the holders of Subscription Receipts. See *"Description of the Securities Being Distributed — Subscription Receipts".*

The Common Shares are listed for trading on the TSX Venture Exchange (the "**TSX-V**") under the trading symbol "HAM" and on the Frankfurt Stock Exchange under the trading symbol "7PD0". On July 4, 2023, the last trading day prior to the date of the public announcement of the Offering, the closing price of the Common Shares on the TSX-V was $7.00. The Company has applied to the TSX-V for conditional approval of the listing of the Offered Receipts and the Unit Shares, the Warrants and the Warrant Shares (including any Offered Receipts, Unit Shares and Warrants issuable pursuant to the exercise of the Over-Allotment Option (as defined herein) and the Warrant Shares issuable upon the exercise of such

Warrants) on the TSX-V. Listing is subject to Highwood fulfilling all of the listing requirements of the TSX-V, including distribution of the Offered Receipts to a minimum number of public securityholders.

There is currently no market through which the Offered Receipts or the Warrants may be sold and purchasers may not be able to resell the Offered Receipts or the Warrants. This may affect the pricing of the Offered Receipts or the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants and the extent of issuer regulation. See "*Risk Factors*".

	Price to the Public	Agents' Fee(1)(2)	Net Proceeds to the Company(1)(2)(3)
Per Offered Receipt	$●	$●	$●
Total	$●	$●	$●

Notes:

(1) Highwood has agreed to pay the Agents a commission of ●% of the aggregate gross proceeds of the Offering, or $● per Offered Receipt (the "**Agents' Fee**"), including any gross proceeds from the sale of Offered Receipts pursuant to the exercise of the Over-Allotment Option. Numbers may not add due to rounding. Half (50%) of the Agents' Fee is payable on the Closing Date (the "**Non-Escrowed Agents' Fee**"), with the other half (50%) of the Agents' Fee payable upon the Acquisitions Closing (as defined herein) (the "**Escrowed Agents' Fee**"). If a Termination Event occurs, the Agents' Fee will consist solely of the Non-Escrowed Agents' Fee. See "*Description of the Securities Being Distributed — Subscription Receipts*" and "*Plan of Distribution*".

(2) The Company has granted the Agents an over-allotment option (the "**Over-Allotment Option**"), exercisable at any time and from time to time until the earlier of (i) 5:00 p.m. (Calgary time) on the date that is 30 days following the Closing Date (including the date thereof), and (ii) the Termination Time, for the offer and sale of up to an additional ● Offered Receipts on the same terms as set forth above. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Agents' Fee" and "Net Proceeds to the Company" (before payment of the expenses of the Offering) set forth above will be $●, $● and $●, respectively. If the Over-Allotment Option is exercised in whole or in part, following the Acquisitions Closing, an equal number of Units (the "**Over-Allotment Units**") will be issued and sold in lieu of the Subscription Receipts to be sold pursuant to the exercise of the Over-Allotment Option. Unless the context otherwise requires, references herein to the "Offering" and the "Offered Receipts" include the Offered Receipts offered and sold pursuant to the exercise of the Over-Allotment Option and the "Units" include the Over-Allotment Units issued pursuant to the exercise of the Over-Allotment Option. This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of up to an additional ● Offered Receipts (or Over-Allotment Units, as applicable) to be sold by the Company upon exercise of the Over-Allotment Option (and the ● Units issuable to holders of such additional Offered Receipts and the ● Unit Shares and the ● Warrants comprising such additional Units and any Over-Allotment Units, and the ● Warrant Shares issuable upon the exercise of such Warrants). A purchaser who acquires Offered Receipts or Over-Allotment Units, as applicable, forming part of the Agents' over-allocation position acquires those Offered Receipts or Over-Allotment Units under this Prospectus Supplement, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "*Plan of Distribution*".

(3) After deducting the Agents' Fee but before deducting the expenses of the Offering (including listing fees) estimated to be approximately $●, which will be paid from the proceeds of the Offering.

The following table sets out the number of securities that may be issued by the Company pursuant to the Over-Allotment Option:

Agents' Position	Maximum Number of Securities Available	Exercise Period	Exercise Price
Over-Allotment Option	● Offered Receipts	30 business days after the Closing Date	$● per Offered Receipt

The Agents have agreed to conditionally offer the Offered Receipts for sale pursuant to the securities legislation of the Offering Jurisdictions, on a best efforts agency basis, if, as and when issued by Highwood and delivered to and accepted by the Agents in accordance with the conditions contained in the Agency Agreement, and subject to approval of certain legal matters on behalf of Highwood by DLA Piper (Canada) LLP and on behalf of the Agents by Blake, Cassels & Graydon LLP. The Offered Receipts may also be offered for sale in the United States and to, or for the account or benefit of, U.S. Persons, in reliance upon the exemptions from the registration requirements of the U.S. Securities Act provided by (i) Rule 144A under the U.S. Securities Act ("**Rule 144A**") or (ii) Rule 506(b) of Regulation D promulgated under the U.S. Securities Act ("**Regulation D**") and, in each case, in accordance with the exemptions under applicable state securities laws. Notwithstanding anything to the contrary in the Prospectus Supplement, Offered Receipts offered and sold pursuant to Rule 144A shall first be purchased by the Agents or their U.S. affiliates, as principal, and resold in transactions in compliance with Rule 144A. Except for Offered Receipts sold pursuant to Regulation D, which will be represented by definitive certificates registered in the names of the purchasers thereof, a purchaser will receive only a customer confirmation of the issuance of the securities purchased pursuant to the Offering from the registered dealer through which the Offered Receipts are purchased. See "*Plan of Distribution*".

No minimum amount of funds must be raised under the Offering. This means that Highwood could complete the Offering after raising only a small portion of the Offering amount set out above.

Subscriptions for Offered Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that closing of the Offering will occur on or about

●, 2023 or such other date as the Company and the Agents may agree upon (the "**Closing Date**"). The issuance of the Unit Shares and Warrants comprising the Units to the holders of the Subscription Receipts is conditional upon, among other things, the delivery of the Irrevocable Direction (as defined herein). The Irrevocable Direction will only be delivered if the Escrow Release Condition is satisfied and the Acquisitions Closing occurs prior to the Termination Time. See "*Description of the Securities Being Distributed — Subscription Receipts*" and "*Risk Factors — Subscription Receipt Structure*".

Except for Offered Receipts sold pursuant to Regulation D, it is expected that the Company will arrange for the instant deposit of the Offered Receipts under the book-based system of registration, to be registered in the name of CDS Clearing and Depository Services Inc. ("**CDS**") or its nominee and deposited with CDS on the Closing Date, or as may otherwise be agreed to among the Company and the Agents. Except for Offered Receipts sold pursuant to Regulation D, no certificates evidencing the Offered Receipts will be issued to purchasers of the Offered Receipts. Except for Offered Receipts sold pursuant to Regulation D, purchasers of the Offered Receipts will receive only a customer confirmation from the Agents or other registered dealer from or through whom a beneficial interest in the Offered Receipts is purchased. See "*Plan of Distribution*".

In connection with the Offering and subject to applicable laws, the Agents may over-allot or effect transactions that are intended to stabilize or maintain the market price of the Offered Receipts in accordance with applicable market stabilization rules. Such transactions, if commenced, may be discontinued at any time.

An investment in the Offered Receipts involves certain risks that are described under the heading "*Risk Factors*" and elsewhere in this Prospectus Supplement, including in the documents incorporated in the Prospectus by reference and should be considered by any prospective purchaser of the Offered Receipts.

Neither the Company nor any Agent has authorized anyone to provide prospective investors with different or additional information from that contained or incorporated by reference in the Prospectus. Investors should not assume that the information contained in the Prospectus or incorporated by reference in the Prospectus is accurate as of any date other than the date on the front of this Prospectus Supplement or the date of the applicable document incorporated by reference therein, as applicable.

Prospective investors should be aware that the acquisition, holding or disposition of the Offered Receipts described herein may have tax consequences in Canada, the United States or elsewhere, depending on each particular investor's specific circumstances. Such consequences for investors who are resident in, or citizens of, Canada, the United States or elsewhere, may not be described fully herein. You should read the tax discussion contained in this Prospectus Supplement and consult your own tax advisor with respect to your own particular circumstances. See "*Certain Canadian Federal Income Tax Considerations*", and "*Eligibility for Investment*".

The Offered Receipts may only be sold in those jurisdictions where offers and sales are permitted. This Prospectus Supplement is not an offer to sell or a solicitation of an offer to buy the Offered Receipts in any jurisdiction in which it is unlawful to do so.

The enforcement by investors of civil liabilities under the United States federal securities laws may be affected adversely by the fact that the Company is incorporated or organized under the laws of Alberta, Canada, that all of its officers and directors are residents of Canada, and that all or a substantial portion of the assets of the Company and said persons may be located outside the United States.

These securities have not been approved or disapproved by the United States Securities and Exchange Commission (the "**SEC**") nor any state securities administrator or regulatory authority nor has the SEC or any state securities administrator passed upon the accuracy or adequacy of this Prospectus Supplement. Any representation to the contrary is a criminal offense.

RBC acted as financial advisor to the Company with respect to the Acquisitions (as defined herein). In addition, RBC is a subsidiary of Royal Bank of Canada, a Canadian chartered bank that is anticipated to be a lender under the New Credit Facilities (as defined herein) anticipated to be provided by one or more lenders in connection with the Acquisitions. Furthermore, a director of the Company is also a managing director of Echelon. Consequently, the Company may be considered a "connected issuer" of RBC and Echelon within the meaning of applicable Canadian securities legislation. See "*The Acquisitions — Financing the Acquisitions — New Credit Facilities*" and "*Plan of Distribution — Relationship Between the Company and Certain Agents*".

The Company's head office is located at 202, 221 – 10th Avenue S.E., Calgary, Alberta, T2G 0V9 and its registered office is located at 1000, 250 – 2nd Street SW, Calgary, Alberta, T2P 0C1.

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SELECTED DEFINITIONS

In this Prospectus Supplement, the following terms have the meanings set forth below.

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B 9, as amended, including the regulations promulgated thereunder.

"**Acquisition Reserves Reports**" means, collectively, the Brazeau Reserves Report, the Castlegate Reserves Report and the Shale Reserves Report; and "**Acquisition Reserves Report**" means any one of them.

"**Acquisitions**" means, collectively, the Brazeau Acquisition, the Castlegate Acquisition and the Shale Acquisition.

"**Acquisitions Closing**" has the meaning ascribed thereto under "*Use of Proceeds*".

"**Acquired Businesses**" means, collectively, the Brazeau Business, the Castlegate Business and the Shale Business.

"**Agents**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement.

"**Agents' Fee**" has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

"**Agency Agreement**" means the agency agreement dated effective ●, 2023 among the Company and the Agents.

"**AIF**" means the annual information form of the Company for the year ended December 31, 2022 dated April 28, 2023.

"**Annual MD&A**" means the management's discussion and analysis of the Company dated April 28, 2023 of the financial condition and operating results of the Company for the year ended December 31, 2022.

"**Board**" means the board of directors of the Company as it may be comprised from time to time.

"**Boulder**" means Boulder Energy Ltd., a corporation existing under the laws of the Province of Alberta.

"**Boulder Business**" means all of the business of Boulder, including all of its assets, properties, permits, rights and other privileges (whether contractual or otherwise).

"**Boulder Note**" has the meaning ascribed thereto under "*The Brazeau Acquisition — The Brazeau Share Purchase Agreement*".

"**Brazeau Acquisition**" means the proposed acquisition of all of the Boulder Shares pursuant to the Brazeau Share Purchase Agreement.

"**Brazeau Equity Consideration**" has the meaning ascribed thereto under "*The Brazeau Acquisition — Brazeau Share Purchase Agreement*".

"**Brazeau Financial Statements**" means (i) the unaudited interim financial statements of Boulder as at March 31, 2023 and for the three months ended March 31, 2023 and 2022, together with the notes thereto, and (ii) the audited annual financial statements of Boulder as at and for the years ended December 31, 2022 and 2021, together with the notes thereto and the independent auditor's report thereon.

"**Brazeau Reserves Report**" means the independent engineering evaluation of the proved and probable petroleum reserves and the net present values of these reserves for the petroleum interests of West Lake Energy Corp. – Brazeau Area, prepared by McDaniel on April 3, 2023 and dated effective December 31, 2022.

"**Brazeau Share Purchase Agreement**" means the share purchase agreement entered into between Highwood and West Lake dated July 5, 2023.

"**Boulder Shares**" means the issued and outstanding common shares of Boulder.

“**Castlegate**” means Castlegate Energy Ltd., a corporation existing under the laws of the Province of Alberta.

“**Castlegate Acquisition**” means the proposed acquisition of all of the Castlegate Shares pursuant to the Castlegate Share Purchase Agreement.

“**Castlegate Business**” means all of the business of Castlegate, including all of its assets, properties, permits, rights and other privileges (whether contractual or otherwise).

“**Castlegate Financial Statements**” means (i) the unaudited interim financial statements of Castlegate as at March 31, 2023 and for the three months ended March 31, 2023 and 2022, together with the notes thereto, and (ii) the audited annual financial statements of Castlegate as at and for the years ended December 31, 2022 and 2021 together with the notes thereto and the independent auditor’s report thereon.

“**Castlegate Shareholders**” means the holders of Castlegate Shares.

“**Castlegate Reserves Report**” means the independent engineering evaluation of Castlegate’s Alberta oil and gas reserves prepared by GLJ on May 24, 2023 and dated effective December 31, 2022.

“**Castlegate Share Purchase Agreement**” means the share purchase agreement entered into between Highwood, Castlegate and the Castlegate Shareholders dated July 5, 2023.

“**Castlegate Shares**” means the issued and outstanding common shares of Castlegate.

“**CDS**” has the meaning ascribed hereto on page (ii) of this Prospectus Supplement.

“**Closing**” means the closing of the Offering.

“**Closing Date**” has the meaning ascribed thereto on page (iii) of this Prospectus Supplement.

“**Co-Lead Agents**” has the meaning ascribed thereto on the cover page of this Prospectus Supplement.

“**COGE Handbook**” means the Canadian Oil and Gas Evaluation Handbook.

“**Common Shares**” means the common shares in the capital of the Company.

“**Company**” or “**Highwood**” has the meaning ascribed thereto on the cover page of this Prospectus Supplement and, unless expressly stated otherwise, includes its subsidiaries.

“**Controlling Individual**” has the meaning ascribed thereto under “*Eligibility for Investment*”.

“**CRA**” means the Canada Revenue Agency.

“**Credit Agreement**” means the third amended and restated credit agreement dated December 7, 2021, as amended by a first amending agreement made as of August 31, 2022 and a second amending agreement made as of April 27, 2023, between the Company and its senior secured lenders for the Credit Facility.

“**Credit Facility**” means the Company’s $1 million operating facility pursuant to the Credit Agreement.

“**Deadline**” has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

“**DPSP**” has the meaning ascribed thereto under “*Eligibility for Investment*”.

“**Earned Interest**” has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

“**Equity Overage Amount**” has the meaning ascribed thereto under “*The Brazeau Acquisition — The Brazeau Share Purchase Agreement*”.

"**Escrow Agent**" has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

"**Escrow Release Condition**" has the meaning ascribed thereto under "*Description of the Securities Being Distributed — Subscription Receipts*".

"**Escrow Release Notice**" has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

"**Escrowed Agents' Fee**" has the meaning ascribed thereto on page (iii) of this Prospectus Supplement.

"**Escrowed Funds**" has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

"**Exercise Price**" has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

"**Final Term Sheet**" has the meaning ascribed thereto under "*Documents Incorporated by Reference*".

"**GAAP**" means generally accepted accounting principles in Canada, which for Canadian reporting issuers is IFRS, as in effect from time to time.

"**GLJ**" means GLJ Ltd., an independent and qualified oil and gas reserves evaluator.

"**Holder**" has the meaning ascribed thereto under "*Certain Canadian Federal Income Tax Considerations*".

"**IFRS**" means International Financial Reporting Standards issued by the International Accounting Standards Board for publicly accountable enterprises, or such other generally accepted accounting principles and practices applied in Canada from time to time.

"**Initial Principal Amount**" has the meaning ascribed thereto under "*The Brazeau Acquisition — The Brazeau Share Purchase Agreement*".

"**Interim MD&A**" means the management's discussion and analysis of the Company dated May 30, 2023 of the financial condition and operating results of the Company for the three months ended March 31, 2023.

"**Irrevocable Direction**" has the meaning ascribed thereto under "*Description of the Securities Being Distributed — Subscription Receipts*".

"**Management**" means management of the Company.

"**McDaniel**" means McDaniel & Associates Consultants Ltd., an independent and qualified oil and gas reserves evaluator.

"**MI 61-101**" means Multilateral Instrument 61-101 — *Protection of Minority Security Holders in Special Transactions*.

"**New Credit Agreement**" has the meaning ascribed thereto under "*The Acquisitions — Financing the Acquisitions — New Credit Facilities*".

"**New Credit Facilities**" has the meaning ascribed thereto under "*The Acquisitions — Financing the Acquisitions — New Credit Facilities*".

"**NI 41-101**" means National Instrument 41-101 — *General Prospectus Requirements* of the Canadian Securities Administrators, as amended or replaced from time to time.

"**NI 43-101**" means National Instrument 43 101 — *Standard of Disclosure for Mineral Projects* of the Canadian Securities Administrators, as amended or replaced from time to time.

"**NI 44-101**" means National Instrument 44-101 — *Short Form Prospectus Distributions* of the Canadian Securities Administrators, as amended or replaced from time to time.

"**NI 51-101**" means National Instrument 51-101 — *Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators, as amended or replaced from time to time.

"**Non-Escrowed Agents' Fee**" has the meaning ascribed thereto on page (iii) of this Prospectus Supplement.

"**Non-Resident Holders**" has the meaning ascribed thereto under "*Certain Canadian Federal Income Tax Considerations — Taxation of Non-Resident Holders*".

"**NTM**" or "**Next Twelve Months**" means the 12-month period commencing July 1, 2023.

"**Offered Receipts**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement.

"**Offering**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement.

"**Offering Price**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement.

"**Offering Jurisdictions**" means the Provinces of Alberta, British Columbia, Saskatchewan, New Brunswick, Manitoba and Ontario.

"**Option**" means a stock option to acquire a Common Share granted pursuant to the Option Plan.

"**Option Plan**" means the Company's stock option plan in existence as of the date of this Prospectus Supplement.

"**Over-Allotment Option**" has the meaning ascribed thereto on the cover page of this Prospectus Supplement.

"**Over-Allotment Units**" has the meaning ascribed thereto on page (iii) of this Prospectus Supplement.

"**Private Placement Units**" has the meaning ascribed thereto under "*The Acquisitions — Financing the Acquisitions — Private Placement*".

"**Preliminary Term Sheet**" has the meaning ascribed thereto under "*Documents Incorporated by Reference*".

"**Private Placement**" has the meaning ascribed thereto under "*The Acquisitions — Financing the Acquisitions —Private Placement*".

"**Proceeds**" has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

"**Proposed Amendments**" has the meaning ascribed thereto under "*Certain Canadian Federal Income Tax Considerations*".

"**Registered Plans**" has the meaning ascribed thereto under "*Eligibility for Investment*".

"**Regulation D**" has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

"**Resident Holders**" has the meaning ascribed thereto under "*Certain Canadian Federal Income Tax Considerations — Taxation of Resident Holders*".

"**RSU**" means a restricted share unit of the Company granted pursuant to the Share Unit Plan.

"**Rule 144A**" has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

"**SEC**" has the meaning ascribed thereto on page (iii) of this Prospectus Supplement.

"**Shale**" means Shale Petroleum Ltd., a corporation existing under the laws of the Province of Alberta.

“**Shale Acquisition**” means the proposed acquisition of (i) all of the Shale Shares owned by the Shale Key Shareholders pursuant to the Shale Share Purchase Agreement and (ii) all of the Shale Shares tendered by the Shale Other Shareholders pursuant to the Shale Offer.

“**Shale Business**” means all of the business of Shale, including all of its assets, properties, permits, rights and other privileges (whether contractual or otherwise).

“**Shale Financial Statements**” means (i) the unaudited interim financial statements of Shale as at March 31, 2023 and for the three months ended March 31, 2023 and 2022, together with the notes thereto, and (ii) the audited annual financial statements of Shale as at and for the years ended December 31, 2022 and 2021 together with the notes thereto and the independent auditor’s report thereon.

“**Shale Key Shareholders**” means, collectively, certain key holders of Shale Shares holding approximately 93% of the issued and outstanding Shale Shares.

“**Shale Offer**” means the binding offer from Highwood to each of the Shale Other Shareholders, made concurrently with the execution of the Shale Share Purchase Agreement and pursuant thereto, and offering to purchase the Shale Shares owned by each of the Shale Other Shareholders.

“**Shale Other Shareholders**” means, collectively, holders of Shale Shares who are not Shale Key Shareholders.

“**Shale Reserves Report**” means the independent engineering evaluation of oil and gas reserves in aggregate, prepared by GLJ on January 18, 2023 and dated effective December 31, 2022.

“**Shale Share Purchase Agreement**” means the share purchase agreement entered into between Highwood and the Shale Key Shareholders dated July 5, 2023.

“**Shale Shares**” means the issued and outstanding common shares of Shale.

“**Share Purchase Agreements**” means, collectively, the Brazeau Share Purchase Agreement, the Castlegate Share Purchase Agreement and the Shale Share Purchase Agreement.

“**Share Unit Plan**” means the Company’s existing restricted share unit compensation plan.

“**SN 51-324**” means Staff Notice 51-324 — *Glossary to 51-101 Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators.

“**Strategic Investment**” has the meaning ascribed thereto under “*The Shale Acquisition — Shale Shareholder Strategic Investment*”.

“**Strategic Investment Agreement**” has the meaning ascribed thereto under “*Recent Developments*”.

“**Subscription Receipt Agent**” has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

“**Subscription Receipt Agreement**” has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

“**Subscription Receipts**” means the subscription receipts offered under this Prospectus Supplement.

“**Tax Act**” means the *Income Tax Act* (Canada), as amended, including the regulations promulgated thereunder.

“**Treaty**” has the meaning ascribed thereto under “*Certain Canadian Federal Income Tax Considerations — Receipt of Dividends*”.

“**Termination Event**” has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

“**Termination Payment**” has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

“**Termination Time**” has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

“**TSX-V**” has the meaning ascribed thereto on the cover page of this Prospectus Supplement.

“**Units**” has the meaning ascribed thereto on the cover page of this Prospectus Supplement.

“**Unit Share**” has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

“**United States**” or “**U.S.**” means the United States of America, its territories and possessions, any state of the United States and the District of Columbia.

“**U.S. Affiliates**” has the meaning ascribed thereto under “*Plan of Distribution — U.S. Securities Laws Matters”.*

“**U.S. Holder**” has the meaning ascribed thereto under “*Certain Canadian Federal Income Tax Considerations — Receipt of Dividends*”.

“**U.S. Person**” has the meaning ascribed thereto in Regulation S under the U.S. Securities Act.

“**U.S. Securities Act**” has the meaning ascribed thereto on the cover page of this Prospectus Supplement.

“**Warrant**” has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

“**Warrant Agent**” has the meaning ascribed thereto under “*Description of the Securities Being Distributed — Warrants”.*

“**Warrant Indenture**” has the meaning ascribed thereto under “*Description of the Securities Being Distributed — Warrants”.*

“**Warrant Share**” has the meaning ascribed thereto on page (ii) of this Prospectus Supplement.

“**West Lake**” means West Lake Energy Corp., a corporation existing under the laws of the Province of Alberta.

“**1080766**” has the meaning ascribed thereto under “*The Acquisitions — Financing the Acquisitions — Private Placement*”.

“**2022 Reserves Report**” has the meaning ascribed thereto under “*Interest of Experts — Oil and Gas Reserves Evaluators*”.

Words importing the singular number include the plural, and vice versa, and words importing any gender include all genders.

GENERAL MATTERS

This document is in two parts. The first part is this Prospectus Supplement, which describes the specific terms of the Offering and also adds to and updates certain information contained in the accompanying Prospectus and the documents incorporated by reference therein. The second part is the accompanying Prospectus, which gives more general information, some of which may not apply to the Offering. This Prospectus Supplement is deemed to be incorporated by reference into the accompanying Prospectus solely for the purposes of the Offering. If the description of the Offered Receipts varies between this Prospectus Supplement and the accompanying Prospectus, you should rely on the information in this Prospectus Supplement. Before investing, you should carefully read both this Prospectus Supplement and the accompanying Prospectus together with the additional information about the Company to which we refer you in the sections of this Prospectus Supplement entitled “*Documents Incorporated by Reference*”.

In this Prospectus Supplement and the accompanying Prospectus, unless otherwise indicated, all dollar amounts and references to “US$” are to U.S. dollars and references to “C$” or “$” are to Canadian dollars. See “*Financial and Exchange Rate Information*”.

In this Prospectus Supplement and the accompanying Prospectus, unless the context otherwise requires, references to “we”, “us”, “our” or similar terms, as well as references to “Highwood” or the “Company”, refer to Highwood Asset Management Ltd. and its consolidated subsidiaries. Except as the context otherwise requires, when used herein, all references to “Offered Receipts” include any Subscription Receipts issued in connection with any exercise of the Over-

Allotment Option and all references to “Units” include the Over-Allotment Units issued pursuant to the exercise of the Over-Allotment Option.

The Company and the Agents are not making an offer in respect of the Offered Receipts in any jurisdiction where such offer is not permitted by law.

References to our website in any documents that are incorporated by reference into the Prospectus do not incorporate by reference the information on such website into the Prospectus.

All assessments, pro forma and aggregated information, metrics and forecasts (financial or otherwise) with respect to the assets comprising the Acquired Businesses, the Acquisitions and each of the Acquired Businesses set forth herein are those of the Company, and none of Boulder, Castlegate, Shale or their respective directors, officers, employees, consultants, shareholders or affiliates make any statement (express or implied) about such companies, their assets or businesses in this Prospectus Supplement or about such assessments, pro forma or aggregated information, metrics or forecasts; provided that, each expert specifically set forth in this Prospectus Supplement in respect of such Acquired Business and listed under “*Interests of Experts*” and “*Auditors, Registrar and Transfer Agent and Escrow Agent*” have reviewed this Prospectus Supplement and consented to the use and reference to their respective reports and the inclusion of their names in this Prospectus Supplement in accordance with applicable securities laws.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus Supplement, the Prospectus and the documents incorporated by reference in the Prospectus contain forward-looking statements. These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Actual operational and financial results may differ materially from Highwood’s expectations contained in the forward-looking statements as a result of various factors, many of which are beyond the control of the Company.

Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur and may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Forward-looking statements may include, but are not limited to, statements with respect to:

- the completion of the Offering and timing thereof;
- the expected net proceeds from the Offering and the Company’s intended use thereof;
- completion of each of the Acquisitions and terms and timing thereof;
- the expected financing sources for the Acquisitions;
- expectations regarding future share ownership of Highwood by insiders;
- anticipated benefits of each of the Acquisitions, including anticipated acquisition metrics set out under “*The Acquisitions – Conventional Asset Consolidation*” and “*The Acquisitions — Summary of the Acquisitions*” and anticipated tax pools acquired as part of the Acquisitions;
- the listing of the Offered Receipts, the Unit Shares, the Warrants and the Warrant Shares (including any Offered Receipts, Unit Shares and Warrant Shares issuable pursuant to the exercise of the Over-Allotment Option, and the Warrant Shares issuable upon the exercise of such Warrants) on the TSX-V;
- the entering into of the New Credit Agreement and the replacement of the Credit Facility with the New Credit Facilities;
- the terms of the New Credit Facilities, including the anticipated borrowing base under the New Credit Facilities;
- the Company’s expectations with respect to its financial and operational results following completion of the Acquisitions;
- the Company’s anticipated growth to production of over 30,000 boe/d;
- the Company’s estimates of the drilling locations inventory and tax pools associated with the Acquired Businesses;

- the Company's expectations regarding capacity of infrastructure associated with its business and the Acquired Businesses;
- anticipated operational results for the Company and the Acquired Businesses in 2023 and 2024 and beyond, including, but not limited to, estimated or anticipated production levels, decline rates, capital expenditures and sources of funding thereof, drilling plans;
- anticipated financial results of the Company in 2023 and 2024 and beyond following completion of the Acquisitions, including but not limited to, Adjusted EBITDA, free cash flow, field net operating income, and net debt (including expected decline in net debt);
- the performance characteristics of the Company's and the Acquired Businesses' oil and natural gas properties;
- the quantity of the Company's and the Acquired Businesses' oil and natural gas reserves and anticipated future cash flows from such reserves;
- the Company's expectations regarding commodity prices and costs;
- the Company's expectations regarding supply and demand for oil and natural gas;
- expectations regarding the Company's ability to raise capital and to continually add to reserves through acquisitions and development;
- completion of the Strategic Investment;
- completion of the Private Placement;
- the issuance by the Company of the Boulder Note and the terms thereof;
- the Company's expectation regarding its ability to return capital to shareholders;
- treatment under governmental regulatory regimes and tax laws;
- fluctuations in depletion, depreciation, and accretion rates;
- expected changes in regulatory regimes in respect of royalty curves and regulatory improvements and the effects of such changes; and
- Highwood's business and acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom.

Some of the risks and other factors, which could cause results to differ materially from those expressed in the forward-looking statements include, but are not limited to:

- inability to complete the Acquisitions;
- the conditions to completion of the Offering may not be satisfied;
- timing and receipt of applicable regulatory approvals for each of the Acquisitions, the Offering, the Strategic Investment, and the Private Placement;
- failure to close the New Credit Facilities;
- failure to close the Private Placement;
- failure to realize the anticipated benefits of acquisitions, including each of the Acquisitions;
- unexpected costs or liabilities related to each of the Acquisitions;
- volatility in market prices for oil and natural gas;
- operational risks and liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- changes in royalty regimes;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of benefits to be obtained from acquisitions and exploration and development programs;
- unforeseen difficulties in integrating assets acquired through acquisitions (including each of the Acquisitions) into the Company's operations;
- that the Company's ability to maintain strong business relationships with its suppliers, service providers and other third parties will be maintained;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- liquidity;
- general business and market conditions;
- the accuracy of oil and gas reserves estimates and estimated production levels as they are affected by exploration and development drilling and estimated decline rates;

- the uncertainties in regard to the timing of Highwood's exploration and development program;
- fluctuations in the costs of borrowing;
- political or economic developments;
- uncertainty related to geopolitical conflict;
- ability to obtain regulatory approvals;
- the results of litigation or regulatory proceedings that may be brought against the Company;
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and
- the other factors discussed under "*Risk Factors*" herein and in the AIF and under the heading "*Risks and Uncertainties*" in the Annual MD&A.

In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future.

There are numerous uncertainties inherent in estimating quantities of oil and natural gas and the future cash flows attributed to such reserves. The reserves and associated cash flow information set forth herein and in the AIF are estimates only. In general, estimates of economically recoverable oil and natural gas and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserves and resources recovery, timing and amount of capital investments, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially. For these reasons, estimates of the economically recoverable oil and natural gas attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different evaluators, or by the same evaluators at different times, may vary. The actual production, revenues, taxes and development and operating expenditures of the Company with respect to its reserves will vary from estimates thereof and such variations could be material. This Prospectus Supplement contains future-oriented financial information and financial outlook information (collectively, "**FOFI**") about the Company's prospective Adjusted EBITDA, free cash flow, operating costs, non-capital losses, Sustaining Breakeven, Field Cash Flow, Asset Free Cash Flow and field net operating income, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained in this Prospectus Supplement was made as of the date of this Prospectus Supplement and was provided for the purpose of describing the anticipated effects of the Offering and each of the Acquisitions on the Company's business operations. Highwood's actual results, performance or achievement could differ materially from those expressed in, or implied by, such FOFI. The Company disclaims any intention or obligation to update or revise any FOFI contained in this Prospectus Supplement, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this Prospectus Supplement should not be used for purposes other than for which it is disclosed herein. See "*Risk Factors — Risks Relating to the Company's Business — Forward-Looking Statements and FOFI May Prove Inaccurate*".

Changes in forecast commodity prices, differences in the timing of capital expenditures and variances in average production estimates can have a significant impact on the key performance metrics included in the Company's guidance for the Next Twelve Months and 2024 contained in this Prospectus Supplement. The Company's actual results may differ materially from such estimates.

With respect to forward-looking statements contained in this Prospectus Supplement, the Company has made assumptions regarding, among other things: the completion of the Offering and the Acquisitions substantially on the terms and within the timelines described herein; that the Company will be able to access capital, including debt, on acceptable terms (including, for certainty, capital anticipated to be obtained pursuant to the New Credit Facilities and pursuant to the Private Placement); the ability of the Company to achieve anticipated benefits from the Acquisitions; that commodity prices will be consistent with the current forecasts of its engineers; field netbacks; the accuracy of reserves estimates; average production rates; costs to drill, complete and tie-in wells; ultimate recovery of reserves; that royalty regimes will not be subject to material modification; that the Company will be able to obtain skilled labour and other industry services at reasonable rates; the performance of assets and equipment; that the timing and amount of capital expenditures and the benefits therefrom will be consistent with the Company's expectations; the impact of increasing competition; that the conditions in general economic and financial markets will not vary materially; that drilling, completion and other equipment will be available on acceptable terms; that government regulations and laws will not change materially; that royalty rates will not change in any material respect; and that future operating costs will be consistent with the Company's expectations.

The Company has included the above summary of assumptions and risks related to forward-looking statements provided in this Prospectus Supplement in order to provide investors with a more complete perspective on the Company's current and future operations and such information may not be appropriate for other purposes. These factors should not be construed as exhaustive. Forward-looking statements contained in certain documents incorporated by reference into the Prospectus, including but not limited to the AIF, the Annual MD&A and the Interim MD&A, are based on the key assumptions and are subject to the risks described in the documents incorporated by reference in the Prospectus, and are expressly qualified by this cautionary statement. Forward-looking statements contained in the documents incorporated by reference into the Prospectus are to be read in connection with the advisory disclosure provided for forward-looking information in each such document. These forward-looking statements are made as of the date of this Prospectus Supplement, or in the case of the documents incorporated by reference herein, as of the dates of such documents. Unless required by law, the Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise described herein, therein and in the documents incorporated by reference. The reader is cautioned that such assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect.

SPECIFIED FINANCIAL MEASURES

This Prospectus Supplement contains financial measures commonly used in the oil and natural gas industry, including "Field Net Operating Income" and "Adjusted EBITDA". These financial measures do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Readers are cautioned that these non-IFRS measure should not be construed as an alternative to other measures of financial performance calculated in accordance with IFRS. These non-IFRS measures provides additional information that Management believes is meaningful in describing the Company's operational performance, liquidity and capacity to fund capital expenditures and other activities. Management believes that the presentation of these non-IFRS measures provide useful information to investors and shareholders as the measures provide increased transparency and the ability to better analyze performance against prior periods on a comparable basis.

"**Adjusted EBITDA**" is calculated as cash flow from (used in) operating activities, adding back changes in non-cash working capital, decommissioning obligation expenditures, transaction costs and interest expense. The Company considers Adjusted EBITDA to be a key capital management measure as it demonstrates Highwood's standalone profitability, operating and financial performance in terms of cash flow generation, adjusting for interest related to its capital structure. The most directly comparable GAAP measure is cash flow from (used in) operating activities.

"**Adjusted working capital**" is comprised of cash, accounts receivable, reclamation deposits, deposits and prepaid expenses (current and long-term), net of accounts payable and accrued liabilities. Management utilizes Adjusted working capital to monitor its capital structure, liquidity, and its ability to fund current operations. There is no directly comparable GAAP measure for Adjusted working capital. The Company believes that Adjusted working capital can provide useful information to investors and shareholders in understanding the capital structure, liquidity and the Company's ability to fund current operations.

"**Asset Free Cash Flow**" is calculated as Field NOI less total capital expenditures and is used to provide measurable assessment of the Company's operations at the asset level. There is no directly comparable GAAP measure to Asset Free Cash Flow. There are no general and administrative expenses included in Asset Free Cash Flow as those costs are incurred within the corporate cash generating unit.

"**Capital Efficiency**" is a supplementary financial measure that represents the capital spent to add new or incremental production divided by the current rate of the new or incremental production. It is expressed as a dollar amount per flowing volume of a product ($/bbl/d or $/boe/d). The Company considers capital efficiency a key measure in evaluating its performance, as it demonstrates the efficiency of the Company's capital investments. The Company believes Capital Efficiency can provide useful information to investors and shareholders in understanding the incremental cost of increasing production.

"**Capital Expenditures**" or "**Capex**" is comprised of property, plant and equipment expenditures and exploration and evaluation asset expenditures and excludes any corporate or property acquisitions, respectively. Highwood uses capital expenditures to monitor its capital investments relative to those budgeted by the Company on an annual basis. Highwood's capital budget excludes acquisition and disposition activities as well as the accounting impact of any accrual changes or payments under certain lease arrangements. The most directly comparable GAAP measure for capital expenditures is cash flow used in investing activities. Capital Expenditures is calculated as cash flow from (used in) investment activities, adding back changes in non-cash working capital, property acquisitions expenditures or property disposition proceeds.

"**Cash Flow**" Cash Flow is used to assess the Company's ability to generate the necessary funds to manage production levels and fund future development. The most directly comparable GAAP measure is cash flow from (used in) operating activities. Cash flow is calculated as cash flow from (used in) operating activities, adding back changes in non-cash working capital, decommissioning obligation expenditures, transaction costs, less office lease expenses and cash taxes.

"**Corporate FCF Breakeven**" is calculated as the WTI price in US dollars in which Free Cash Flow is approximately zero under the currently contemplated development plan and interest. Other prices are held constant at WCS differential: US$14.00/bbl; MSW differential: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. The Company believes that Corporate Free Cash Flow breakeven can provide useful information to investors and shareholders in understanding sensitivity to commodity pricing and understanding at what the minimum WTI price in US dollars would be to execute the Company's contemplated development plan.

"**Debt Adjusted Cash Flow**" or "**DACF**" is used to assess the Company's ability to generate the necessary funds to manage operations and fund future development, exclusive of interest. The most directly comparable GAAP measure is cash flow from (used in) operating activities. Cash flow is calculated as cash flow from (used in) operating activities, adding back changes in non-cash working capital, interest decommissioning obligation expenditures and transaction costs.

"**DAFCF Yield**" is calculated as Free Cash Flow plus interest divided by the equity of the applicable proposed Acquisition, Highwood or its peers. The Company believes DAFCF Yield can provide useful information to investors and shareholders in understanding the free cash flow before interest generated for each dollar of acquisition cost.

"**EBITDA**" is used as an alternative measure of profitability and attempts to represent the cash profit generated by the Company's operations. The most directly comparable GAAP measure is cash flow from (used in) operating activities. EBITDA is calculated as cash flow from (used in) operating activities, adding back changes in non-cash working capital, decommissioning obligation expenditures and interest expense.

"**Enterprise Value**" or "**EV**" is calculated by adding Market Capitalization and Net Debt. Management uses enterprise value to assess the valuation of the Company. There is no directly comparable GAAP measure to EV as Market Capitalization is based on current share price.

"**EV/DACF**" is calculated as EV divided by DACF. The Company believes EV/DACF can provide useful information to investors and shareholders in understanding the time frame, in years, to generate DACF equal to the Enterprise Value.

"**Field Cash Flow**" is used to assess the profitability of the Company's operations on a unit basis. The most directly comparable GAAP measure is cash flow from (used in) operating activities. Field Cash Flow is calculated as cash flow from (used in) operating activities, adding back decommissioning obligation expenditures and any costs incurred at the corporate level, divided by production. There are no general and administrative expenses included in Field Cash Flow as those costs are incurred at the corporate level.

"**Field Net Operating Income**" or "**Field NOI**" is used to calculate NOI at the field level. The most directly comparable GAAP measure is cash flow from (used in) operating activities. Field NOI is calculated as cash flow from (used in) operating activities, adding back decommissioning obligation expenditures and any costs incurred at the corporate level. There are no general and administrative expenses included in Field NOI as those costs are incurred at the corporate level.

"**Free Cash Flow**" or "**FCF**" is used as an indicator of the efficiency and liquidity of the Company's business, measuring its funds after capital expenditures available to manage debt levels, pursue acquisitions and assess the optionality to pay dividends and/or return capital to shareholders though activities such as share repurchases. The most directly comparable GAAP measure is cash flow from (used in) operating activities. Free Cash Flow is calculated as cash flow from (used in) operating activities, less interest, office lease expenses, cash taxes and capital expenditures.

“**Free Cash Flow Yield**” is calculated as Free Cash Flow divided by the equity of the applicable proposed Acquisition, Highwood or its peers. The Company believes Free Cash Flow Yield can provide useful information to investors and shareholders in understanding the free cash flow generated for each dollar of acquisition cost.

“**IRR**” is internal rate of return and is defined by the Company as the return, as a percentage, on invested capital. It is calculated by dividing the cash flows by the investment cost. There is no directly comparable GAAP measure for IRR. The Company believes that IRR can provide useful information to investors and shareholders in understanding what return is expected for the respective investment, such as a return on the capital incurred to drill a well.

“**Last Quarter Annualized EBITDA**” or “**LQA EBITDA**” is used to assess the Company’s underlying profitability, exclusive of financing, for the most recent quarter on an annualized basis. The most directly comparable GAAP measure is cash flow from (used in) operating activities. LQA EBITDA is calculated as cash flow from (used in) operating activities, adding back changes in non-cash working capital, decommissioning obligation expenditures and interest expense, for the most recent three-month period multiplied by four.

“**Market Capitalization**” is calculated as the number of Common Shares outstanding multiplied by the Offering Price and/or current closing market price per Common Share. The Company believes that Market Capitalization can provide useful information to investors and shareholders in understanding the value of the Company.

“**Net Debt**” represents the carrying value of the Company’s debt instruments, including outstanding deferred acquisition payments, net of Adjusted working capital. The Company uses Net Debt as an alternative to total outstanding debt as Management believes it provides a more accurate measure in assessing the liquidity of the Company. The Company believes that Net Debt can provide useful information to investors and shareholders in understanding the overall liquidity of the Company.

“**Net Debt / 2024E Cash Flow**” is calculated by taking the net debt of each company and dividing by the 2024E cash flow. The Company believes that Net Debt / 2024E Cash Flow is useful information to investors and shareholders in understanding the time frame, in years, it would take to eliminate Net Debt based on 2024E Cash Flows.

“**Net Debt / 2024E EBITDA**” is calculated as net debt at the ending period of each financial quarter divided by the 2024E Adjusted EBITDA. The Company believes that Net Debt / 2024E Adjusted EBITDA is useful information to investors and shareholders in understanding the time frame, in years, it would take to eliminate Net Debt based on 2024E Adjusted EBITDA.

“**NOI**” is calculated as Net Income plus taxes, interest and excluding gains (losses) on disposals. The most directly comparable GAAP measure is Net Income. NOI provides a useful measure of the profitability of the Company’s regular operations.

“**Price / Cash Flow**” is calculated as the Market Capitalization divided by cash flow. The Company believes Price / Cash Flow is useful information to investors and shareholders in understanding the equity value and indicating the Company’s ability to continue operating.

“**Sustaining FCF Breakeven**” is calculated as the WTI price in US dollars in which Free Cash Flow is approximately zero while holding production flat. Other prices are held constant at WCS differential: US$14.00/bbl; MSW differential: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. The Company believes that Sustaining FCF Breakeven can provide useful information to investors and shareholders in understanding sensitivity to commodity pricing and understanding at what the minimum WTI price in US dollars would be to sustain current production levels.

“**Tax Pools / Cash Flow**” is calculated by taking the sum of the applicable company tax pools (COGPE, NOL, CEE, CDE, SR&ED and UCC) and dividing by 2024E cash flow. The Company believes that Tax Pools / Cash Flow can provide useful information to investors and shareholders in understanding when the Company may become taxable based on the estimated cash flows.

“**Undiscounted ARO / Cash Flow**” is calculated by taking the sum of undiscounted ARO and dividing by 2024E cash flow. The Company believes that Undiscounted ARO / Cash Flow can provide useful information to investors and shareholders by indicating the level of cash flows that will need to be attributed to ARO.

CONVERSIONS

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	cubic metres	28.317
cubic metres	cubic feet	35.315
bbls	cubic metres	0.159
cubic metres	bbls	6.289
Feet	Metres	0.305
Metres	Feet	3.281
Miles	kilometres	1.609
Kilometres	Miles	0.621
Acres	hectares	0.405
Hectares	Acres	2.471
Gigajoules	MMbtu	0.950
MMbtu	gigajoules	1.0526

ABBREVIATIONS

Oil and Natural Gas Liquids		Natural Gas	
bbl	barrel	Mcf	thousand cubic feet
bbls	barrels	MMcf	million cubic feet
bbls/d	barrels per day	Bcf	billion cubic feet
Mbbls	thousand barrels	Mcf/d	thousand cubic feet per day
MMbbls	million barrels	MMcf/d	million cubic feet per day
Mstb	thousand stock tank barrels of oil	MMbtu	million British Thermal Units
NGLs	natural gas liquids	GJ	Gigajoule

Other	
1P	Proved Reserves
2P	Proved Plus Probable Reserves
PDP	Proved Developed Producing Reserves
IQRE	Independent Qualified Reserves Evaluator
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale
BOE or boe	barrel or barrels of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one barrel of oil
boe/d	barrels of oil equivalent per day
$US	United States dollars
Mboe	thousand barrels of oil equivalent
Mboe/d	thousand barrels of oil equivalent per day
MMboe	million barrels of oil equivalent
RLI	reserve life index
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for the crude oil standard grade
$000s or $M	thousands of dollars
$MM	millions of dollars
2023E	2023 Expected
2024E	2024 Expected
LNG	Liquefied natural gas
EV	Enterprise Value
ML	Multilateral

Frac	Hydraulic Fracturing
CSS	Cyclic Steam Stimulation

PRESENTATION OF OIL AND GAS RESERVES AND PRODUCTION INFORMATION

Caution Respecting Reserves Information

The securities regulatory authorities in Canada have adopted NI 51-101, which prescribes oil and gas disclosure standards for Canadian public issuers engaged in oil and gas activities. We are required to disclose reserves in accordance with Canadian securities law requirements, and the disclosure contained in the AIF and in certain other documents incorporated by reference into the Prospectus include reserves designated as proved and probable reserves.

The determination of oil and natural gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved and probable reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery. The estimation and classification of reserves requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions.

The recovery and reserve estimates of oil, NGL and natural gas reserves provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein. The estimated future net revenue from the production of the disclosed oil, NGL and natural gas reserves does not represent the fair market value of these reserves.

There is no assurance that the forecast prices and costs assumptions in this Prospectus Supplement will be attained, and variances could be material. The recovery and reserve estimates of reserves and resources provided in this Prospectus Supplement are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater or less than the estimates provided in this Prospectus Supplement. The estimates of reserves and future net revenue for individual properties in this Prospectus Supplement may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

For additional information regarding the presentation of the Company's reserves and other oil and gas information see the section entitled "Statement of Reserves Data and Other Oil and Gas Information" in the AIF, which is incorporated by reference into the Prospectus.

The oil and gas information regarding the Acquisitions presented in this Prospectus Supplement is based on: (i) in respect of Boulder, the Brazeau Reserves Report, (ii) in respect of Castlegate, the Castlegate Reserves Report, and (iii) in respect of Shale, the Shale Reserves Report. Neither Highwood nor the Agents have engaged in any independent verification of any of the Brazeau Reserves Report, the Castlegate Reserves Report or the Shale Reserves Report, nor any of the contents thereof, and no representation is made by the Company or Agents with respect thereto.

References to "liquids" in this Prospectus Supplement refer to, collectively, heavy crude oil, light crude oil and medium crude oil combined, and natural gas liquids.

Certain terms used in this Prospectus Supplement but not defined herein are defined in NI 51-101 and SN 51-324 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101 and SN 51-324.

Caution Respecting BOE

In this Prospectus Supplement, the abbreviation boe means a barrel of oil equivalent on the basis of 1 boe to 6 Mcf of natural gas when converting natural gas to boes. Boes may be misleading, particularly if used in isolation. **A boe conversion ratio of 6 Mcf to 1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Additionally, given the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio at 6:1 may be misleading.**

Caution Respecting Initial Production Rates

Any references in this Prospectus Supplement to initial production rates (including IP30) are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. Initial production rates may be estimated based on other third party estimates or limited data available at the time. In all cases in this Prospectus Supplement, initial production results are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons.

Reserves

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: (a) analysis of drilling, geological, geophysical and engineering data; (b) the use of established technology; and (c) specified economic conditions, specifically the forecast prices and costs, which are generally accepted as being reasonable and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates as follows:

"**Proved reserves**" or "**1P**" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

"**Probable reserves**" are those additional reserves that are less certain to be recovered than proved reserves.

"**Proved plus probable reserves**" or "**2P**" is the total of proved reserves and probable reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

The qualitative certainty levels referred to in the definitions above are applicable to "individual reserves entities" (which refers to the lowest level at which reserves calculations are performed) and to "reported reserves" (which refers to the highest-level sum of individual entity estimates for which reserves estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and

- at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Each of these reserves categories (proved and probable) may be divided into developed and undeveloped categories as follows:

"**Developed reserves**" are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing as follows:

- "**developed producing reserves**" are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty; and

- "**developed non-producing reserves**" are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

“**Undeveloped reserves**” are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator’s assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

“**Proved Developed Producing**” or “**PDP**” reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

Interests in Reserves, Production, Wells and Properties

“**Gross**” means: (i) in relation to an issuer’s interest in production or reserves, its “company gross reserves”, which are its working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the issuer; (ii) in relation to wells, the total number of wells in which an issuer has an interest; and (iii) in relation to properties, the total area of properties in which an issuer has an interest.

“**Net**” means: (i) in relation to an issuer’s interest in production or reserves its working interest (operating or non-operating) share after deduction of royalty obligations, plus its royalty interests in production or reserves; (ii) in relation to an issuer’s interest in wells, the number of wells obtained by aggregating the issuer’s working interest in each of their gross wells; and (iii) in relation to an issuer’s interest in a property, the total area in which the issuer has an interest multiplied by the working interest owned by the issuer.

“**Working interest**” means the percentage of undivided interest held by an issuer in the oil and/or natural gas or mineral lease granted by the mineral owner, Crown or freehold, which interest gives the issuer the right to “work” the property (lease) to explore for, develop, produce and market the leased substances.

Oil and Gas Metrics

This Prospectus Supplement and certain of the documents incorporated by reference in the Prospectus contain oil and gas metrics commonly used in the oil and gas industry, including those set out below, which do not have standardized meanings or standard methods of calculation and may not be comparable to similar measures presented by other companies. Such metrics have been included in this Prospectus Supplement and in certain of the documents incorporated by reference in the Prospectus to provide readers with an additional method to evaluate the Company’s performance. However, such measures are not reliable indicators of the Company’s future performance and should therefore not be unduly relied upon or used to make comparisons to other companies. Further, these metrics have not been independently evaluated, audited or reviewed and are based on historical data, extrapolations therefrom and Management’s professional judgement, which involves a high degree of subjectivity. For these reasons, actual metrics attributable to any particular group of properties may differ from our estimates herein and the differences could be significant.

“**2P RLI**” means proven and probable reserves life index and is calculated as proven and probable reserves divided by total estimated NTM production.

“**12 Month Average Netback**” is used to evaluate potential operating performance of the acquired assets. Netback is calculated as follows: (Revenue minus Royalties minus Operating Expenses).

“**BT IRR**” means before tax internal rate of recovery.

“**DCET**” means drilling, completion, equipment and tie-in.

“**EUR**” means estimated ultimate recovery, being those quantities of petroleum that are estimated, on a given date, to be potentially recoverable from an accumulation, plus those quantities already produced.

"**F&D**" means estimated finding and development costs on a boe basis. F&D costs presented in this Presentation are calculated as follows: (Total Capex per well / recoverable resource per well).

"**IP 30**" means 30 day average initial production rate.

"**NPV10**" represents the anticipated net present value of the future net revenue discounted at a rate of 10% associated with the applicable reserves.

"**Payback Period**" is measured as the time from the start of production to recovery of the capital investment.

"**Recycle Ratio**" is used as a measure of operating performance and profitability. Recycle Ratio is calculated as follows: (12 Month Average Netback / F&D).

"**RLI**" means reserves life index and is calculated based on the amount for the relevant reserves category divided by total estimated NTM production.

Analogous Information

Certain information in this Prospectus Supplement may constitute "analogous information" as defined in NI 51-101, including, but not limited to, estimated production information relating to wells comprising the Acquired Businesses. Production type curves are based on a methodology of empirical and theoretical assessments with consideration of the specific asset. Management believes the information may be relevant to help define the well characteristics in which the Company may hold an interest following closing of the Acquisitions and such information has been presented to help demonstrate the basis for the Company's business plans and strategies.

However, to the Company's knowledge, such analogous information has not been prepared in accordance with NI 51-101 and the COGE Handbook and not all of the analogous information presented in this Prospectus Supplement was prepared by a qualified reserves evaluator or auditor. There is no certainty that the results of the analogous information or inferred thereby will be achieved by the Company and such information should not be construed as an estimate of future production levels.

DRILLING LOCATIONS

This Prospectus Supplement discloses drilling inventory in two categories: (a) booked locations; and (b) unbooked locations. Booked locations are proposed drilling locations identified in the Acquisition Reserves Reports that have proved and/or probable reserves, as applicable, attributed to them in their respective Acquisition Reserves Report. Unbooked locations are internal estimates based on prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal technical analysis review. Unbooked locations have been identified by members of management who are qualified reserves evaluators in accordance with NI 51-101 based on evaluation of applicable geologic, seismic, engineering, production and reserves information. Unbooked locations do not have proved or probable reserves attributed to them in the Acquisition Reserves Reports. Assuming completion of the Acquisitions, there is no certainty that the Company will drill all unbooked drilling locations and if drilled, there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations considered for future development will ultimately depend on the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of unbooked drilling locations have been de-risked by the drilling of existing wells by Boulder, Castlegate and Shale in relative close proximity to such unbooked drilling locations, other unbooked drilling locations are farther away from existing wells where Management has less information about the characteristics of the reservoir, and therefore, there is more uncertainty whether wells will be drilled in such locations. If these wells are drilled, there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus Supplement is deemed to be incorporated by reference in the Prospectus solely for the purpose of the distribution of the Offered Receipts by the Company. Other documents are also incorporated, or deemed to

be incorporated, by reference in the Prospectus and reference should be made to the Prospectus for full particulars thereof.

The following documents filed by the Company with the securities commissions or similar authorities in the Offering Jurisdictions, are specifically incorporated by reference into, and form an integral part of the Prospectus, provided that such documents (or disclosure contained therein) are not incorporated by reference to the extent that their contents are modified or superseded by a statement contained in this Prospectus Supplement or in any subsequently filed document that is also incorporated by reference into the Prospectus:

- the AIF;
- our audited consolidated annual financial statements as at and for the fiscal years ended December 31, 2022 and 2021, together with the notes thereto and the auditor's reports thereon;
- the Annual MD&A;
- the unaudited condensed interim consolidated financial statements of the Company as at March 31, 2023 and for the three months ended March 31, 2023 and 2022, together with the notes thereto;
- the Interim MD&A;
- the management information circular of the Company dated June 8, 2023 with respect to the annual general and special meeting of the shareholders of the Company to be held on July 7, 2023;
- the "template version" (as defined in NI 41-101) of the preliminary term sheet dated July 5, 2023 (the "**Preliminary Term Sheet**") prepared for potential purchasers in connection with the Offering; and
- the template version of the final term sheet dated ●, 2023 (the "**Final Term Sheet**") prepared for potential purchasers in connection with the Offering.

Pursuant to applicable securities laws, the Company has prepared the Final Term Sheet to reflect the modifications to the Preliminary Term Sheet described above, together with a blackline indicating the changes thereto from the Preliminary Term Sheet. A copy of the Final Term Sheet and associated blackline can be viewed under the Company's profile on www.sedar.com.

Any statement contained in this Prospectus Supplement, the Prospectus or in a document incorporated or deemed to be incorporated by reference therein or in any subsequently filed document which also is or is deemed to be incorporated by reference therein for the purposes of the Offering will be deemed to be modified or superseded for the purposes of this Prospectus Supplement to the extent that a statement contained herein or in the Prospectus, or in any other subsequently filed document which also is or is deemed to be incorporated by reference into the Prospectus, modifies or supersedes that prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set out in the document that it modifies or supersedes. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus Supplement. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Any documents of the types referred to in Section 11.1 of Form 44-101F1 (other than confidential material change reports, if any) filed by the Company with the securities commissions or similar regulatory authorities in the Offering Jurisdictions after the date of this Prospectus Supplement and prior to the termination of the distribution of the Offered Receipts under this Prospectus Supplement shall be deemed to be incorporated by reference into the Prospectus.

Copies of the documents incorporated by reference into the Prospectus may be obtained on request without charge from the secretary of Highwood Asset Management Ltd. at Suite 202, 221 – 10th Avenue SE, Calgary, Alberta, T2G 0V9, Telephone: (403) 719-0499 or by accessing the disclosure documents through the Internet on SEDAR at www.sedar.com.

MARKETING MATERIALS

The Final Term Sheet is not part of this Prospectus Supplement or the Prospectus to the extent that the contents of the Final Term Sheet has been modified or superseded by a statement contained in this Prospectus Supplement or any amendment. Any template version of "marketing materials" (as defined in NI 41-101) filed with the securities commission or similar regulatory authority in the Offering Jurisdictions in connection with the Offering after the date hereof but prior to the termination of the distribution of the Offered Receipts under this Prospectus Supplement (including any amendments to, or an amended version of, the Final Term Sheet) is deemed to be incorporated by reference in the Prospectus solely for the purposes of the Offering.

FINANCIAL AND EXCHANGE RATE INFORMATION

The financial statements of the Company incorporated by reference in the Prospectus and the financial statements of the Acquired Businesses included in this Prospectus Supplement, and the selected consolidated financial data derived therefrom included in this Prospectus Supplement, have been prepared in accordance with IFRS and are reported in Canadian dollars.

The following table sets forth for each period indicated: (i) the daily exchange rates in effect at the end of the period; (ii) the high and low daily exchange rates during such period; and (iii) the average daily exchange rates for such periods for one U.S. dollar, expressed in Canadian dollars, as quoted by the Bank of Canada.

	Year Ended December 31		
	2022	**2021**	**2020**
Highest rate during the period …………………………	C$1.38	C$1.30	C$1.45
Lowest rate during the period …………………………	C$1.24	C$1.20	C$1.27
Average rate for the period …………………………….	C$1.30	C$1.25	C$1.34
Rate at the end of the period …………………………...	C$1.35	C$1.27	C$1.27

On July 4, 2023, the daily exchange rate as quoted by the Bank of Canada was C$1.00 = US$0.7565 (US$1.00 = C$1.3219).

THE COMPANY

Business of the Company

Highwood Asset Management Ltd. is a Canadian-focused company that owns and oversees (1) the exploration and development of metallic minerals, (2) the ownership and operation of midstream oil and gas infrastructure, and (3) the exploration and development of oil and natural gas reserves.

For additional information with respect to the Company's business, operations and financial condition, refer to its AIF, the Annual MD&A and the Interim MD&A, each incorporated by reference in the Prospectus and available on SEDAR at www.sedar.com.

RECENT DEVELOPMENTS

On July 5, 2023, the Company entered into the Share Purchase Agreements regarding the Acquisitions. In connection with the Acquisitions, the Company also received an indicative term sheet for the New Credit Facilities, as well as entered into a strategic investment agreement with HR Exploration (as defined herein) (the "**Strategic Investment Agreement**") for the Strategic Investment and received a verbal commitment from 1080766 in respect of the Private Placement. See "*The Acquisitions*", "*The Shale Acquisition — Shale Shareholder Strategic Investment*" and "*The Acquisitions — Financing the Acquisitions — Private Placement*".

THE ACQUISITIONS

The Share Purchase Agreements

On July 5, 2023, the Company entered into:

1. the Brazeau Share Purchase Agreement regarding the Brazeau Acquisition (see "*The Brazeau Acquisition*");

2. the Castlegate Share Purchase Agreement regarding the Castlegate Acquisition (see "*The Castlegate Acquisition*"); and

3. the Shale Share Purchase Agreement regarding the Shale Acquisition (see "*The Shale Acquisition*").

Closing of each of the Acquisitions is conditional upon closing of each of the other Acquisitions. See "*Risk Factors — Risks Relating to the Acquisitions — Any One or More of the Acquisitions May Not be Completed or May Be Delayed*".

The Acquisitions are expected to close concurrently in the third quarter of 2023.

See "*The Acquisitions — Financing the Acquisitions*", "*Use of Proceeds*" and "*Consolidated Capitalization*".

Forecast Guidance

The following table summarizes the Company's forecasted operating and financial guidance for the 12-month period commencing July 1, 2023 and full year 2024 assuming completion of the Acquisitions on July 1, 2023. See "*Cautionary Note Regarding Forward Looking Statements*".

	Next Twelve Months(1)(2)	**Forecast Guidance, 2024(1)(2)**	
Operating Metrics			
Production	**4.7 Mboe/d**	**5.2 Mboe/d**	
Liquids	**~76%**	**~78%**	
Adjusted EBITDA(3)	**$62 million**	**$72 million**	
CAPEX(3)	**($38 million)**	**($40 million)**	
Free Cash Flow(3)	**$18 million**	**$23 million**	
Oil Weighted Reserves	**Volume(4)**	**RLI(5)**	**NPV10**
Proved Developed Producing	12.9 MMboe	~8 years	$186 million
Total Proved	23.9 MMboe	~14 years	$295 million
Total Proved plus Probable	41.4 MMboe	~24 years	$516 million
	Booked	**Unbooked**	**Total**
Number of Inventory Locations (Net)(6)	72	63	135
	Multi-Lateral	**Frac**	**Total**
Inventory Locations by Type (Net)(6)	60	75	135
Midstream Assets			
Cash Flow	$2.5–3.5 million annually		
Emerging Portfolio Assets			
Industrial Metals and Minerals (AB and BC)	3,800,000+ acres		

Notes:

(1) Based on Management's projections (not forecasts set forth in the 2022 Reserves Report and the Acquisition Reserves Reports) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.

(2) Assumes the completion of the Acquisitions on July 1, 2023. Cash flow figures also include illustrative hedges for total of 65% of expected Q4 2023 and 2024 net after royalty production associated with Proved Developed Producing reserves. See "*Cautionary Note Regarding Forward-Looking Information*".

(3) See "*Specified Financial Measures*" for additional details.

(4) Gross reserves information as at January 1, 2023 is derived from the 2022 Reserves Report and the Acquisition Reserves Reports, in accordance with NI 51-101 and the COGE Handbook. Based on working interest reserves of the Acquired Businesses before deduction of royalties and without including any royalty interest reserves. See "*The Brazeau Acquisition*", "*The Castlegate Acquisition*", and "*The Shale Acquisition*".

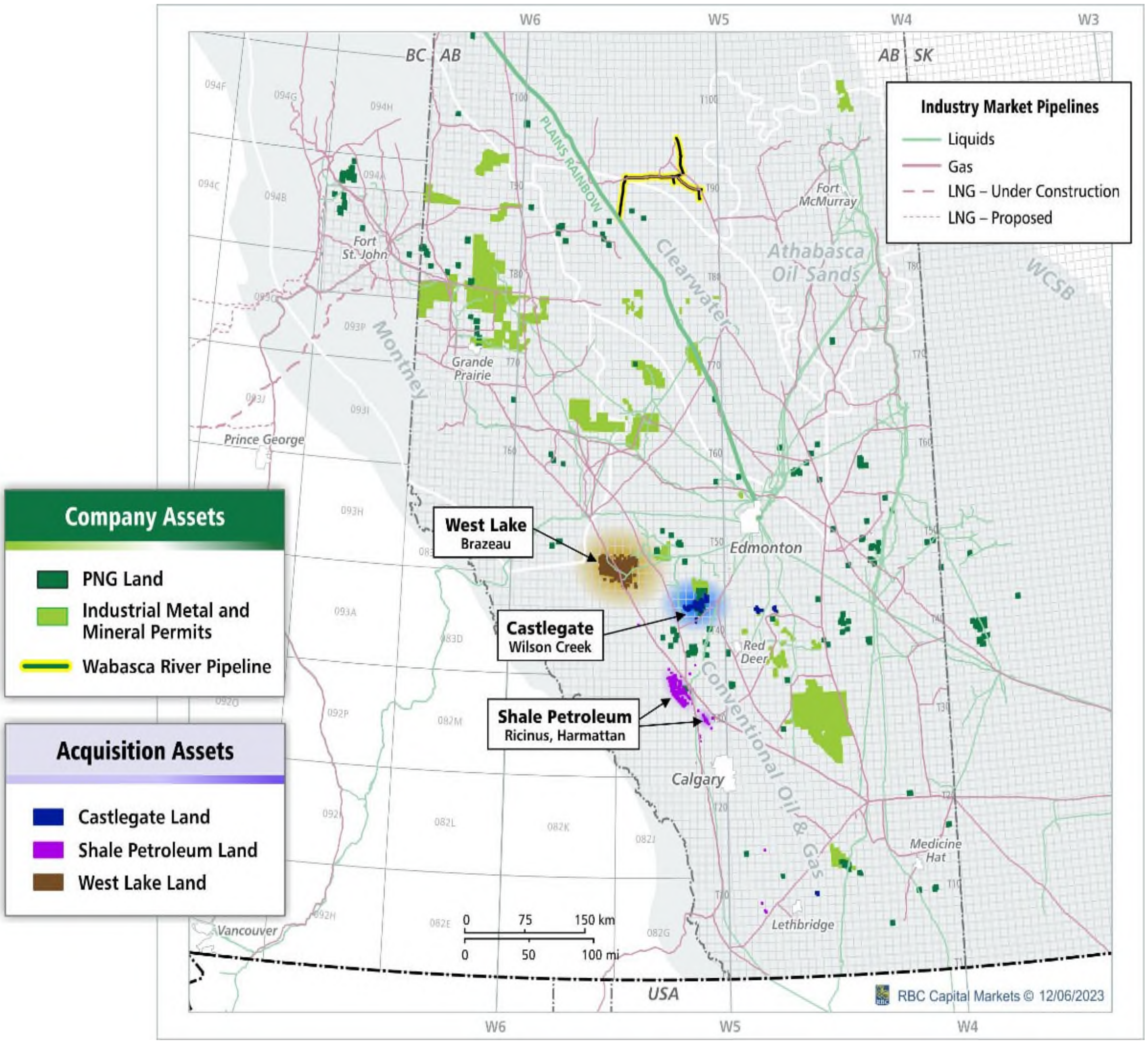
(5) RLI is calculated as the amount of relevant reserves category divided by total estimated NTM production commencing July 1, 2023, assuming completion of the Acquisitions on July 1, 2023.

(6) Includes booked and unbooked locations for the Company and the Acquired Businesses; booked locations are based on the 2022 Reserves Report in respect of the Company and the Acquisition Reserves Report for the respective Acquisitions (50 gross locations (45 net) are proved

locations, and 31 gross locations (27 net) are probable locations), unbooked locations estimated by Management. Excludes 50 total net locations from Shale. See "*Drilling Locations*".

(7) Changes in forecast commodity prices, differences in the timing of capital expenditures and variances in average production estimates can have a significant impact on the key performance metrics included in the forward-looking information for the Next Twelve Months and 2024. The Company's actual results may differ materially from these estimates.

Pro Forma Asset Portfolio



Conventional Asset Consolidation

Generational Opportunity(6)	• Management believes the Acquisitions present an opportunity for the Company to acquire high quality, sustainable oil-weighted assets with significant inventory at attractive purchase multiples, including 2.2x EV/NTM Field NOI, 0.8x PDP, 0.5x 1P(1)(3)(4)(5)(7) • Initial leverage of approximately 1.2x on 2024E EBITDA, spending approximately 60% of EBITDA to grow production by 25% or more while deleveraging by 0.4x by year-end 2024 — Significant credit support with traditional, low cost $100 million New Credit Facilities(1)(3)(7) • Management expects the assets of the Acquired Businesses to generate meaningful free cash flow and deliver strong production growth, providing an attractive return on strip pricing with the prudent use of leverage and further upside potential to commodity prices
Attractive Shareholder Economics(6)	• Management expects the Company to generate 25% Free Cash Flow Yield in 2024(1)(2)(3), and expects $88 million of debt (incl. deferred acquisition payments) to be repaid in under three years while growing production to approximately 5,000 boe/d • Ability to redeploy free cash flow with meaningful inventory at over 100% IRRs(3)(7) • The Company expects to evaluate return of capital to shareholders in 18–24 months
Highwood Team	• The Company has experienced Management with track record of successful transactions. • Management expected to own approximately 35% of the Common Shares following completion of the Acquisitions (with total insider ownership expected to exceed 50% of such Common Shares) • Management possesses deep technical expertise, including multi-lateral development, with approximately 75 years of combined experience
Highwood Plan(6)	• Highwood plans to continue to acquire high quality oil assets and execute on organic development to grow its oil-weighted production to over 30,000 boe/d in the medium term

Notes:

(1) All forecasted disclosure assumes completion of the Acquisitions on July 1, 2023. Additionally, this forecasted information requires assumptions from Management in order to derive estimates of future cash flow related to production volumes, commodity prices, amount of future development costs, and production, royalty and transportation costs. See "*Cautionary Note Regarding Forward Looking Statements*".

(2) Expected Free Cash Flow Yield in 2024 is based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.

(3) See "*Specified Financial Measures*" for additional details.

(4) Reserves information is derived from the Acquisition Reserves Reports, in accordance with NI 51-101 and the COGE Handbook. Based on working interest reserves of the Acquired Businesses before deduction of royalties and without including any royalty interest reserves. See "*The Brazeau Acquisition*", "*The Castlegate Acquisition*", and "*The Shale Acquisition*".

(5) Enterprise Value is equal to the net purchase price for each of the respective Acquisitions.

(6) Changes in forecast commodity prices, differences in the timing of capital expenditures and variances in average production estimates can have a significant impact on the key performance metrics included in the forward-looking information for the Next Twelve Months and 2024. The Company's actual results may differ materially from these estimates.

(7) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as

Management believes it provides investors with valuable information concerning the liquidity of the Company. See "*Presentation of Oil and Gas Reserves and Production Information — Caution Respecting Reserves Information*" and "*Specified Financial Measures*".

Summary of the Acquisitions

The Company believes the proposed Acquisitions present attractive acquisition multiples for high quality oil-weighted assets based on current strip prices with further upside potential on rising commodity prices.

		Shale	**Castlegate**	**Brazeau**	**Total**(1)
Net Purchase Price(2)(3)		**$7 million**	**$34 million**	**$98 million**	**$139 million**
NTM average Production	*boe/d*	300	1,400	2,700	4,500
NTM Field NOI(4)(5)	*$MM*	$0.4	$28	$35	$64
Total Proved plus Probable(6)	*MMboe*	8.7	4.2	26.4	39.3
Enterprise Value / NTM Field NOI(4)(5)(7)	*x*	18.2x	1.2x	2.8x	2.2x
Enterprise Value / NTM Production(7)	*$/boed*	$21k	$24k	$36k	$31k
Free Cash Flow Yield(4)(5)(8)	*%*	**nmf**	**32%**	**13%**	**17%**
Enterprise Value / PDP NPV10%(6)(7)	*x*	0.7x	0.8x	0.8x	0.8x
Proved Developed Producing NPV10%(6)	*$MM*	$10	$40	$116	$166
Total Proved NPV10%(6)	*$MM*	$21	$49	$197	$267
Total Proved plus Probable NPV10%(6)	***$MM***	**$64**(9)	**$92**(10)	**$320**(11)	$476
Total Proved Reserves(6)	***$/boe***				$6.08(12)

Notes:

(1) Figures may not add due to rounding.

(2) Purchase prices are subject to adjustments. The purchase price for the Shale Acquisition is net of approximately $2 million cash balance. The purchase price for the Castlegate Acquisition is $36.7 million (plus a payment for $4.2 million of working capital) with the Company expecting to assume an estimated $7.2 million of working capital on closing of such Acquisition (assuming closing in the third quarter of 2023), resulting in a net purchase price of approximately $34 million. The purchase price for the Brazeau Acquisition is inclusive of the Boulder Note and the Brazeau Equity Consideration. See "*The Shale Acquisition*", "*The Castlegate Acquisition*" and "*The Brazeau Acquisition*".

(3) Changes in forecast commodity prices, differences in the timing of capital expenditures and variances in average production estimates can have a significant impact on the key performance metrics included in the forward-looking information for the Next Twelve Months and 2024. The Company's actual results may differ materially from these estimates.

(4) Based on Management's projections (not forecasts set forth in the Acquisition Reserves Reports) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD.

(5) See "*Specified Financial Measures*" for additional details.

(6) Reserves information is derived from the Acquisition Reserves Reports, in accordance with NI 51-101 and the COGE Handbook. Based on working interest reserves of the Acquired Businesses before deduction of royalties and without including any royalty interest reserves. See "*The Brazeau Acquisition*", "*The Castlegate Acquisition*", and "*The Shale Acquisition*".

(7) Enterprise Value is equal to the net purchase price for each of the respective Acquisitions.

(8) Free Cash Flow yield calculated as the expected Free Cash Flow for the NTM period commencing July 1, 2023 divided by net purchase price.

(9) Implying a 0.1x EV/2P NPV10 multiple. See "*Specified Financial Measures*" for additional details.

(10) Implying a 0.4x EV/2P NPV10 multiple. See "*Specified Financial Measures*" for additional details.

(11) Implying a 0.3x EV/2P NPV10 multiple. See "*Specified Financial Measures*" for additional details.

(12) Is calculated as the net purchase price for the Acquisitions divided by total Proved Reserves.

Key Investment Highlights(1)

- **Significant free cash flow generation potential at a range of commodity prices**
  - Low sustaining capital and capital efficiency drives free cash flow conversion at strip pricing
  - Self-funded growth plan on strip pricing with further upside potential on rising oil prices
- **High netback oil-weighted assets with low capital efficiency**
  - Ability to hold production flat for over 10 years of high confidence drilling inventory
  - Post-Acquisitions: 72 booked (63 unbooked) net inventory locations provide significant running room for development of assets(2)

- Acquisitions Only: 67 booked (30 unbooked) net inventory locations(2)

- **Prudent use of leverage has material impact to driving outsized equity returns**
  - Acquiring assets near all-time low cash flow multiples supported by traditional Canadian credit facility
  - Initial leverage of 1.2x is expected to be reduced to approximately 0.9x by year-end 2024 while growing production to over 5,000 boe/d(3)(4)(5)

- **Downside protected with low WTI Free Cash Flow Breakeven and commodity hedges**
  - The Company expects to achieve a Corporate FCF Breakeven of approximately US$44/bbl, including interest and growth capital, in 2024(5)(6)
  - 65% net after royalty Proved Developed Producing production expected to insulate Highwood from downside commodity environment

- **Committed Management team with track record of creating value for shareholders**
  - Management expected to own approximately 35% of the Common Shares post-Acquisitions
  - Deep technical expertise, including multi-lateral development, with approximately 75 years of combined experience

- **Approximately $342 million of tax pools (approximately $113 million immediately deductible)**
  - Tax horizon of at least three years at US$70/bbl WTI(7)
  - Ability to increase pools with follow-on tuck in acquisitions

Notes:

(1) This forecasted information requires assumptions from Management in order to derive estimates of future cash flow related to production volumes, commodity prices, amount of future development costs, and production, royalty and transportation costs. See "*Cautionary Note Regarding Forward Looking Statements*".

(2) "Post-Acquisitions" figures include booked and unbooked locations for the Company and the Acquired Businesses; booked locations are based on the 2022 Reserves Report in respect of the Company and the Acquisition Reserves Report for the respective Acquisitions, (50 gross locations (45 net) are proved locations, and 31 gross locations (27 net) are probable locations), unbooked locations estimated by Management. "Acquisitions Only" figures include booked and unbooked locations for the Acquired Businesses; booked locations based on the Acquisition Reserves Report for the respective Acquisitions (46 gross locations (42 net) are proved locations, and 28 gross locations (25 net) are probable locations), unbooked locations estimated by Management. Excludes 50 total net locations from Shale.

(3) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company. See "*Specified Financial Measures*" for additional details.

(4) Cash flow figures assume completion of the Acquisitions on July 1, 2023.

(5) Leverage calculated as Net Debt / 2024E EBITDA. See "*Specified Financial Measures*" for additional details.

(6) Includes illustrative hedges for total of 65% of net after royalty Proved Developed Producing reserves production. See "*Specified Financial Measures*" for additional details.

(7) Tax pools as at December 31, 2021; immediately deductible pools include Net Operating Losses and Canadian Exploration Expenses.

(8) Changes in forecast commodity prices, differences in the timing of capital expenditures and variances in average production estimates can have a significant impact on the key performance metrics included in the forward-looking information for the Next Twelve Months and full-year 2023 and 2024. The Company's actual results may differ materially from these estimates.

Pro Forma Reserves Summary

		January 1, 2023 IQRE Reserves[(1)]				
		Highwood *GLJ*	**Shale** *GLJ*	**Castlegate** *GLJ*	**Brazeau** *McDaniel*	**Total**
Proved Developed Producing	*MMboe*	0.4	0.9	1.3	10.3	**12.9**
	NPV10 ($MM)[(2)]	$19.8	$9.9	$39.9	$116.4	**$186**
Total Proved	*MMboe*	1.1	2.4	1.8	18.5	**23.9**
	NPV10 ($MM)[(2)]	$27.7	$20.8	$49.2	$197.1	**$295**
Total Proved Plus Probable	*MMboe*	2.1	8.7	4.2	26.4	**41.4**
	NPV10 ($MM)[(2)]	$40.1	$63.7	$92.2	$319.6	**$516**
Booked Locations	*(net) #*	5	9	11	47	**72**

Notes:

(1) Reserves information is derived from the Acquisition Reserves Reports, in accordance with NI 51-101 and the most recent publication of the COGE Handbook. Based on working interest reserves of the Acquired Businesses before deduction of royalties and without including any royalty interest reserves. See "*The Brazeau Acquisition*", "*The Castlegate Acquisition*", and "*The Shale Acquisition*".

(2) See "*Presentation of Oil and Gas Reserves and Production Information*" for additional details.

(3) See "*Drilling Locations*".

High Netback, Sustainable Oil Production

Highlights[(1)]

- The Company expects meaningful production and high confidence booked and unbooked drilling locations to support future development
  - Expected 2024 production of approximately 5,200 boe/d (78% liquids)
- The Company expects to generate free cash flow at a range of commodity prices, including:
  - Expected Field NOI of approximately $78 million in 2024[(2)(3)]
  - Corporate FCF Breakeven of approximately US$44/bbl, including interest and growth capital, in 2024[(3)(4)]
- Proved Developed Producing Reserves of $186 million[(5)]
- Post- Acquisitions: 135 net drilling locations[(6)]
  - Ability to hold production flat for over 10 years of high confidence drilling inventory
  - The Company expects to drill approximately 11 (net) wells in 2024

Notes:

(1) This forecasted information requires assumptions from Management in order to derive estimates of future cash flow related to production volumes, commodity prices, amount of future development costs, and production, royalty and transportation costs. See "*Cautionary Note Regarding Forward Looking Statements*".

(2) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.

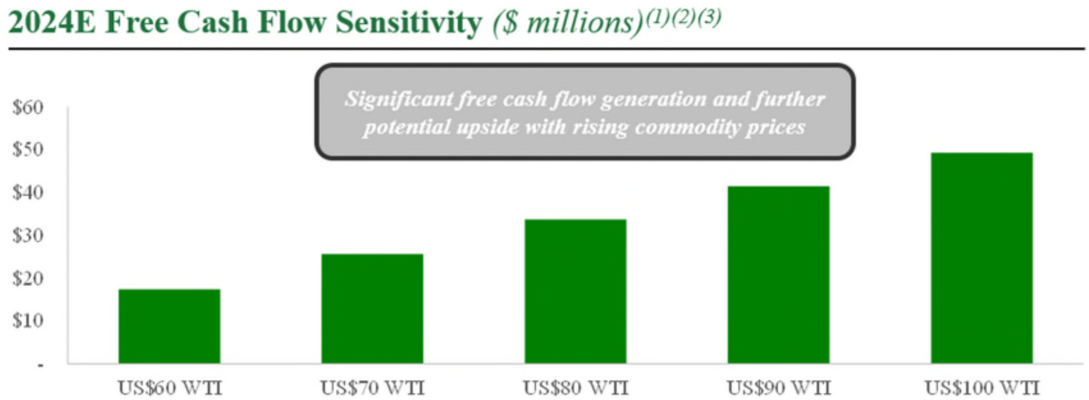
(3) See "*Specified Financial Measures*" for additional details.

(4) Cash flow figures assume the completion of the Acquisitions on July 1, 2023 and include illustrative hedges for total of 65% of net after royalty Proved Developed Producing reserves production. Additionally this forecasted information requires assumptions from Management in order to

derive estimates of future cash flow related to production volumes, commodity prices, amount of future development costs, and production, royalty and transportation costs.

(5) Reserves information is derived from the Acquisition Reserves Reports, in accordance with NI 51-101 and the most recent publication of the COGE Handbook. Based on working interest reserves of the Acquired Businesses before deduction of royalties and without including any royalty interest reserves. See "*The Brazeau Acquisition*", "*The Castlegate Acquisition*", and "*The Shale Acquisition*".

(6) Includes booked and unbooked locations for the Company and the Acquired Businesses; booked locations are based on the 2022 Reserves Report in respect of the Company and the Acquisition Reserves Report for the respective Acquisitions (50 gross locations (45 net) are proved locations, and 31 gross locations (27 net) are probable locations), unbooked locations estimated by Management. Excludes 50 total net locations from Shale. See "*Drilling Locations*".



Notes:

(1) Based on Management's projections (not forecasts set out in Acquisitions Reserves Reports) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.

(2) See "*Specified Financial Measures*" for additional details.

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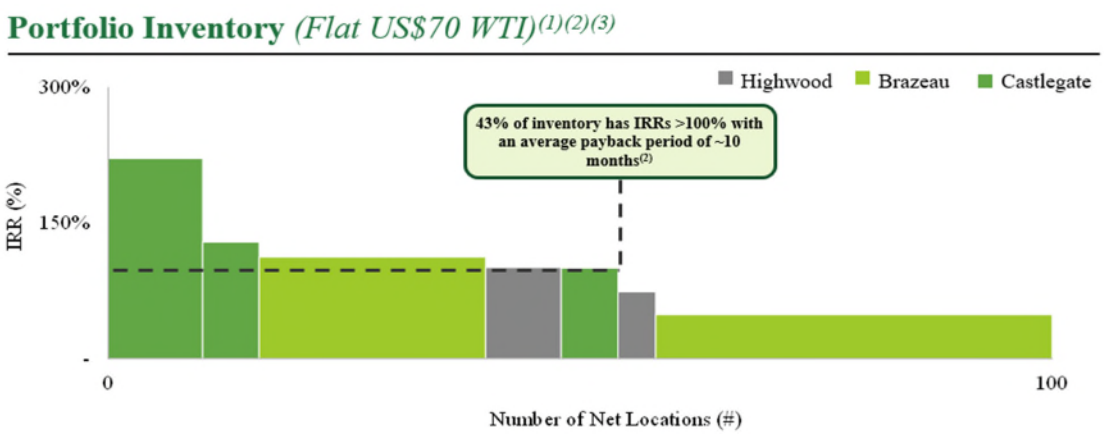

Notes:

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(2) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.

(3) Excludes 50 total net locations from Shale and 26 total net locations from Highwood. See "*Drilling Locations*".

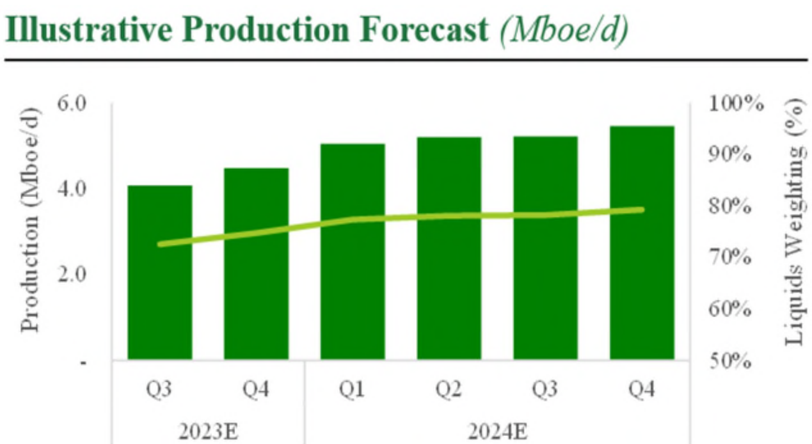
Downside Protection with Further Upside Potential to Rising Prices

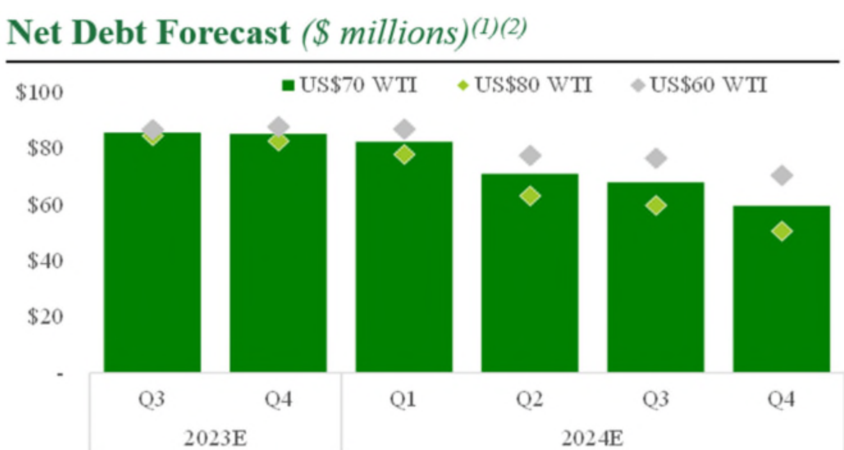
- Management production forecast supported by high confidence booked and unbooked drilling locations to support future development

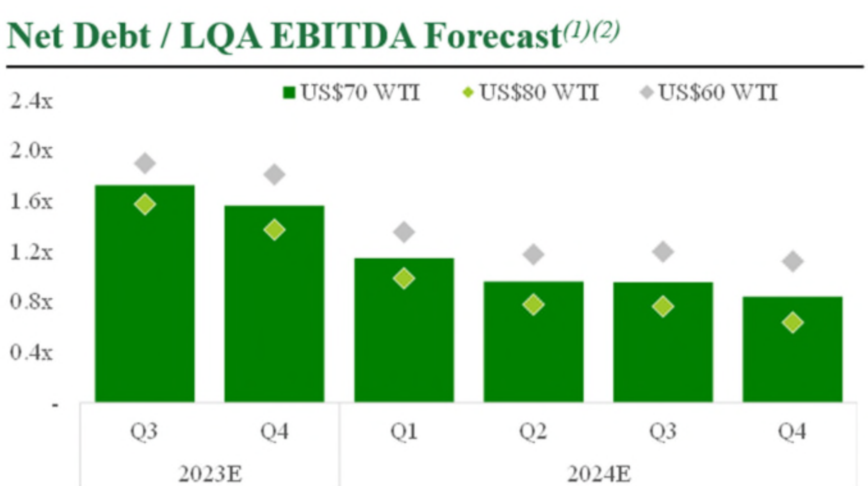
- o The Company expects to achieve production of approximately 5,200 boe/d (78% liquids) in 2024. See "*Cautionary Note Regarding Forward Looking Statements*".

- Prudent use of leverage to acquire high quality assets

  - o Balance sheet rapidly de-levers through free cash flow generation and production growth







Notes:

(1) Reserves information is derived from the Acquisition Reserves Reports, in accordance with NI 51-101 and the most recent publication of the COGE Handbook. Based on working interest reserves of the Acquired Businesses before deduction of royalties and without including any royalty interest reserves. See "*The Brazeau Acquisition*", "*The Castlegate Acquisition*", and "*The Shale Acquisition*".

(2) Cash flow figures assume the completion of the Acquisitions on July 1, 2023 and include illustrative hedges for total of 65% of net after royalty Proved Developed Producing reserves production.

- Forecast Positioning and Return Potential

	WTI US$70		WTI US$80	
EV / 2024E DACF(1)(2)(3)	2.5x		2.3x	
Price / 2024E Cash Flow(1)(2)(3)	1.4x		1.3x	
2024E Free Cash Flow Yield(1)(2)(3)	25%		34%	
Net Debt / 2024E Cash Flow(1)(2)(3)	**Current**	**2024 YE**	**Current**	**2024 YE**
	1.4x	1.0x	1.2x	0.7x
2024E DAFCF Yield(1)(2)(3)	18%		22%	

Notes:

(1) Cash flow figures assume completion of the Acquisitions on July 1, 2023.

(2) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl or US$80.00/bbl (denoted in chart); WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD.

(3) See "*Specified Financial Measures*" for additional details.

- Forecast Tax Pools and Liability Positioning

Undiscounted ARO / 2024E Cash Flow(1)(2)	0.7x(4)
Liability Management Rating (LMR)	3.6x
Tax Pools / 2024E Cash Flow(1)(2)(3)	5.2x

Notes:

(1) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl or US$80.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD.

(2) See "*Specified Financial Measures*" for additional details.

(3) Tax pools as at December 31, 2021; immediately deductible pools include Net Operating Losses and Canadian Exploration Expenses.

(4) Absolute undiscounted ARO value of $47 million.

Financing the Acquisitions

The cash consideration payable by the Company in connection with the Acquisitions is expected to be funded by:

- the aggregate net proceeds of the Offering, in the amount of approximately $● million ($● if the Over-Allotment Option is exercised in full);
- up to $● million from the New Credit Facilities; and
- up to $2.8 million from the Private Placement,

with excess proceeds funding future working capital. See "*Use of Proceeds*".

Upon closing of the Acquisitions, Highwood's total debt outstanding is anticipated to be $● million. See "*Consolidated Capitalization*".

In connection with the Acquisitions, the Company received an indicative term sheet for the New Credit Facilities from Royal Bank of Canada for an aggregate borrowing base of up to $100 million, which is anticipated to replace the Credit Facility.

See "*The Acquisitions — Financing the Acquisitions*", "*Consolidated Capitalization*" and "*Risk Factors — Additional Indebtedness*".

For the particulars of the contingencies associated with the Offering and New Credit Facilities, see "*Use of Proceeds*" and "*Consolidated Capitalization*".

In connection with the Shale Acquisition, HR Exploration has agreed to purchase a minimum aggregate amount of $10 million in Offered Receipts pursuant to the Offering. See "*The Shale Acquisition — Shale Shareholder Strategic Investment*".

Upon, or substantially concurrently with, and conditional upon closing of the Acquisitions, 1080766 intends to purchase an aggregate amount of up to approximately $2.8 million of Private Placement Units pursuant to the Private Placement. See "*The Acquisitions — Financing the Acquisitions — Private Placement*".

The Company will issue the Boulder Note to partially fund the purchase price for the Brazeau Acquisition. See "*The Brazeau Acquisition — The Brazeau Share Purchase Agreement*".

As a condition of the New Credit Facilities, the total equity raise between the Offering and the Private Placement shall total no less than $37 million. See "*The Acquisitions — Financing the Acquisitions — New Credit Facilities"* below.

RBC is a subsidiary of Royal Bank of Canada, a Canadian chartered bank that is anticipated to be a new lender under the New Credit Facilities to be created in connection with the Acquisitions. See "*Plan of Distribution — Relationship Between the Company and Certain Agents*".

1080766 Alberta Ltd. (a corporation in which Joel MacLeod, Executive Chairman of the Company, has beneficial ownership and control, and which currently owns approximately 67% of the issued and outstanding Common Shares) ("**1080766**"), intends to purchase an aggregate amount of up to $2.2 million of Subscription Receipts pursuant to the Offering. Such purchase and sale is considered a "related party transaction" (as defined under MI 61-101) and the Company intends to rely upon the "Fair Market Value Not More Than 25% of Market Capitalization" exemption from the formal valuation and minority shareholder approval requirements under MI 61-101.

New Credit Facilities

In connection with the Acquisitions, the Company received an indicative term sheet for the New Credit Facilities from Royal Bank of Canada which outlined a new senior secured extendible revolving credit facilities in the aggregate principal amount of up to $100 million (the "**New Credit Facilities**"), which are anticipated to replace the Credit Facility effective upon satisfaction of closing of the Acquisitions, described below. See "*Consolidated Capitalization*".

The New Credit Facilities are anticipated to be comprised of extendible revolving credit facilities consisting of a $10 million operating facility and an up to $90 million syndicated loan facility. The New Credit Facilities are anticipated to have a revolving period of 364 days, extendible annually at the request of the Company, subject to approval of the lenders thereunder. If not extended, the New Credit Facilities are anticipated to automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period. The borrowing base for the New Credit Facilities is anticipated to be $100 million upon completion of all the Acquisitions, and to be subject to semi-annual redeterminations, based upon the Company's annual independent engineering report or updates thereto. The New Credit Facilities are anticipated to be provided for in a credit agreement to be entered into in connection therewith (the "**New Credit Agreement**").

The New Credit Facilities are anticipated to include operating restrictions on the Company, including (among other things), limitations on acquisitions, distributions, dividends and hedging arrangements.

Upon, or substantially concurrently with, and conditional upon: (i) closing of the Acquisitions, and (ii) the Company funding a portion of the Castlegate Acquisition and the Brazeau Acquisition with minimum gross proceeds from the issuance of equity securities of $37 million (including through the Offering and the Private Placement), then $100 million under the New Credit Facilities are anticipated to become available under the New Credit Agreement (subject to a maximum utilization rate of 75% at closing of the Acquisitions being $75 million).

As noted above, closing of the New Credit Facilities is anticipated to be conditional upon, among other things, the Company completing the Offering or otherwise issuing equity securities for minimum gross proceeds of $37 million (including through the Offering and the Private Placement).

Private Placement

Upon, or substantially concurrently with, and conditional upon closing of the Acquisitions, 1080766 Alberta Ltd. (a corporation which Joel MacLeod, Executive Chairman of the Company, has beneficial ownership and control, and which currently owns approximately 67% of the issued and outstanding Common Shares) ("**1080766**") intends to purchase an aggregate amount of up to approximately $2.8 million in units (the "**Private Placement**"). Such units ("**Private Placement Units**") are intended to be issued on terms identical to the terms of the Units. See "*Consolidated Capitalization*" and "*Use of Proceeds*".

The Private Placement is considered a "related party transaction" (as defined under MI 61-101) and the Company intends to rely upon the "Fair Market Value Not More Than 25% of Market Capitalization" exemption from the formal valuation and minority shareholder approval requirements, respectively, under MI 61-101.

This Prospectus Supplement does not qualify the distribution of any securities issued under the Private Placement. The Private Placement Units purchased pursuant to the Private Placement (including the Common Shares and Warrants comprising such Private Placement Units, and the Common Shares issuable upon the exercise of such Warrants) will be subject to a statutory hold period. The Private Placement is subject to a number of conditions, including completion of definitive documentation and the approval of the TSX-V.

1080766 has also committed to participate in the Offering for an additional $2.2 million, bringing the aggregate equity commitment from 1080766 under the proposed transactions to $5 million.

THE BRAZEAU ACQUISITION

Brazeau Share Purchase Agreement

On July 5, 2023, the Company entered into the Brazeau Share Purchase Agreement to acquire all of the issued and outstanding Boulder Shares. Pursuant to the Brazeau Share Purchase Agreement, the Company has agreed to acquire the Boulder Shares for aggregate consideration of $98 million, subject to a working capital adjustment. The consideration shall consist of:

- the issuance of such number of Common Shares by the Company to West Lake at the Offering Price that would equal the lesser of: (i) $9 million; and (ii) such number of Common Shares that would equal (but not exceed) 9.99% of the issued and outstanding Common Shares (on a non-diluted basis) as at the closing date of the Acquisitions (the "**Brazeau Equity Consideration**");

- the issuance of an unsecured subordinated promissory note by the Company to West Lake (the "**Boulder Note**") in the principal amount equal to $23 million less (a) the dollar value of the Brazeau Equity Consideration; (b) the dollar value, if any, by which the gross proceeds from the Offering and the Private Placement exceed $37.8 million (up to $3 million) (the "**Equity Overage Amount**"); and (c) the dollar value, if any, by which the gross proceeds from the Offering and the Private Placement exceed $45 million (up to $11 million) (the "**Initial Principal Amount**"); provided that, the Initial Principal Amount shall never be less than $0. The Boulder Note is expected to mature on July 1, 2025 and to provide for payments, equal to 25% of the Initial Principal Amount, commencing October 1, 2024 and thereafter on January 1, 2025, April 1, 2025 and July 1, 2025, with the outstanding principal (if any) due in full on maturity. The Boulder Note will pay interest at 13% per annum payable quarterly on October 1, 2024, January 1, 2025, April 1, 2025 and July 1, 2025; all payments/repayments (of both principal and interest) under the Boulder Note are anticipated to be subject to certain terms and conditions under the New Credit Agreement. If the gross proceeds of the Offering and the Private Placement are less than $40.8 million, all obligations under the Boulder Note will also be fully and unconditionally personally guaranteed by Joel MacLeod, the Executive Chairman of the Company, in an amount limited to $3 million less the Equity Overage Amount, plus costs and expenses of enforcement plus interest; and

- an estimated cash payment of $75 million on the closing date of the Acquisitions, such amount representing the aggregate purchase price of $98 million, less the dollar value of each of the Brazeau Equity Consideration (estimated to be $9 million) and the Boulder Note (estimated to be $14 million).

The Brazeau Share Purchase Agreement contains customary representations and warranties. West Lake has agreed to indemnify the Company for breaches of representations and warranties for 12 months after the closing date of the Brazeau Acquisition (or until 90 days after the expiration of applicable limitations periods for certain tax representations and warranties), with liability limited to 15% of the purchase price, except for fraud or for breaches of fundamental representations such as title matters; such fundamental representations are not subject to a survival period and are limited to 50% of the purchase price. Further, the vendor will have no liability for any breaches of representations and warranties (other than fundamental representations, or in the case of fraud) unless the loss arising from such breach is at least $150,000 in respect of such individual breach, and $1,250,000 in the aggregate, in which event West Lake is only liable for amounts in excess of such $1,250,000 deductible. Upon entering into the Brazeau Share Purchase Agreement, the Company paid a deposit of $2 million, which will be held in escrow, and will be applied to the purchase price for the Brazeau Acquisition in the event the Brazeau Acquisition is completed in accordance with the terms of the Brazeau Share Purchase Agreement.

The $2 million deposit was partially financed by a $2.8 million loan from 1080766. The loan is non-convertible, unsecured and non-interest bearing and is due on demand. The loan is considered a "related party transaction" (as defined under MI 61-101) and the Company relied upon the "Fair Market Value Not More Than 25% of Market Capitalization" exemption from the minority shareholder approval requirements under MI 61-101. Subject to TSX-V acceptance, this loan will be repaid from the proceeds of the Offering and is intended to be later re-invested pursuant to the Private Placement. See "*Use of Proceeds*".

Closing of the Brazeau Acquisition is conditional upon closing of the Castlegate Acquisition and the Shale Acquisition. Closing of the Brazeau Acquisition is expected to occur in the third quarter of 2023 and, subject to agreement of the parties, no later than September 8, 2023, and remains subject to usual closing conditions and regulatory approvals, including the approval of the TSX-V and the approval of the Commissioner of Competition pursuant to the *Competition Act* (Canada).

A copy of the Brazeau Share Purchase Agreement will be filed by the Company on SEDAR and may be viewed under the Company's profile at www.sedar.com.

Benefits of the Brazeau Acquisition

The Brazeau Acquisition offers:

- oil-weighted production with potential to generate free cash flow and meaningful depth of inventory
- low decline, high netback oil-weighted assets that are expected to deliver strong returns and approximately 12-month payback periods
- Purchase Price of $98 million (prior to adjustments) for Boulder
    - Established oil-weighted assets expected to produce approximately 2,700 boe/d (74% liquids) on an NTM basis
- High quality, low capital-intensive asset with inventory in place to grow
    - Expected Field NOI of approximately $41 million in 2024(1)(2)
    - Expected Sustaining FCF Breakeven of US$41/bbl in 2024(2)(3)
- PDP Reserves of $116 million(4)
- Tax pools of approximately $290 million, including non-capital losses in excess of $80 million(5)

Notes:

(1) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.
(2) See "*Specified Financial Measures*" for additional details.
(3) Expected 2024 Sustaining FCF Breakeven assuming production held flat at approximately 2,500 boe/d and DCET capital costs of approximately $4 million.
(4) Reserves information is derived from the Boulder Reserves Report, in accordance with NI 51-101 and the most recent publication of the COGE Handbook. Based on working interest reserves of the Boulder Business before deduction of royalties and without including any royalty interest reserves.
(5) Tax pools as at December 31, 2021.

The Brazeau Acquisition has the following metrics:

			NTM
Production	Production Expected at closing	*Boe/d*	2,700
	Liquids Weighting	*%*	74%
Financial(1)(2)	Field Cash Flow	*$/boe*	$34.91
	Sustaining FCF Breakeven(3)	*US$/bbl*	$41
	Asset Free Cash Flow	*$MM*	$17
Reserves(4)	Proved Developed Producing	*MMboe*	10.3
	Total Proved	*MMboe*	18.5
	Total Proved plus Probable	*MMboe*	26.4
Inventory(5)	Booked (net)	#	47
	Unbooked (net)	#	19

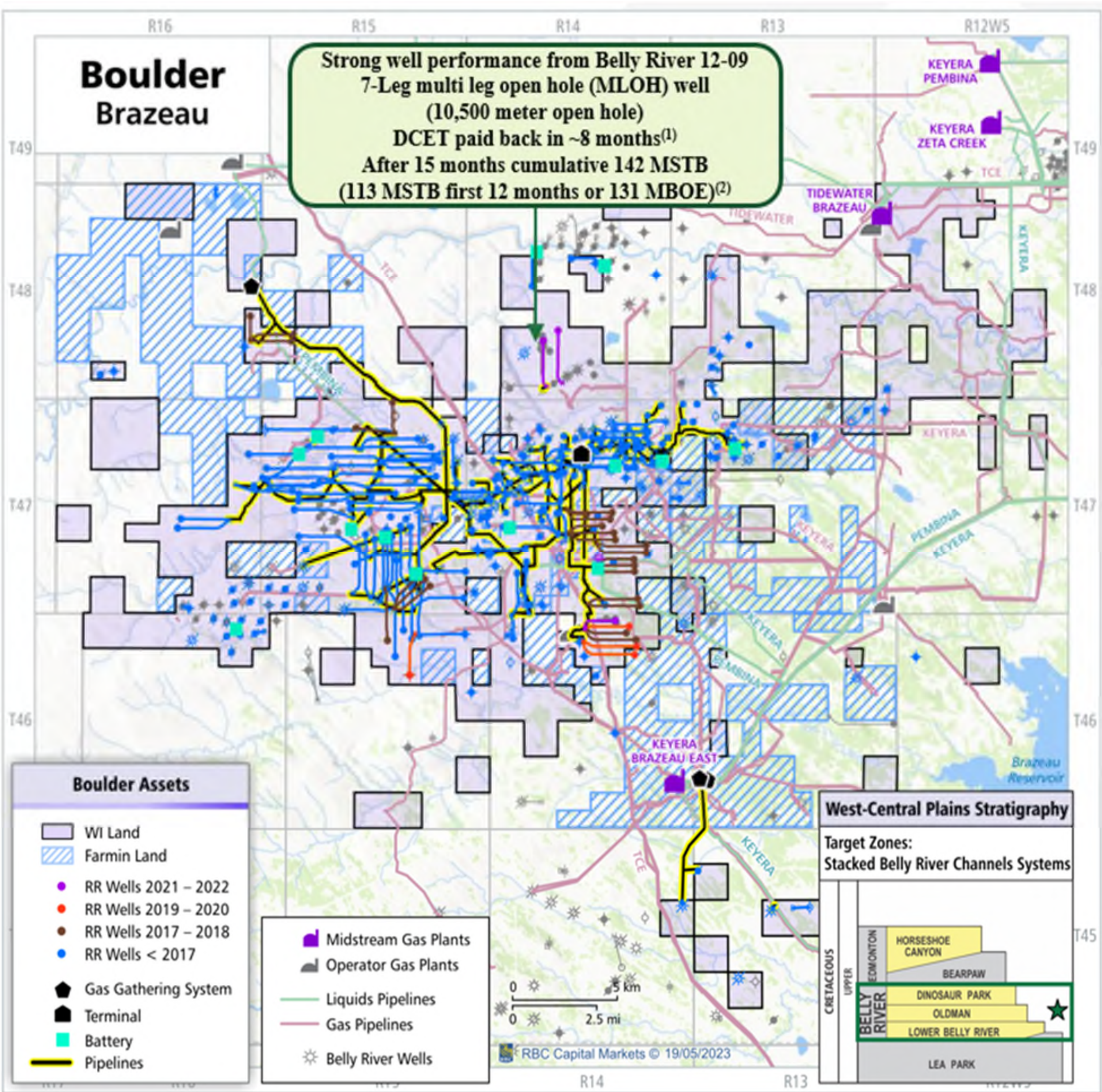
Notes:

(1) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: (i) actuals and strip pricing as at June 23, 2023 through Q2 2023; and (ii) thereafter: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.
(2) See "*Specified Financial Measures*" for additional details.
(3) 2024E Sustaining FCF Breakeven assuming production held flat at approximately 2,500 boe/d and DCET capital costs of approximately $4 million.
(4) Reserves information is derived from the Brazeau Reserves Report, in accordance with NI 51-101 and the most recent publication of the COGE Handbook. Based on working interest reserves of the Brazeau Business before deduction of royalties and without including any royalty interest reserves.
(5) Booked locations as per the Brazeau Reserves Report and unbooked locations estimated by Management. See "*Drilling Locations*".

Brazeau Assets

Boulder's assets consist of over 195,198 net acres of land in the Brazeau area of Alberta. The focus of Boulder's assets is concentrated in the light oil Belly River Formation and such assets are located approximately 350 km northwest of the Calgary.

Highwood plans to utilize multi-lateral wells to grow production on the asset where the existing 12-09-48-14W5 multi-lateral well has produced over 140,000 bbls of oil over 15 months and had a payback period of approximately eight months.

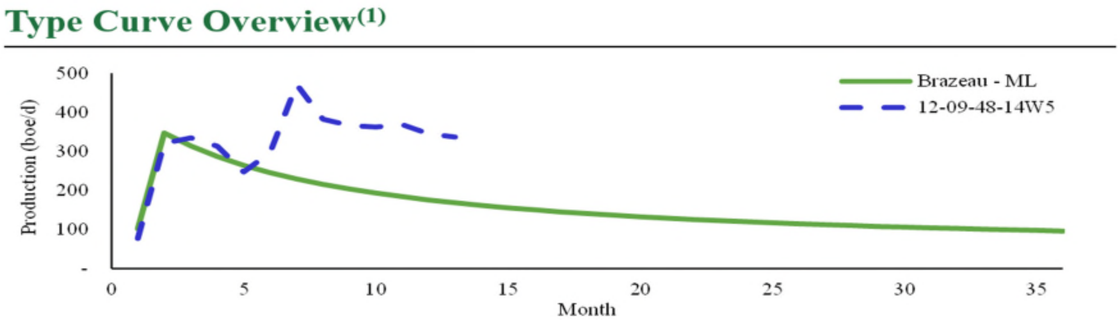


Notes:

(1) Based on actual production data; pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD.

(2) See "*Cautionary Note Regarding Forward Looking Statements*".

Brazeau Type Curve



Note:

(1) Multilateral type curve estimated by Management as of April 1, 2023. The information presented in the ML type curve have not been independently evaluated, audited or reviewed and are based on historical data, extrapolations therefrom and Management's professional judgement, which involves a high degree of subjectivity. For these reasons, actual production volumes may differ from our estimates herein and the differences could be significant. See "*Analogous Information*".

Brazeau Illustrative Well Economics(1)(2)

		Brazeau-ML
DCET	*$MM*	$4.0
IP30(3)	*boe/d*	343
EUR	*Mboe*	311
BT IRR(4)	*%*	112%
Payback Period	*months*	11.0
NPV 10%	*$MM*	$4.8
Capital Efficiency	*$/boe/d*	$19,931
F&D	*$/boe*	$12.87
12-month Avg. Netback	*$/boe*	$57.17
Recycle Ratio	*x*	4.4x

Notes:

(1) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.

(2) See "*Presentation of Oil and Gas Reserves and Production Information*" and "*Specified Financial Measures*" for additional details.

(3) See "*Caution Respecting Initial Production Rates*".

(4) 2024E Sustaining FCF Breakeven assuming production held flat at approximately 2,500 boe/d and DCET capital costs of approximately $4 million.

West Lake Board Nomination Agreement

In connection with the closing of the Brazeau Acquisition and the issuance of the Brazeau Equity Consideration, the Company and vendor, West Lake, shall enter into a board nomination agreement ("**WL Board Nomination Agreement**") whereby West Lake shall, for so long as it and its affiliates own or exercise control or direction over, directly or indirectly, not less than 9% of the issued and outstanding Common Shares, be entitled to designate for election or appointment to the Board, as applicable, one nominee. The Company shall use commercially reasonable efforts to ensure that West Lake's nominee shall be elected or appointed to the Board. West Lake's board nominee has not been determined as at the time of this Prospectus Supplement.

Selected Reserves and Oil and Gas Information Regarding Boulder Business

Appendix "A" hereto contains the selected reserves and oil and gas information for the Boulder Business based upon the Brazeau Reserves Report.

Brazeau Financial Statements

Appendix “B” hereto contains the Brazeau Financial Statements.

Significant Acquisition

The Brazeau Acquisition will represent a “significant acquisition” for the Company for the purposes of Part 8 of NI 51-102. Accordingly, Highwood will be required under Canadian securities law to file a business acquisition report in respect of the Brazeau Acquisition.

THE CASTLEGATE ACQUISITION

Castlegate Share Purchase Agreement

On July 5, 2023, the Company entered into the Castlegate Share Purchase Agreement to acquire all of the issued and outstanding Castlegate Shares for an aggregate purchase price of $36.7 million in cash, plus a cash payment for working capital in the amount of $4.2 million, subject to adjustments. All consideration payable under the Castlegate Acquisition shall be paid in full in cash on closing of the Castlegate Acquisition.

The Castlegate Share Purchase Agreement contains customary representations and warranties from each of the parties. Except for the representations and warranties of the Castlegate shareholders as to title to their Castlegate Shares which survive for 12 months from the closing date of the Castlegate Acquisition, none of the other representations and warranties of the parties will survive the completion of the Castlegate Acquisition.

Pursuant to the Castlegate Share Purchase Agreement, the Company has agreed to indemnify Castlegate, its shareholders and their respective affiliates in respect of certain claims and losses which may arise in connection with the Offering, including as a result of any misrepresentation contained in the Highwood public disclosure documents. The Company has also agreed to pay Castlegate $650,000 as an expense reimbursement amount if the Castlegate Share Purchase Agreement is terminated in certain circumstances.

Closing of the Castlegate Acquisition is expected to occur in the third quarter of 2023 but in any event not later than September 8, 2023 unless otherwise agreed to by the parties. The completion of the Castlegate Acquisition is subject to regulatory approvals, including the conditional approval of the TSX-V, and certain closing conditions including, among other things, the concurrent closing of the Shale Acquisition and the Brazeau Acquisition.

The above summary is qualified in its entirety the Castlegate Share Purchase Agreement, a copy of which will be filed by the Company on SEDAR and may be viewed under the Company’s profile at www.sedar.com.

Benefits of the Castlegate Acquisition

The Castlegate Acquisition offers:

- attractive netbacks underpinned by a low breakeven and free cash flow generating capabilities
- high netback oil-weighted assets with attractive recycle ratios and payback periods
- Purchase Price of approximately $34 million for Belly River formation assets in the Wilson Creek area of Alberta in a corporate transaction(1)
    - Established oil-weighted assets producing approximately 1,400 boe/d (85% liquids) on an NTM basis
- High quality oil asset with low recovery factors and further potential upside with rising commodity prices
    - Expected Field NOI of approximately $31 million in 2024(2)(3)
    - Expected Sustaining FCF Breakeven of US$34/bbl in 2024(3)(4)

- Proved Developed Producing Reserves of $40 million[5]
- Future consolidation opportunities in the Gilby/Wilson fairway

Notes:

(1) The purchase price for the Castlegate Acquisition is $36.7 million (plus a payment for $4.2 million of working capital) with the Company expecting to assume an estimated $7.2 million of working capital on closing of such Acquisition (assuming closing in the third quarter of 2023), resulting in a net purchase price of approximately $34 million.

(2) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.

(3) See "*Specified Financial Measures*" for additional details.

(4) 2024E Sustaining FCF Breakeven assuming production held flat at approximately 1,000 boe/d and DCET capital costs of approximately $3 million.

(5) Reserves information is derived from the Castlegate Reserves Report, in accordance with NI 51-101 and the most recent publication of the COGE Handbook. Based on working interest reserves of the Castlegate Business before deduction of royalties and without including any royalty interest reserves.

The Castlegate Acquisition has the following metrics:

			NTM
Production	Production Expected at closing	*Boe/d*	1,400[6]
	Liquids Weighting	*%*	85%
Financial[1][2]	Field Cash Flow	*$/boe*	$54.66
	Sustaining FCF Breakeven[3]	*US$/bbl*	$34
	Asset Free Cash Flow	*$MM*	$17
Reserves[4]	Proved Developed Producing	*MMboe*	1.3
	Total Proved	*MMboe*	1.8
	Total Proved plus Probable	*MMboe*	4.2
Inventory[5]	Booked (net)	#	11
	Unbooked (net)	#	11

Notes:

(1) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.

(2) See "*Specified Financial Measures*" for additional details.

(3) 2024E Sustaining FCF Breakeven assuming production held flat at approximately 1,000 boe/d and DCET capital costs of approximately $3 million.

(4) Reserves information is derived from the Castlegate Reserves Report, in accordance with NI 51-101 and the most recent publication of the COGE Handbook. Based on working interest reserves of the Castlegate Business before deduction of royalties and without including any royalty interest reserves.

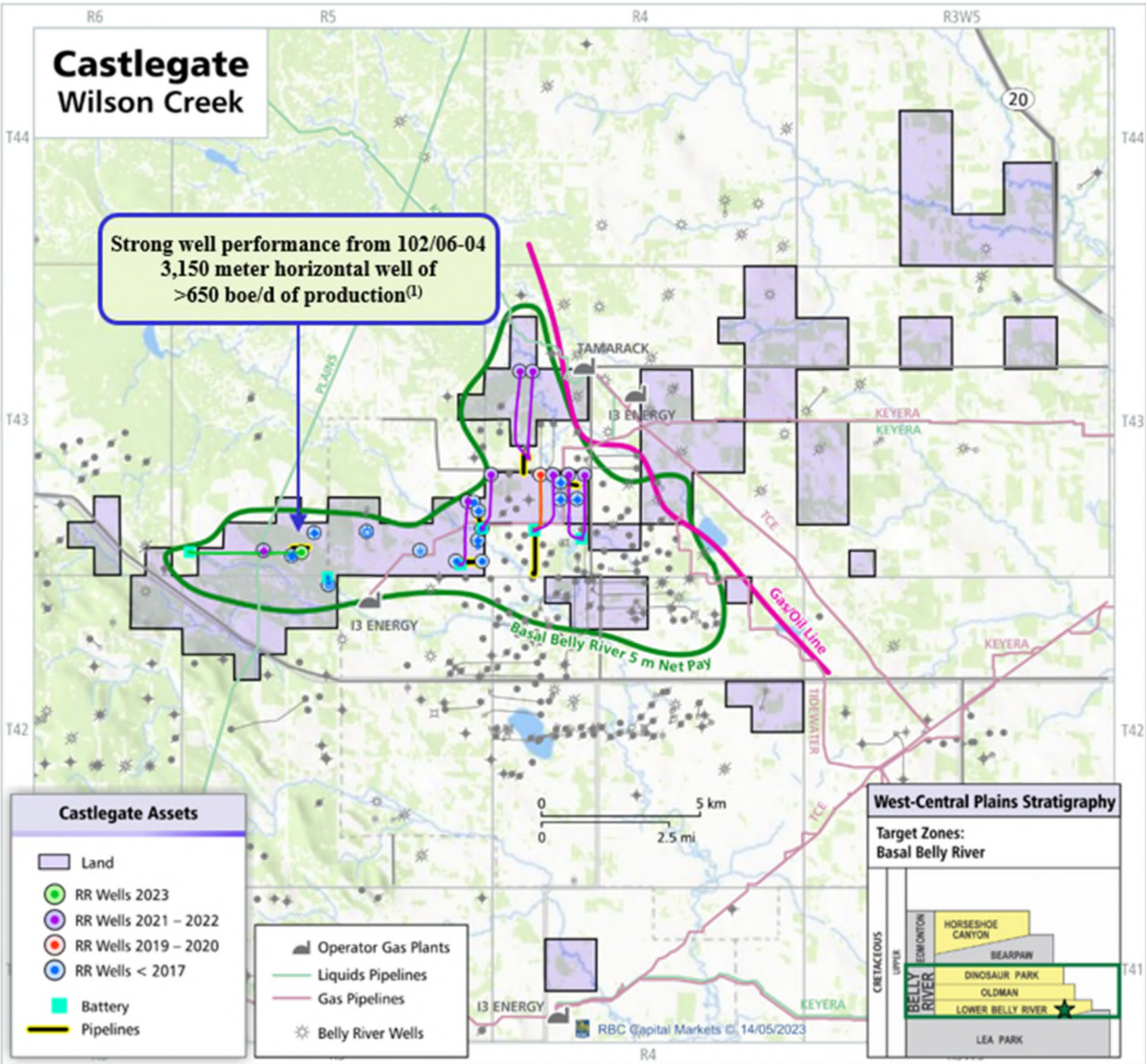
(5) Booked locations as per the Castlegate Reserves Report and unbooked locations estimated by Management. See "*Drilling Locations*".

(6) Management estimates.

Castlegate Assets

Castlegate's assets consist of 10,660 net acres of land in the Wilson Creek area of Alberta. The focus of Castlegate's assets is concentrated in the light oil Belly River Formation and such assets are located approximately 250 km northwest of Calgary.

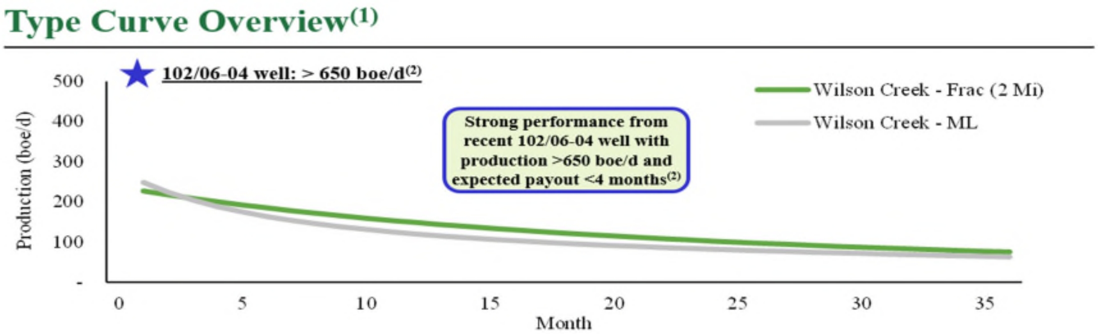
Highwood looks to develop the asset with both multi-lateral well technology and stage fracked wells where the recent 102/06-04-43-05W5 well continue to produce over 650 boe/d after being on production for over 50 days.



Note:

(1) Production figures based on average production >50 days; See "*Caution Respecting Initial Production Rates*".

Castlegate Type Curve



Notes:

(1) Multilateral type curves estimated by Management as of April 1, 2023. The information presented in the ML type curves have not been independently evaluated, audited or reviewed and are based on historical data, extrapolations therefrom and Management's professional judgement, which involves a high degree of subjectivity. For these reasons, actual production volumes may differ from our estimates herein and the differences could be significant. Wilson Creek – Frac (2 Mi) utilized from the Castlegate Reserves Report. See "*Analogous Information*".

(2) Production figures based on average production >50 days and payback assumes 100% run-time.

Castlegate Illustrative Well Economics[1][2]

		Wilson Creek - Frac (2 Mi)	Wilson Creek - ML
DCET	*$MM*	$3.7	$2.9
IP30[3]	*boe/d*	225	245
EUR	*Mboe*	328	214
BT IRR[4]	*%*	129%	222%
Payback Period	*months*	11.0	8.0
NPV 10%	*$MM*	$6.8	$5.6
Capital Efficiency	*$/boe/d*	$24,395	$20,452
F&D	*$/boe*	$11.39	$13.40
12-month Avg. Netback	*$/boe*	$62.48	$60.09
Recycle Ratio	*x*	5.5x	4.5x

Notes:

(1) Based on Management's projections (not IQRE forecasts) and applying the following pricing assumptions: WTI: US$70.00/bbl; WCS Diff: US$14.00/bbl; MSW Diff: US$3.50/bbl; AECO: C$2.75/GJ; 0.74 CAD/USD. Management projections are used in place of IQRE forecasts as Management believes it provides investors with valuable information concerning the liquidity of the Company.

(2) See "*Presentation of Oil and Gas Reserves and Production Information*" and "*Specified Financial Measures*" for additional details.

(3) See "*Caution Respecting Initial Production Rates*".

(4) 2024E Sustaining FCF Breakeven assuming production held flat at approximately 1,000 boe/d and DCET capital costs of approximately $3 million.

Selected Reserves and Oil and Gas Information Regarding Castlegate

Appendix "C" hereto contains the selected reserves and oil and gas information for Castlegate based upon the Castlegate Reserves Report.

Castlegate Financial Statements

Appendix "D" hereto contains the Castlegate Financial Statements.

Significant Acquisition

The Castlegate Acquisition will represent a "significant acquisition" for the Company for the purposes of Part 8 of NI 51-102. Accordingly, Highwood will be required under Canadian securities law to file a business acquisition report in respect of the Castlegate Acquisition.

THE SHALE ACQUISITION

Shale Share Purchase Agreement

On July 5, 2023, the Company entered into the Shale Share Purchase Agreement to effect the Shale Acquisition, being the acquisition of (i) all of the Shale Shares owned by the Shale Key Shareholders pursuant to the Shale Share Purchase Agreement and (ii) all of the Shale Shares tendered by the Shale Other Shareholders pursuant to the Shale Offer. Pursuant to the Shale Share Purchase Agreement, the Company has agreed to acquire the Shale Shares for aggregate consideration of $9 million, amounting to approximately $0.0646 per Shale Share based on the then current capitalization of Shale, subject to a working capital adjustment.

The purchase price will be paid by the issue of Common Shares to the Shale Key Shareholders and Shale Other Shareholders at an exchange ratio of approximately 0.009172776 Common Share per Shale Share, assuming that no other Shale Shares will be issued prior to closing of the Shale Acquisition, including upon any exercise of outstanding options to purchase Shale Shares.

The Shale Share Purchase Agreement contains customary representations and warranties given by Shale and the Shale Key Shareholders. The representations and warranties of the Shale Key Shareholders survive for 6 months after the closing date of the Shale Acquisition (or until 90 days after the expiration of limitations periods for certain tax representations and warranties), except for in the case of fraud, a title deficiency to the Shale Shares or inaccuracies or misrepresentations in respect of fundamental representations and warranties which survive indefinitely (subject to applicable limitation periods under Applicable Law), and in respect of which the recourse of the Company is limited to the proceeds from a sale or disposal of a portion of the Common Shares to be issued to the applicable Shale Key Shareholder which are being held in escrow under certain release conditions. Further, the Shale Key Shareholders will have no liability for any breaches of representations and warranties unless the aggregate loss arising is at least $1 million, other than in the case of fraud, a title deficiency to the Shale Shares or inaccuracies or misrepresentations in respect of fundamental representations and warranties. The Shale Share Purchase Agreement also provides for termination payment in the amount of up to $200,000 by the Company to the Shale Shareholders upon the termination of the Shale Share Purchase Agreement in certain circumstances.

Closing of the Shale Acquisition by the Shale Key Shareholders and Shale is conditional upon closing of the Castlegate Acquisition, the Brazeau Acquisition, and the Strategic Investment.

Closing of the Shale Acquisition is expected to occur in the third quarter of 2023 and, subject to agreement of the parties, no later than September 8, 2023, and remains subject to usual closing conditions and regulatory approvals, including the approval of the TSX-V.

If, after the closing of the Shale Acquisition, Highwood has purchased the Shale Shares from the Shale Key Shareholders and purchased the Shale Shares from the Shale Other Shareholders who have accepted the Shale Offer, Highwood intends to acquire the balance of the Shale Shares by way of a compulsory acquisition pursuant to Section 195 of the *Business Corporations Act* (Alberta), statutory arrangement, amalgamation, merger, reorganization, consolidation, recapitalization or other type of acquisition transaction or transactions.

A copy of the Shale Share Purchase Agreement will be filed by the Company on SEDAR and may be viewed under the Company's profile at www.sedar.com.

Benefits of the Shale Acquisition

The Shale Acquisition offers long life liquids rich gas reserves. Upon completion of the Shale Acquisition, Highwood will acquire approximately 300 boe/d (~37% oil and NGLs) of moderate decline, capital-efficient production.

Shale Assets

Shale's assets consist over 27,125 net acres of land in the Ricinus, Harmattan and Claresholm areas of Alberta. The focus of Shale's assets is concentrated on the liquids-rich natural gas Fractured Enhanced Cardium Hale at Rincius (FECHAR) and such assets are located approximately 150 km northwest of Calgary. See "*The Acquisitions — Pro Forma Asset Portfolio*".

Shale Shareholder Strategic Investment and Board Nomination Agreement

In connection with the closing of the Shale Acquisition, HR Exploration & Energy GMBH ("**HR Exploration**") will receive approximately 943,742 Common Shares of the Company in exchange for the purchase of the Shale Shares held by it at the time of the Shale Acquisition. Additionally, in connection with the Shale Acquisition, HR Exploration agreed to purchase a minimum amount of $10 million in Offered Receipts pursuant to the Offering and pursuant to the terms and subject to the conditions set forth in a strategic investment agreement entered into between the Company and HR Exploration (the "**Strategic Investment**"). The Strategic Investment is subject to a number of conditions, including the approval of the TSX-V.

Pursuant to the Strategic Investment, the Company and HR Exploration shall enter into a board nomination agreement ("**HR Board Nomination Agreement**") whereby HR Exploration shall, for so long as it and its affiliates together shall own or control or exercise discretion over, directly or indirectly, not less than 10% of the issued and outstanding Common Shares, be entitled to nominate for election or appointment to the Board, as applicable, the greater of: (i) one nominee and (ii) such number of nominees that, when compared to the authorized number of directors on the Board at such time, is closest to but not less than proportional to the total number of Common Shares which HR Exploration and its affiliates together own or exercise control or direction over, directly or indirectly, relative to the total number of Common Shares then issued and outstanding. The Company shall use commercially reasonable efforts to ensure that the nominee(s) of HR Exploration shall be elected or appointed to the Board. The HR Board Nomination Agreement further provides HR Exploration with participation rights for future offerings to maintain its percentage ownership interest in the issued and outstanding Common Shares of the Company up to a maximum of a percentage ownership interest of 17% of the issued and outstanding Common Shares. HR Exploration also has the right to appoint an observer to the Board for so long as it is entitled to designate a Board nominee for election or appointment under the HR Board Nomination Agreement.

Selected Reserves and Oil and Gas Information Regarding Shale

Appendix "E" hereto contains the selected reserves and oil and gas information for Shale based upon the Shale Reserves Report.

Shale Financial Statements

Appendix "F" hereto contains the Shale Financial Statements.

Significant Acquisition

The Shale Acquisition will represent a "significant acquisition" for the Company for the purposes of Part 8 of NI 51-102. Accordingly, Highwood will be required under Canadian securities law to file a business acquisition report in respect of the Shale Acquisition.

SUMMARY OF THE OFFERING

The following is a summary of the principal features of the Offering and is subject to, and should be read together with, the more detailed information, financial data and statements contained elsewhere in this Prospectus Supplement, and incorporated by reference into the Prospectus.

Issuer	Highwood Asset Management Ltd.
Issue	● Offered Receipts.

Price to the Public	$● per Offered Receipt.
Amount:	Approximately $35,000,000.
Offered Receipts	Each Subscription Receipt will entitle the holder thereof to receive, without payment of additional consideration and without further action on the part of the holder thereof, one Unit upon closing of the Acquisitions. Each Unit will consist of one Common Share and one-half of one Warrant.
Common Share Purchase Warrant	Each Warrant will entitle the holder to acquire one Common Share from the Company at a price of $● per Common Share for a period of 36 months from the issuance date of the Warrants.
Option to Purchase Additional Subscription Receipts	The Company has granted the Agents the Over-Allotment Option, exercisable at any time and from time to time until the earlier of (i) 5:00 p.m. (Calgary time) on the date that is 30 days following the Closing Date (including the date thereof), and (ii) the Termination Time, for the offer and sale up to an additional ● Offered Receipts on the same terms as the Offering. If the Over-Allotment Option is exercised in whole or in part, following the Acquisitions Closing, an equal number or Over-Allotment Units will be issued and sold in lieu of the Subscription Receipts to be sold pursuant to the exercise of the Over-Allotment Option.
Plan of Distribution	The Offering is made pursuant to the Agency Agreement dated ●, 2023 among the Company and the Agents. See "*Plan of Distribution*" for details regarding the Agents' Fee.
Use of Proceeds	The estimated net proceeds from the Offering (after deducting the Agents' Fee and the expenses of the Offering) will be approximately $● million (approximately $● if the Over-Allotment Option is exercised in full). Highwood intends to use the net proceeds to partially fund the cash consideration payable in respect of the Acquisitions and for general working capital purposes. See "*Use of Proceeds*".
Risk Factors	**An investment in the Offered Receipts is speculative and involves a high degree of risk.** Each purchaser should carefully consider the risks described under the heading "*Risk Factors*" in this Prospectus Supplement and in the accompanying Prospectus, and under similar headings in the documents incorporated by reference therein before investing in the Offered Receipts.
Listing	The Company has applied to the TSX-V for conditional approval of the listing of the Offered Receipts and the Unit Shares, the Warrants and the Warrant Shares (including any Offered Receipts, Unit Shares and Warrants issuable pursuant to the exercise of the Over-Allotment Option, and the Warrant Shares issuable upon the exercise of such Warrants) on the TSX-V. Listing is subject to the Company satisfying all of the listing conditions of the TSX-V.
Closing	Closing of the Offering is expected to occur on or about ●, 2023 or such other date as the Company and the Agents mutually agree.

RISK FACTORS

Investing in the Offered Receipts involves a high degree of risk. In addition to the other information included in this Prospectus Supplement or incorporated by reference into the Prospectus, you should carefully consider the risks described below before purchasing the Offered Receipts . If any of the following risks actually occur, our business, financial condition, results of operations and prospects could materially suffer. As a result, the trading price of our Common Shares could decline and you might lose all or part of your investment. The risks set out below are not the only risks we face; risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition, results of operations and prospects.

You should also refer to the other information set forth or incorporated by reference into the Prospectus, including our consolidated financial statements and related notes and our AIF and Annual MD&A. In addition to the risk factors set forth below, additional risk factors relating to our business are discussed in the "Risk Factors" section of our AIF and the "Risks and Uncertainties" section of our Annual MD&A. Before investing, prospective purchasers of Offered Receipts should carefully consider the information contained in this Prospectus Supplement or incorporated by reference into the Prospectus.

Risks Relating to the Acquisitions

Closing of the Acquisitions

The closing of each of the Acquisitions is conditional upon the closing of each of the other Acquisitions, and is further subject to the receipt of required regulatory approvals and the satisfaction of certain conditions set forth in the Share Purchase Agreements summarized herein, as well as normal commercial risk that the Acquisitions may not be completed on the terms negotiated or at all. There is no certainty, nor can the Company provide any assurance, that the conditions to closing of any the Acquisitions will be satisfied or, if satisfied, when they will be satisfied. If the conditions to the closing of any of the Acquisitions are not satisfied or waived, or if the Company fails to raise adequate funds through this Offering or fails to close any of the Private Placement and/or the New Credit Facilities, one or more Acquisitions will not be completed. If one or more or all of the Acquisitions are not completed as contemplated, the Company's Business will remain as it is as of the date of this Prospectus Supplement and the Company could suffer material adverse consequences, including the payment of monetary penalties, fees or payments to the Acquisition counterparties, loss of deposits paid by the Company to Acquisition counterparties and the loss of investor confidence.

Possible Failure to Realize Anticipated Benefits of the Acquisitions

The Company is proposing to complete the Acquisitions to strengthen Highwood's position in the oil and natural gas industry and to create the opportunity to realize certain benefits as described in "*The Acquisitions*". Achieving the benefits of the Acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Company's ability to realize the anticipated growth opportunities and synergies from integrating the Acquired Businesses into Highwood's existing portfolio of properties. The integration of the Acquired Businesses into the Company requires substantial Management effort, time and resources, which may divert Management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect the Company's ability to achieve the anticipated benefits of the Acquisitions.

In addition, the Company's operating and financial projections set forth in this Prospectus Supplement assume that each of the Acquisitions is completed, including on the terms and within the timing set forth in this Prospectus Supplement. The Company may not achieve the anticipated financial or operating results upon completion of the Acquisitions as set forth in this Prospectus Supplement. See "*— Risks Relating to the Company's Business — Forward-Looking Statements and FOFI May Prove Inaccurate*".

Unexpected Costs or Liabilities Related to the Acquisitions

Acquisitions of oil and natural gas properties or companies are based, in large part, on engineering, title, environmental and economic assessments made by the acquiror, independent engineers and consultants. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the Company's control. All such assessments involve a measure of geologic, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

In connection with the Acquisitions, there may be liabilities that the Company failed to discover or was unable to quantify in the Company's due diligence which the Company conducted prior to the execution of the Share Purchase Agreements and the Company may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities could have a material adverse effect on the Company's business, financial condition or future prospects. In addition, each of the Share Purchase Agreements limits the amount for which the Company is indemnified, such that liabilities in respect of each Acquisition may be greater than the amounts for which the Company is indemnified under applicable Share Purchase Agreement.

Although title and environmental reviews are conducted prior to any purchase of resource assets, such reviews cannot guarantee that any unforeseen defects in the chain of title will not arise to defeat the Company's title to certain assets or that environmental defects or deficiencies do not exist.

Each of the Acquisition Reserves Reports was prepared for the applicable Acquired Business and the Company is unable to assess procedures used for providing information to the relevant reserves evaluator or auditor, or for assembling and reporting other information to such reserves evaluator or auditor, associated with the relevant Acquired Business.

Operational and Reserves Risks Relating to the Acquisitions

The risk factors set forth in the AIF and in this Prospectus Supplement relating to the oil and natural gas business, environmental matters, operations and reserves and resources of the Company apply equally in respect of the Acquired Businesses. In particular, the reserves information contained in each of the Acquisition Reserves Reports in respect of the of the Acquired Businesses are estimates and the actual production from and ultimate reserves of those properties may be greater or less than the estimates contained in such reports, and such differences may be material.

Significant Transaction and Related Costs

The Company expects to incur a number of costs associated with completing the Offering, the New Credit Agreement, the Acquisitions, and integrating the operations of each of the Acquired Businesses into Highwood's existing operations. The substantial majority of such costs are expected to be non-recurring expenses resulting from the Acquisitions, facilities and systems consolidation costs and employment-related costs. Additional unanticipated costs may be incurred in the integration of each of the respective Acquired Businesses.

Risks Relating to the Offering

Subscription Receipt Structure

The Unit Shares and Warrants comprising the Units underlying the Subscription Receipts will only be issued to holders of Subscription Receipts upon the Company delivering the Irrevocable Direction to the Subscription Receipt Agent. The Irrevocable Direction will only be delivered if the Escrow Release Condition is satisfied and the Acquisitions Closing occurs prior to the Termination Time. See "*Risk Factors — Risks Relating to the Acquisitions*". There can be no assurance that the Escrow Release Condition will be satisfied or that the Acquisitions Closing will occur prior to the Termination Time. The Company may, in its sole discretion, waive certain closing conditions in its favour in the Share Purchase Agreements or agree with the vendors to amend the Share Purchase Agreements and consummate the Acquisitions on terms that may be substantially different from those set forth in the Share Purchase Agreements and described in this Prospectus Supplement. Other events could result in a Termination Event. As a result, the Acquisitions Closing may not occur as contemplated in this Prospectus Supplement, or at all, and, if the Acquisitions Closing does occur, the expected benefits of the Acquisitions may not be fully realized. See "*Risk Factors — Risks Relating to the Offering — Funds in Escrow*" and "*The Acquisitions*".

Until the Escrow Release Condition is satisfied, the Irrevocable Direction is delivered and the Units are delivered pursuant to the Subscription Receipt Agreement, holders of Subscription Receipts have only the rights described under "*Description of the Securities Being Distributed — Subscription Receipts*".

Until such time, the holders of the Subscription Receipts are not shareholders nor warrantholders and the Subscription Receipts do not entitle the holders thereof to vote as or with holders of the Common Shares or the warrants. The Irrevocable Direction will only be delivered if the Escrow Release Condition is satisfied and the Acquisitions Closing occurs prior to the Termination Time. If a Termination Event occurs, the Subscription Receipt Agent will return to each holder of Subscription Receipts, from the Escrowed Funds, the Termination Payment. In such a case, the return received by a holder of Subscription Receipts will be limited to the Earned Interest on the Offering Price paid for the subscriber's Subscription Receipts, net of any applicable withholding taxes. The balance of the Escrowed Funds at the Termination Time may not be sufficient to cover the aggregate amount of the Termination Payments, in which case holders of the Subscription Receipts will be required to rely on the Company to repay such funds and there can be no assurance that the Company will be able to repay the deficiency between the amount of Escrowed Funds at the Termination Time and the aggregate of the Termination Payments due to the holders of Subscription Receipts. See "*Risk Factors — Risks Relating to the Offering — Funds in Escrow*".

Funds in Escrow

The Escrowed Funds will be held in escrow until the earlier of: (i) the delivery of the Escrow Release Notice; and (ii) the Termination Time. The Escrow Release Notice will only be delivered if the Escrow Release Condition has been satisfied prior to the Termination Time. There can be no assurance that the Escrow Release Condition will be satisfied on or prior to the Termination Time.

Upon delivery of the Escrow Release Notice, the Escrowed Funds, less the Escrowed Agents' Fee, will be released to the Company in accordance with the terms and conditions of the Subscription Receipt Agreement. It is anticipated that such released funds will be used to partially fund the cash consideration payable in respect of the Acquisitions and for general working capital purposes. There is a possibility, however, that after such release the Acquisitions will not close prior to the Termination Time or at all and in any such event the Company will be required, under the Subscription Receipt Agreement, to return such released funds to the Subscription Receipt Agent. In such case, holders of the Subscription Receipts will be required to rely on the Company to comply with its obligations to repay such funds to the Subscription Receipt Agent.

Additionally, the Termination Payment payable to Subscription Receipt holders will be paid from the Escrowed Funds. If the balance of the Escrowed Funds at the Termination Time is insufficient to cover the aggregate amount of the Termination Payments, under the Subscription Receipt Agreement, Highwood will be required to repay the Subscription Receipt Agent, as agent on behalf of the holders of Subscription Receipts, the deficiency between the amount of Escrowed Funds at the Termination Time and the aggregate of the Termination Payments due to the holders of Subscription Receipts. In such case, holders of the Subscription Receipts will be required to rely on the Company to repay such funds as sufficient amounts will no longer be held in escrow and there can be no assurance that the Company will be able to repay the deficiency between the amount of Escrowed Funds at the Termination Time and the aggregate of the Termination Payments due to the holders of Subscription Receipts.

Loss of Investment

An investment in the Offered Receipts is suitable only for those investors who are willing to risk a loss of some or all of their investment and who can afford to lose some or all of their investment.

Completion of Offering

The Offering is being conducted on a best efforts marketed offering basis. Although the Company has entered into the Agency Agreement with the Agents, there is no guarantee that all of the conditions to the completion of the Offering will be satisfied. Closing of the New Credit Facilities is subject to several conditions, including, among others, closing of the Offering or the Company otherwise issuing equity securities for minimum gross proceeds of $37 million See "*The Acquisitions — Financing the Acquisitions*". There is also no guarantee the Company will close the Private Placement. See "*The Acquisitions — Financing the Acquisitions — Private Placement*".

Market for Securities

The Company has applied to the TSX-V for conditional approval of the listing of the Offered Receipts and the Unit Shares, the Warrants and the Warrant Shares (including any Offered Receipts, Unit Shares and Warrant Shares issuable pursuant to the exercise of the Over-Allotment Option, and the Warrant Shares issuable upon the exercise of such Warrants) on the TSX-V. Such listing will be subject to the Company fulfilling all of the listing requirements of the TSX-V, including distribution of the Offered Receipts to a minimum number of public securityholders.

There is currently no market through which the Offered Receipts or the Warrants may be sold. If listed, the Offered Receipts or the Warrants may trade at a discount depending on the market for similar securities, the Company's performance, the performance of the Common Shares and other factors. No assurance can be given that an active or liquid trading market for the Offered Receipts or the Warrants will develop after the Offering. If an active or liquid trading market for the Offered

Receipts or the Warrants does not develop or is not sustained, this may affect the pricing of the Offered Receipts or the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Offered Receipts or the Warrants and the extent of issuer regulation.

Holders of Warrants have no rights with respect to the Warrant Shares underlying such Warrants.

Until a holder of Warrants acquires Warrant Shares upon the exercise of such Warrants, such holder will have no rights with respect to the Warrant Shares underlying such Warrants. Rights with respect to the Warrant Shares will arise only if and when the Company delivers Warrant Shares upon the exercise of a Warrant.

Risks Relating to the Company's Business

Forward-Looking Statements and FOFI May Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking information included in this Prospectus Supplement or the documents incorporated by reference in the Prospectus, including the Company's 2023 and 2024 financial and operating guidance, set forth under "*Recent Developments*" in this Prospectus Supplement. By their nature, forward-looking information and FOFI involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information and/or FOFI or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Most if not all of the financial projections and FOFI presented in this Prospectus Supplement are based upon the anticipated completion of the Offering, closing of the Private Placement, the New Credit Facilities to finance the Acquisitions, and the completion and achievement of benefits of all of the Acquisitions. If such expectations and benefits are not realized, this will materially change the forward looking statements, financing and operating projections and FOFI provided in this Prospectus Supplement. See "*Cautionary Note Regarding Forward-Looking Statements*".

Credit Facility Risk

The amount authorized under the Credit Agreement is a fixed amount. The Company is required to comply with covenants under the Credit Facility, which from time to time either affect the availability, or price, of additional funding, and in the event that the Company does not comply therewith its access to capital could be restricted or repayment could be required. The failure of the Company to comply with such covenants, which may be affected by events beyond the Company's control, could result in a default under the Credit Facility which could result in the Company being required to repay amounts owing thereunder. Even if the Company is able to obtain new financing (including in connection with the anticipated New Credit Facilities), it may not be on commercially reasonable terms or terms that are acceptable to the Company. If the Company is unable to repay amounts owing, the lenders under the Credit Facility could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of the Company's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, the Credit Facility may, from time to time, impose operating and financial restrictions on the Company that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to the Company's securities, incurring of additional indebtedness, provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others.

The Company's borrowing base is determined and re-determined by the lenders under the Credit Facility based on the Company's reserves, commodity prices, applicable discount rate and other factors as determined by the Company's lenders. A material decline in commodity prices could reduce the Company's borrowing base, therefore reducing the funds available to the Company under the Credit Facility which could result in a portion, or all, of the Company's bank indebtedness being required to be repaid.

Additional Indebtedness

The Company will issue the Boulder Note in payment of $● million in deferred cash consideration in connection with the Brazeau Acquisition. Repayments under the Boulder Note shall be subject to the terms of the New Credit Facilities.

Upon completion of the Acquisitions, Highwood anticipates that the full $100 million amount under the New Credit Facilities (subject to a maximum utilization rate of 75% at closing of the Acquisitions, being $75 million) as described herein will be available. Any anticipated indebtedness incurred by the Company under the New Credit Facilities will increase the amount of interest payable by the Company from time to time until such indebtedness is repaid, which will represent an increase in the Company's interest costs and a potential reduction in the Company's net income. The Company may also need to find additional sources of financing to repay any such additional indebtedness when it becomes due. There can be no guarantee that the Company will be able to obtain financing on terms acceptable to it or at all at such time.

The anticipated amounts available under the New Credit Facilities is anticipated to be (subject to and as further described herein with respect to the New Credit Facilities) fixed amounts. The Company is anticipated to be required to comply with covenants in connection with the New Credit Facilities which from time to time either affect the availability, or price, of additional funding, and in the event that the Company does not comply therewith it is anticipated that access to capital could be restricted or repayment could be required. It is anticipated that the failure of the Company to comply with such covenants, which may be affected by events beyond the Company's control, could result in a default under the New Credit Facilities (to the extent provided), which could result in the Company being required to repay amounts owing thereunder. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Company. If the Company is unable to repay amounts owing, it is anticipated that the lenders under the New Credit Facilities, respectively (to the extent provided), could proceed to foreclose or otherwise realize upon the collateral granted to them to secure such indebtedness. The acceleration of the Company's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, it is anticipated that the New Credit Facilities (to the extent provided), may, from time to time, impose operating and financial restrictions on the Company that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to the Company's securities, incurring of additional indebtedness, provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others.

It is anticipated that the Company's borrowing base will be determined and re-determined by the lenders under the New Credit Agreement in connection with the New Credit Facilities (to the extent provided) based on the Company's reserves, commodity prices, applicable discount rate and other factors as determined by the Company's lenders. It is anticipated that a material decline in commodity prices could reduce the Company's borrowing base, therefore reducing the funds available to the Company under the New Credit Facilities (to the extent provided) which could result in a portion, or all, of the Company's bank indebtedness being required to be repaid.

Currency Fluctuations

Foreign currency exchange rate risk is the risk that the fair value or future cash flows of the Company will fluctuate as a result of changes in foreign exchange rates. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. All of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars.

Volatility of the Oil and Gas Industry

Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by the Organization of the Petroleum Exporting Countries, the impacts of the COVID-19 pandemic, slowing growth in certain global economies, market volatility, and sovereign debt levels in various countries, have caused significant weakness and volatility in commodity prices. The outbreak of conflict between Russia and Ukraine strongly influenced crude oil prices to their highest levels since 2008. The possibility of a disruption to Russian crude oil exports has introduced significant risk to global crude oil markets, exacerbating uncertainty around future supply and inventory levels. These geopolitical tensions have recently been countered by rising economic risks and the continuation of a global pandemic, leading to elevated levels of volatility in crude oil prices. The events between Russia and Ukraine have had no immediate effect on North American natural gas balances, but the conflict's impact on competing fuel prices has contributed to a volatile pricing environment.

These events and conditions could cause a significant decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry which could have a negative effect on the Company's ability to raise additional funds in the future or if it is able to do so, to do so on unfavourable terms.

Effect of Commodity Prices on Operational and Financial Results

The Company's operational and financial results are dependent on the prices received for oil and natural gas production. Any substantial and extended decline in the price of oil and natural gas could have an adverse effect on, among other things, the Company's revenues and financial condition. Crude oil and natural gas prices have fluctuated widely in the recent past and are subject to fluctuations in response to relatively minor changes in supply, demand, market uncertainty and other factors that are beyond the Company's control. Crude oil and natural gas prices are impacted by a number of factors including, but not limited to: the global supply of and demand for crude oil and natural gas; global economic conditions; the actions of OPEC and OPEC+; government regulation; political stability; the ability to transport crude to markets; developments related to the market for liquefied natural gas; the availability and prices of alternate fuel sources; weather conditions; global economic conditions; fluctuations in interest rates and foreign exchange rates; stock market volatility; energy costs; geopolitical issues; geopolitical conflict; inflation and the availability and cost of credit.

Volatility of Market Price of Common Shares

The market price of the Common Shares may be volatile. The volatility may affect the ability of holders to sell the Common Shares at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "*Cautionary Note Regarding Forward-Looking Statements*". In addition, the market price for securities in the stock markets, including the TSX-V, recently experienced significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of the Common Shares and the Warrants, if listed, even if the Company's operating results or prospects have not changed or have improved.

In addition, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to satisfy such criteria may result in limited or no investment in the Common Shares or Warrants by those institutions, which could materially adversely affect the trading price of such securities. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, there could be a material adverse effect on the Company's business, financial condition, results of operations and prospects, as well as the trading price of the Common Shares or the Warrants, if listed.

Payment of any Future Dividends is Uncertain

The Company currently anticipates that, for the near future, it will retain future earnings and other cash resources for the operation and development of its business. Payment of any future dividends will be at the discretion of the Board after taking into account many factors, including the Company's earnings, operating results, financial condition, cash on hand, current and anticipated cash needs, restrictions in financing agreements and under applicable laws and other factors that the Board may consider appropriate in the circumstances.

Liquidity

Shareholders of the Company may be unable to sell significant quantities of Common Shares into the public trading markets without a significant reduction in the price of their Common Shares, as applicable, or at all. There can be no assurance that there will be sufficient liquidity of the Common Shares on the trading market, and that the Company will continue to meet the listing requirements of the TSX-V, the Frankfurt Stock Exchange or achieve listing on any other public listing exchange.

Additional Funding Requirements

The Company's cash flow from its operations may not be sufficient to fund its ongoing activities at all times. From time to time, Highwood may require additional financing in order to carry out its proposed business activities, including (i) the metallic minerals exploitation, acquisition, exploration, development and production activities, (ii) midstream oil and gas infrastructure ownership and operation activities, and (iii) oil and natural gas exploitation, acquisition, exploration, development and production activities. Failure to obtain such financing on a timely basis could cause Highwood to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. In particular, if the Company's revenues from its operations decrease as a result of lower oil and natural gas prices or otherwise, Highwood's ability to expend the necessary capital to replace its reserves or to maintain its production will be impaired. If Highwood's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on favourable terms.

Impact of Future Financings

The Company has agreed to issue additional Units pursuant to the Private Placement, and additional Common Shares pursuant to the Brazeau Equity Consideration. In addition, in order to finance future operations, exploration, development, acquisitions or other projects, the Company may raise funds through the issuance of Common Shares or the issuance of debt instruments or securities convertible into Common Shares. The Board, subject to applicable law and the policies of the TSX-V, has the discretion to determine if an issuance of Common Shares or other equity securities is warranted, and, if so warranted, the price at which such issuance is to be effected, the size of such issuance and all other terms of such issuance. The Company also expects to grant additional Options and restricted share units to employees, directors, and consultants of the Company under the Option Plan and the Share Unit Plan, as applicable. Any such issuances of additional Common Shares and securities convertible or exchangeable into Common Shares may cause existing shareholders to experience significant dilution of their ownership interests and the per share value of the Common Shares to decline.

In addition, a decrease in the market price of the Common Shares could adversely affect the liquidity of the Common Shares on the TSX-V. The Company's shareholders may be unable, as a result, to sell significant quantities of the Common Shares into the public trading markets. The Company may not, as a result, have sufficient liquidity to meet the continued listing requirements of the TSX-V or the Frankfurt Stock Exchange. Sales of the Common Shares by shareholders might also make it more difficult for the Company to sell equity or debt securities at a time and price that it deems appropriate, which may have a material adverse effect on the Company's business, financial conditions and results of operations.

DESCRIPTION OF THE SECURITIES BEING DISTRIBUTED

The Offering consists of Offered Receipts offered at the offering price of $● per Offered Receipt. Each Offered Receipt will be convertible into one Unit on satisfaction of the Escrow Release Conditions and each Unit will consist of one Unit Share and one-half of one Warrant. The Units will immediately separate into Unit Shares and Warrants upon distribution, and the Unit Shares and the Warrants will be issued separately. This Prospectus qualifies the distribution of the Offered Receipts and the Units underlying the Offered Receipts, including the Unit Shares and the Warrants (including any Offered Receipts, Unit Shares and Warrants issuable under the Over-Allotment Option, and the Warrant Shares issuable upon the exercise of such Warrants) and the grant of the Over-Allotment Option.

Subscription Receipts

The Subscription Receipts will be issued on the Closing Date pursuant to the Subscription Receipt Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by, the terms of the Subscription Receipt Agreement, which following execution on the Closing Date, will be available for inspection at the offices of the Company and will be filed under the Company's profile on SEDAR at www.sedar.com.

Provided that the Acquisitions Closing occurs prior to the Termination Time, each holder of a Subscription Receipt will be entitled to receive, without payment of additional consideration and without further action, one Unit comprised of one Unit Share and one-half of one Warrant. Provided that the Escrow Release Condition is satisfied and the Acquisitions Closing occurs prior to the Termination Time, Highwood will deliver an irrevocable direction (the "**Irrevocable Direction**") to Odyssey Trust Company, in its capacity as Subscription Receipt Agent, registrar and transfer agent of the Common Shares and registrar and transfer agent of the Warrants, to issue to each holder of Subscription Receipts one Unit for each Subscription Receipt held. Thereafter, the former holders of Subscription Receipts will be entitled, as holders of Common Shares, to receive dividends if, as and when declared by the Board from time to time, to vote and to all other rights available to holders of Common Shares and, as holders of Warrants, to purchase Warrant Shares in accordance with the terms thereof.

The Proceeds will be delivered to and held in escrow by the Subscription Receipt Agent, together with any Earned Interest, and invested in short-term obligations of, or guaranteed by, the Government of Canada, interest-bearing deposits with banks and other financial institutions with issuer credit ratings of at least A assigned by S&P Global Ratings or an equivalent rating from any other designated rating organization, guaranteed investment certificates of a Canadian Schedule I bank or other approved investments as set forth in the Subscription Receipt Agreement, all pursuant to the terms of the Subscription Receipt Agreement, until the earlier of: (i) delivery of the Escrow Release Notice by Highwood and acknowledged by RBC, on behalf of the Agents, to the Subscription Receipt Agent; and (ii) a Termination Event.

Prior to the Termination Time, if the parties to each of the Share Purchase Agreements are able to complete each of the Acquisitions in all material respects in accordance with the terms of the Share Purchase Agreements, without amendment to any of the Share Purchase Agreements or a waiver materially adverse to the Company, but for the payment of the purchase price for each of the Acquisitions, and the Company has available to it all other funds required to complete each of the Acquisitions (the “**Escrow Release Condition**”), Highwood will cause an Escrow Release Notice, acknowledged by RBC, on behalf of the Agents, to be delivered to the Subscription Receipt Agent and, upon receipt of the Escrow Release Notice, the Subscription Receipt Agent will release the Escrowed Funds (less the Escrowed Agents’ Fee to be paid) to, or as directed by, Highwood. In the event that the Escrowed Funds are released pursuant to an Escrow Release Notice and the Acquisitions Closing does not occur, Highwood will be required to return the Escrowed Funds to the Subscription Receipt Agent and the Escrowed Funds will continue to be held and invested by the Subscription Receipt Agent pursuant to the terms and conditions of the Subscription Receipt Agreement until the earlier of: (i) delivery of another Escrow Release Notice by Highwood, acknowledged by the Co-Lead Agents, on behalf of the Agents, to the Subscription Receipt Agent; and (ii) a Termination Event. See "*Risk Factors — Subscription Receipt Structure*".

If a Termination Event occurs, the Subscription Receipt Agent will return to holders of Subscription Receipts, from the Escrowed Funds, the Termination Payment. The Termination Payment will be made from the balance of the Escrowed Funds at the Termination Time, including from the Earned Interest, provided that if the balance of the Escrowed Funds, together with any such Earned Interest, is insufficient to cover the aggregate of the Termination Payments, under the Subscription Receipt Agreement, Highwood will be required to pay to the Subscription Receipt Agent, as agent on behalf of the holders of Subscription Receipts, the deficiency between the amount of Escrowed Funds, together with any such Earned Interest, at the Termination Time and the aggregate of the Termination Payments due to the holders of Subscription Receipts.

The Company will covenant in the Subscription Receipt Agreement that, from the Closing Date to the earlier of a Termination Event and the Acquisitions Closing, it will not: (i) subdivide or redivide the outstanding Common Shares into a greater number of Common Shares; (ii) reduce, combine or consolidate the outstanding Common Shares into a smaller number of Common Shares; (iii) issue Common Shares to holders of all or substantially all of the outstanding Common Shares by way of a dividend (other than the issue of Common Shares to holders of Common Shares who have elected to receive dividends in the form of Common Shares in lieu of cash dividends paid in the ordinary course on the Common Shares); (iv) fix a record date for the making of, or make, a dividend to all or substantially all the holders of Common Shares of securities, rights, options or warrants or securities exercisable for, convertible into or exchangeable for, Common Shares or other securities, evidences of indebtedness or assets of Highwood; or (v) reclassify the Common Shares or undertake a reorganization of Highwood or a consolidation, amalgamation, arrangement or merger of Highwood with any other person, or a sale or conveyance of all or substantially all of the property and assets of Highwood to any other person, or a liquidation, dissolution or winding-up of Highwood; or (vi) take any action affecting the Common Shares that, in the opinion of the directors of Highwood, acting reasonably, would materially adversely affect the rights of holders of Subscription Receipts and/or the rights attached to the Subscription Receipts.

Under the Subscription Receipt Agreement, original purchasers of Subscription Receipts under the Offering will have a contractual right of action against Highwood for rescission prior to and following the issuance of the Common Shares or Warrants to such purchaser pursuant to the terms of the Subscription Receipt Agreement, to receive the amount paid for the Subscription Receipts upon surrender of the Subscription Receipts or the Common Shares and Warrants, as applicable, if this Prospectus Supplement (including documents incorporated herein by reference) or any amendment contains a misrepresentation (as defined in the *Securities Act* (Alberta)), provided such remedy for rescission is exercised within 180 days of the Closing Date.

From time to time while the Subscription Receipts are outstanding, Highwood, RBC, on behalf of the Agents, and the Subscription Receipt Agent, without the consent of the holders of the Subscription Receipts, may amend or supplement the

Subscription Receipt Agreement for certain purposes, including for any purpose not inconsistent with the terms of the Subscription Receipt Agreement, provided that, in the opinion of the Subscription Receipt Agent, relying on the opinion of counsel, the rights of the Subscription Receipt Agent and the holders of the Subscription Receipts are in no way prejudiced thereby. The Subscription Receipt Agreement provides for other modifications and alterations thereto and to the Subscription Receipts issued thereunder by way of an extraordinary resolution. The term "extraordinary resolution" is defined in the Subscription Receipt Agreement to mean, in effect, a resolution passed by the affirmative votes of the holders of not less than 66 2/3% of the number of outstanding Subscription Receipts represented and voting at a meeting of Subscription Receipt holders at which a quorum of one or more Subscription Receipt holders holding more than 25% of the then outstanding Subscription Receipts has been achieved or an instrument or instruments in writing signed by the holders of not less than 66 2/3% of the number of outstanding Subscription Receipts.

The holders of Subscription Receipts are not holders of Common Shares or Warrants and do not have rights as holders of Common Shares or Warrants, including, but not limited to, the right to vote at meetings of holders of Common Shares, nor the right to purchase Warrant Shares in accordance with the terms of the Warrants. Holders of Subscription Receipts are entitled only to receive Common Shares and Warrants, or to receive from the Subscription Receipt Agent an amount per Subscription Receipt equal to the Offering Price of the Subscription Receipts plus a pro rata share of any Earned Interest, net of any applicable withholding taxes, as described above.

Common Shares

The Company is authorized to issue an unlimited number of Common Shares. As of as of the date of this Prospectus Supplement, 6,037,298 Common Shares are issued and outstanding and 217,600 Common Shares are reserved for issuance pursuant to securities issued under the Share Unit Plan and the Option Plan, respectively. See "*General Development of the Business — Three Year History*" in the AIF.

See "*Description of Common Shares*" in the Prospectus for a description of the material attributes and characteristics of the Common Shares.

Warrants

The Warrants will be governed by the terms of a warrant indenture (the "**Warrant Indenture**") to be dated as of the Closing Date between the Company and Odyssey Trust Company (the "**Warrant Agent**"), as warrant agent. The following summary of certain anticipated provisions of the Warrant Indenture does not purport to be complete and is subject in its entirety to the detailed provisions of the Warrant Indenture. Reference is made to the Warrant Indenture for the full text of the attributes of the Warrants, which will be filed by the Company under its profile on www.sedar.com following the closing of the Offering. A register of holders of Warrants will be maintained at the principal offices of the Warrant Agent in Calgary, Alberta.

Each Warrant will entitle the holder to acquire, subject to adjustment, one Warrant Share upon payment of the Exercise Price of $● on or before the date that is 36 months from the issuance date of the Warrants, after which time the Warrants will be void and all rights with respect to such Warrants shall terminate and be cancelled.

The Warrant Indenture will provide for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the Exercise Price per Warrant Share upon the occurrence of certain events, including:

(a) the subdivision, re-division or change of the Common Shares into a greater number of Common Shares;

(b) the reduction, combination or consolidation of the outstanding Common Shares into a lesser number of Common Shares;

(c) the issuance of Common Shares or securities exchangeable for, or convertible into, Common Shares to all or substantially all of the holders of the Common Shares by way of a stock dividend or other distribution (other than a distribution of Common Shares upon the exercise of Warrants);

(d) the issuance to all or substantially all of the holders of the outstanding Common Shares of rights, options or warrants under which such holders are entitled to subscribe for or purchase Common Shares, or securities exchangeable for or convertible into Common Shares, at a price per Common Share to the holder (or at an exchange or conversion price per Common Share) of less than 95% of the "Current Market Price" (as defined in the Warrant Indenture) of the Common Shares on such record date (a "**Rights Offering**"); and

(e) the distribution to all or substantially all of the holders of the Common Shares of (i) securities of any class, whether of the Company or any other entity (other than Common Shares), (ii) rights, options or warrants to subscribe for or purchase Common Shares (or other securities convertible into or exchangeable for Common Shares), other than pursuant to a Rights Offering, (iii) bonds, debentures, notes or other evidences of indebtedness of any kind, nature or description of the Company or (iv) any property or other assets.

The Warrant Indenture will also provide for adjustments in the class and/or number of securities issuable upon exercise of the Warrants and/or exercise price per security in the event of the following additional events: (i) reclassifications of the Common Shares or a capital reorganization of the Company (other than as described in clauses (a), (b) or (c) above), (ii) consolidations, amalgamations, arrangements, mergers or other business combinations of the Company with or into another entity, or (iii) any sale or conveyance of all or substantially all of the property and assets of the Company to any other person or entity, in which case each holder of a Warrant which is thereafter exercised will receive, in lieu of Common Shares, the kind and number or amount of other securities or property which such holder would have been entitled to receive as a result of such event if such holder had exercised the Warrants and held Warrant Shares prior to the event.

The Company will also covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give notice to holders of Warrants of certain stated events, including any of the foregoing events that would result in an adjustment to the exercise price for the Warrants or the number of Warrant Shares issuable upon exercise of the Warrants, at least fourteen (14) days prior to the record date or effective date, as the case may be, of such events.

No fractional Warrant Shares will be issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional Warrant Shares. Holders of Warrants will not have any right or interest whatsoever as a holder of Common Shares, including, but not limited to, the right to vote at, to receive notice of or to attend meetings of holders of Common Shares or any other proceedings of the Company, or the right to dividends and other allocations. The Warrants will be transferable in accordance with the terms of the Warrant Indenture.

From time to time, the Company and the Warrant Agent, without the consent of the holders of Warrants, but subject to any requisite approval of the TSX-V and the provisions of the Warrant Indenture, may amend or supplement the Warrant Indenture for certain purposes, including to correct or rectify any ambiguities, defective or inconsistent provisions, errors, mistakes or omissions therein or to make any change that is not prejudicial to the interests of the registered holders of Warrants. Any amendment or supplement to the Warrant Indenture that is prejudicial to the interests of the registered holders of the Warrants may only be made by "extraordinary resolution", which will be defined in the Warrant Indenture as a resolution either (a) passed at a meeting of the registered holders of Warrants at which there are registered holders of Warrants present in person or represented by proxy representing at least 10% of the aggregate number of the then outstanding Warrants and passed by the affirmative vote of registered holders of Warrants representing not less than 66⅔% of the aggregate number of the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution or (b) adopted by an instrument in writing signed by the registered holders of not less than 66⅔% of the aggregate number of the then outstanding Warrants.

Neither the Warrants nor the Warrant Shares have been registered under the U.S. Securities Act or any state securities laws, and the Warrants may be exercised only if the Warrant Shares are registered under the U.S. Securities Act and applicable state securities laws or an exemption or exclusion from such registration requirements is available.

The Company has applied to the TSX-V for conditional approval of the listing of the Offered Receipts and the Unit Shares, the Warrants and the Warrant Shares (including any Offered Receipts, Unit Shares and Warrants Shares issuable pursuant to the exercise of the Over-Allotment Option, and the Warrant Shares issuable upon the exercise of such Warrants) on the TSX-V. Listing is subject to Highwood fulfilling all of the listing requirements of the TSX-V. See "*Risk Factors — Market for Securities*".

USE OF PROCEEDS

The Acquisitions are expected to close concurrently in the third quarter of 2023 (the "**Acquisitions Closing**").

The following table sets forth the principal purposes for which Highwood proposes to use the total funds available to the Company upon the completion of the Offering:

($MM) **The Acquisitions**	**Amount**	**Amount Assuming Full Exercise of the Over-Allotment Option**(1)
Remaining Cash purchase price for Brazeau Acquisition(2)(3)	$73	$73
Cash purchase price for Castlegate Acquisition(2)(4)	$33.7	$33.7
Cash purchase price for Shale Acquisition(2)(5)	($2.0)	($2.0)
Estimated expenses and costs relating to the Acquisitions	$2.4	$2.4
Repayment of Brazeau Acquisition insider loan(6)	$2.8	$2.8
Estimated net cash required to complete the Acquisitions	**$109.9**	**$109.9**
Gross proceeds raised pursuant to the Offering	$●	$●
Agents' Fee	$●	$●
Estimated expenses and costs relating to the Offering	$0.6	$0.6
Total estimated net proceeds of the Offering	**$●**	**$●**
Portion of cash consideration to be funded by the Private Placement(7)	**$2.8**	**$2.8**
Portion of cash consideration to be funded by the New Credit Facilities(8)(9)	**$●**	**$●**

Notes:

(1) Assumes full amount of the Over-Allotment Option. Any net proceeds received from the offer and sale of Offered Receipts pursuant to the exercise of the Over-Allotment Option will be used to fund a portion of the cash purchase price for the Brazeau Acquisition and the Castlegate Acquisition. If the Over-Allotment Option is exercised after the completion of the Acquisitions, any net proceeds received from the offer and sale of Over-Allotment Units pursuant to such exercise of the Over-Allotment Option will be used to pay the Company's expenses related to the Acquisitions.

(2) Does not include expenses or costs related to the Acquisitions.

(3) Excludes the $2 million deposit which was funded in part by a non-convertible, unsecured and non-interest bearing $2.8 million demand loan issued to Highwood by a company controlled by Joel MacLeod, the Executive Chairman of the Company. Excludes approximately $14 million of consideration payable pursuant to the Boulder Note as well as approximately $9 million of consideration payable via issuance of Common Shares pursuant to the Brazeau Equity Consideration. See "*The Brazeau Acquisition — Brazeau Share Purchase Agreement*".

(4) The purchase price for the Castlegate Acquisition is $36.7 million (plus a payment for $4.2 million of working capital) with the Company expecting to assume an estimated $7.2 million of working capital on closing of such Acquisition (assuming closing in the third quarter of 2023) resulting in a net purchase price of approximately $34 million.

(5) Refers to the $2 million cash balance acquired under the Shale Acquisition.

(6) The Company made a deposit of $2.0 million in connection with the Brazeau Acquisition, which was funded in part by a non-convertible, unsecured and non-interest bearing $2.8 million demand loan issued to Highwood by a company controlled by Joel MacLeod, the Executive Chairman of the Company. The loan is considered a "related party transaction" (as defined under MI 61-101) and the Company relied upon the "Fair Market Value Not More Than 25% of Market Capitalization" exemption from the formal valuation and minority shareholder approval requirements, respectively, under MI 61-101. See "*The Brazeau Acquisition — Brazeau Share Purchase Agreement*".

(7) Upon, or substantially concurrently with, and conditional upon closing of the Acquisitions, the Purchasing Insiders intend to purchase an aggregate amount of up to approximately $2.8 million of Private Placement Units pursuant to the Private Placement. Does not include expenses or costs related to the Private Placement, which are expected to be de minimis. See "*The Acquisitions — Financing the Acquisitions — Private Placement*".

(8) In connection with the Acquisitions, the Company received an indicative term sheet for the New Credit Facilities from Royal Bank of Canada for an aggregate authorized borrowing base of up to $100 million. See "*The Acquisitions — Financing the Acquisitions*".

(9) Amounts under the New Credit Facilities are anticipated to become available to the Company concurrently with closing of the Acquisitions. See "*The Acquisitions — Financing the Acquisitions*".

Business Objectives and Milestones

The net proceeds of the Offering will be used by the Company to finance a portion of the cash purchase price and the expenses related to the Acquisitions. See "*The Acquisitions — Financing the Acquisitions*". The significant events that must occur for such business objective to be achieved are as set out under "*The Acquisitions — Financing the Acquisitions*" and, in particular, include closing the Acquisitions and the anticipated closing of and funding under the New Credit Facilities. Closing of the Acquisitions is anticipated to require the closing of the Private Placement. See "*The Acquisitions — Financing the Acquisitions — Private Placement*".

Pending the release of the net proceeds following satisfaction of the Escrow Release Condition, the net proceeds from the Offering are expected to be deposited in one or more interest bearing trust accounts to be maintained by the Escrow Agent in the name of the Escrow Agent at one or more banks listed in the Subscription Receipt Agreement in accordance with the Subscription Receipt Agreement. See "*Risk Factors — Risks Relating to the Offering — Subscription Receipt Structure*".

The above-noted allocation represents the Company's intention with respect to its use of proceeds based on current knowledge and planning by management of the Company. There may be circumstances where, for sound business reasons, the Company reallocates the use of proceeds in a manner that management of the Company believes to be in the best interests of the Company. In such circumstances, the actual expenditures may differ from the estimates set forth above.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at March 31, 2023: (i) before giving effect to the Offering and the Acquisitions; (ii) after giving effect to the Offering, the Private Placement, and the New Credit Facilities and the use of proceeds therefrom, and closing of each of the Acquisitions (including the issuance of the Brazeau Equity Consideration and the Boulder Note pursuant thereto). The table should be read in conjunction with the audited annual consolidated financial statements of the Company as at and for the fiscal years ended December 31, 2022 and 2021 as well as the unaudited interim financial statements of the Company as at March 31, 2023 and for the three months ended March 31, 2023 and March 31, 2022.

	As at March 31, 2023	
($MM)	**Before giving effect to the Offering and the Acquisitions**	**After giving effect to the Offering, the Private Placement, the New Credit Facilities and the use of proceeds therefrom, and closing of each of the Acquisitions(1)(2)(3)(4)**
Loan Capital		
Credit Facility(5)	$0.35	$Nil
New Credit Facilities(6)(7)	$Nil	$●(8)
Boulder Note	$Nil	$●
Share Capital(9)(10)	$16,564	$●(11)
Common Shares (unlimited)	6,037,298	●
Warrants	Nil	●
Preferred Shares (unlimited)	Nil	Nil

Notes:

(1) Based on the issuance ● Offered Receipts issued in connection with the Offering for aggregate gross proceeds of $● million, less the Agents' Fee of $● million and the estimated expenses of the Offering of $● million (exclusive of GST), for net proceeds to the Company of $● million.

(2) See "*The Acquisitions — Financing the Acquisitions — Private Placement*" for further information on the Private Placement. See "*The Brazeau Acquisition*" for further information on the Brazeau Acquisition, including the issuance of the Boulder Note and the Brazeau Equity Consideration. See "*The Castlegate Acquisition*" for further information on the Castlegate Acquisition. See "*The Shale Acquisition*" for further information on the Shale Acquisition.

(3) Each of the Acquisitions is conditional upon closing of the other Acquisitions. See "*The Acquisitions*".

(4) Assuming no exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full then, following the New Credit Facilities and the use of proceeds therefrom, and closing of each of the Acquisitions: (i) the total number of Common Shares outstanding will be ● and the total number of Warrants outstanding will be ●; and (ii) the total amount drawn on the New Credit Facilities will be $● million.

(5) As at March 31, 2023, the Company had the Credit Facility with the lenders thereunder with $350,000 drawn thereunder at such time. The New Credit Facilities are anticipated to replace the Credit Facility effective upon closing of the Acquisitions. See "*The Acquisitions — Financing the Acquisitions — New Credit Facilities*".

(6) In connection with the Acquisitions, the Company received an indicative term sheet for the New Credit Facilities from Royal Bank of Canada for an aggregate borrowing base of up to $100 million, which is anticipated to replace the Credit Facility. See "*The Acquisitions — Financing the Acquisitions*".

(7) Amounts under the New Credit Facilities are anticipated to become available to the Company concurrently with closing of the Acquisitions. See "*The Acquisitions — Financing the Acquisitions — New Credit Facilities*".

(8) The amount anticipated to be drawn on the New Credit Facilities after giving effect to the Offering and the Acquisitions is based on the following: (i) estimated aggregate cash consideration for the Brazeau Acquisition and the Castlegate Acquisition of $108.7 million, with Castlegate consideration reduced by net cash balance of $3.0 million (based on the purchase price for the Castlegate Acquisition of $36.7 million (plus a payment for $4.2 million of working capital) and the assumption that the Company will assume an estimated $7.2 million of working capital on closing of such Acquisition and that the closing occurs in the third quarter of 2023); (ii) the issuance of 1,277,030 Common Shares in connection

with the Shale Acquisition, at a deemed issuance price equal to the Offering Price; (iii) the issuance of • Common Shares in connection with the Brazeau Acquisition, being equal to the lesser of: (a) $9 million; and (b) such number of Common Shares that would equal (but not exceed) 9.99% of the issued and outstanding Common Shares (on a non-diluted basis) as at the closing date of the Acquisitions; (iv) the assumption of Net Debt under the Acquisitions estimated to be an aggregate amount of $nil on the closing date of the Acquisitions; (v) the Company's estimated aggregate transaction expenses associated with and the Acquisitions of approximately $2.4 million; (vi) the repayment of the Brazeau Acquisition insider loan and existing indebtedness under the Credit Facility; and (vii) deposit of $2.0 million made in connection with the Brazeau Acquisition, and is net of the following sources of cash: (A) cash on hand of $nil as at March 31, 2023; (B) $• of net proceeds from the Offering; (C) $2.8 million of net proceeds from the Private Placement, and (D) the consolidated positive working capital balance from the Acquisitions, excluding Castlegate, estimated to be approximately $2 million, inclusive of applicable transaction costs.

(9) Does not include Options granted pursuant to the Option Plan or RSUs granted pursuant to the Share Unit Plan. As at March 31, 2023, Options to purchase an aggregate of approximately 176,000 Common Shares were outstanding pursuant to the Option Plan. The average price at which outstanding Options are exercisable is $11.58 per Common Share, and the outstanding Options have a weighted average remaining term to expiry of 1.66 years. Each Option entitles the holder upon exercise to acquire one Common Share. See "*Prior Sales*". As at March 31, 2023, 60,600 Common Shares were issuable upon exercise of RSUs pursuant to the Share Unit Plan.

(10) Share capital does not include nil Common Shares issued upon exercise of Options and nil Common Shares issued upon exercise of RSUs, in each case, subsequent to March 31, 2023. See "*Prior Sales*".

(11) Share issue costs have been offset against share capital.

TRADING PRICE AND VOLUME

Common Shares

The outstanding Common Shares are traded on the TSX-V under the trading symbol "HAM" and on the Frankfurt Stock Exchange under the trading symbol "7PD0". On July 4, 2023, the last trading day before the public announcement of the Offering and the date of this Prospectus Supplement, the closing price of the Common Shares on the TSX-V was $7.00. The following table sets forth the price range and trading volume of the Common Shares as reported by the TSX-V, for the periods indicated (as reported by the TSX-V):

Period	High ($)	Low ($)	Volume
July 1-4, 2023	7.00	6.00	150
June 2023	8.50	7.00	1000
May 2023	9.99	8.50	400
April 2023	10.00	9.00	2,400
March 2023	10.00	8.00	3,396
February 2023	10.00	9.00	1,600
January 2023	11.99	10.00	14,879
December 2022	11.60	6.35	16,425
November 2022	7.99	5.00	1,300
October 2022	8.50	8.00	300
September 2022	9.00	8.50	300
August 2022	9.50	9.00	300
July 2022	10.00	8.50	4,385
June 2022	10.50	10.00	300
May 2022	10.30	10.00	200
April 2022	11.00	10.00	725
March 2022	11.25	11.00	200
February 2022	12.00	11.00	656
January 2022	12.50	11.75	1,100

PRIOR SALES

The following table summarizes the issuances of Common Shares and securities convertible into Common Shares within the 12-month period prior to the date of this Prospectus Supplement.

Date of Issuance	Class of Securities	Number of Securities Issued	Issue/Exercise Price
May 30, 2022	Options	26,500	$11.00
May 30, 2022	RSUs	26,500	N/A
December 29, 2022	Common Shares(1)	4,000	$9.00
December 30, 2022	Common Shares(2)	19,334	$11.25

Note:

(1) Represents Common Shares issued upon exercise of 4,000 Options.

(2) Represents Common Shares issued upon exercise of 19,334 RSUs.

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Company has engaged the Agents to sell, on a "best efforts" basis, an aggregate of ● Offered Receipts, at a price of $● per Offered Receipt, for an aggregate gross proceeds of approximately $35,000,000 payable in cash against delivery of the Offered Receipts, subject to compliance with all necessary legal requirements and with the terms and conditions contained in the Agency Agreement. The total price to the public, Agents' Fee and net proceeds to the Company (before deducting the expenses relating to the Offering) as set forth on page (ii) of this Prospectus Supplement will be $●, $● and $●, respectively. The Company estimates that the total expenses for the Offering will be approximately $600,000.

The Company has granted the Agents the Over-Allotment Option, which may be exercised in the Agents' sole discretion and without obligation, for the offer and sale up to an additional ● Offered Receipts on the same terms as the Offering to cover over-allotments, if any, made by the Agents in connection with the Offering and for market stabilization purposes. The Over-Allotment Option is exercisable by the Co-Lead Agents, on behalf of the Agents, in whole or in part, at any time and from time to time until the earlier of (i) 5:00 p.m. (Calgary time) on the date that is 30 days following the Closing Date (including the date thereof), and (ii) the Termination Time. This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of up to an additional ● Offered Receipts or Over-Allotment Units, as applicable (and the ● Units issuable to holders of such additional Offered Receipts and the ● Unit Shares and the ● Warrants comprising such additional Units and any Over-Allotment Units, and the ● Warrant Shares issuable upon the exercise of such Warrants) to be sold by the Company upon exercise of the Over-Allotment Option. A purchaser who acquires Offered Receipts or Over-Allotment Units, as applicable, forming part of the Agents' over-allocation position acquires those Offered Receipts or Over-Allotment Units, as applicable under this Prospectus Supplement, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. If the Over-Allotment Option is exercised in full, the total price to the public, Agents' Fee and net proceeds to the Company (before deducting the expenses relating to the Offering) as set forth on page (ii) of this Prospectus Supplement will be $●, $● and $●, respectively. The Company estimates that the total expenses for the Offering will be approximately $600,000.

No minimum amount of funds must be raised under the Offering. This means that Highwood could complete the Offering after raising only a small portion of the Offering amount set out above.

The Offering Price was determined by agreement between the Company and the Co-Lead Agents, on behalf of the Agents, with reference to the prevailing market price for the Common Shares and other factors.

Each Offered Receipt will entitle the holder thereof to receive, without payment of additional consideration and without further action on the part of the holder thereof, one Unit comprised of one Warrant Share and one-half of one Warrant upon satisfaction of the Escrow Release Conditions.

The Offered Receipts will be offered in each of the Offering Jurisdictions through the Agents either directly or through their respective Canadian broker-dealer affiliates or agents, as applicable. No Offered Receipts will be offered or sold in any jurisdiction except by or through brokers or dealers duly registered under the applicable securities laws of that jurisdiction, or in circumstances where an exemption from such registered dealer requirements is available. Subject to applicable law, the Agents may offer the Offered Receipts in such other jurisdictions outside of Canada as agreed between the Company and the Agents. The Company and the Agents are not making an offer to sell or a solicitation of an offer to buy the Offered Receipts in any jurisdiction where the offer is not permitted.

The obligations of the Agents under the Agency Agreement are several, and not joint or joint and several, and may be terminated at their sole discretion upon the occurrence of certain events specified in the Agency Agreement, including, among others, customary "market out", "material adverse change out", "regulatory proceeding out" and "disaster out" rights of termination running to Closing. While the Agents have agreed to use their best efforts to sell the Offered Receipts offered hereby, the Agents are not obligated to purchase Offered Receipts that are not sold.

In consideration for the services rendered by the Agents in connection with the Offering, the Agents will receive from the Company the Agents' Fee equal to 6.00% of the gross proceeds of the Offering (including in respect of any exercise of the Over-Allotment Option). Half (50%) of the Agents' Fee is payable on the Closing Date, with the other half (50%) of the Agents' Fee payable upon the Acquisitions Closing. If a Termination Event occurs, the Agents' Fee will consist solely of the Non-Escrowed Agents' Fee.

Pursuant to the terms of the Agency Agreement, the Company has also agreed to reimburse the Agents for certain expenses, including legal and out-of-pocket expenses incurred in connection with the Offering. The Company has agreed to indemnify the Agents, and each of their subsidiaries and affiliates, and each of their respective directors, officers, employees, partners, shareholders and agents against certain liabilities and expenses and to contribute to payments they may be required to make insofar as any losses, claims, suits, demands, liabilities, costs (including, legal fees and disbursements on a full indemnity basis), damages or expenses, including the aggregate amount paid in reasonable settlement of any actions, suits, proceedings, investigations or claims, which any indemnified party may be subject or which any indemnified party may suffer or incur are in any way caused by or arising, directly or indirectly, by reason, or in consequence, of the performance of services rendered in connection with the Offering by the Agents or otherwise in connection with the matters referred to in the Agency Agreement.

In connection with the Offering, the Agents may over-allocate or effect transactions which stabilize or maintain the market price of the Offered Receipts at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time. As a result of these activities, the price of the Offered Receipts may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Agents at any time. The Agents may carry out these transactions on any stock exchange on which the Common Shares are listed, in the over-the-counter market, or otherwise.

Offering Jurisdictions

The Offered Receipts will be offered by the Agents in the Offering Jurisdictions and to certain qualified investors in the United States through the Agents or through their U.S. Affiliates, as applicable. Other than in Canada and the United States, no action has been taken by the Company or the Agents that would permit a public offering of the Offered Receipts pursuant to the Prospectus in any jurisdiction where action for that purpose is required. Subject to compliance with the terms and conditions of the Agency Agreement and applicable law, the Agents may also offer the Offered Receipts outside of Canada and the United States. The Company is not making, and the Prospectus does not constitute, an offer to sell or a solicitation of an offer to buy the Offered Receipts in any jurisdiction where such offer or solicitation is not permitted.

Settlement

Subscriptions for the Offered Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

Except for Offered Receipts sold pursuant to Regulation D, which will be represented by definitive certificates registered in the name of the purchasers thereof, it is anticipated that the Offered Receipts will be delivered under the book-based system through CDS or its nominee and deposited in electronic form, or will otherwise be delivered to the Agents registered as directed by the Agents, on the Closing Date (other than the Offered Receipts or Over-Allotment Units, as applicable, issuable upon exercise of the Over-Allotment Option, which will be delivered at a later time pursuant to the terms of the Agency Agreement, unless the Over-Allotment Option in exercised in full at least two (2) business days prior to the Closing Date, in which case such Offered Receipts or Over-Allotment Units, as applicable, will be delivered on the Closing Date). Except in limited circumstances, such as with respect to Offered Receipts sold pursuant to Regulation D, a purchaser of Offered Receipts will receive only a customer confirmation from the registered dealer from or through which the Offered Receipts are purchased and who is a CDS depository service participant. CDS will record the CDS participants who hold Subscription Receipts on behalf of owners who have purchased Offered Receipts in accordance with the book-based system. No definitive certificates representing Offered Receipts will be issued unless specifically requested or required.

Trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Offered Receipts that they have purchased pursuant to the Offering prior to the ● business day after the date of this Prospectus Supplement will be required, by virtue of the fact that the Offered Receipts will initially settle T+●, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Offered Receipts who wish to trade such Offered Receipts prior to the ● business day after the date of this Prospectus Supplement should consult their own advisor.

The Company has applied to the TSX-V for conditional approval of the listing of the Offered Receipts and the Unit Shares, the Warrants and the Warrant Shares (including any Offered Receipts, Unit Shares and Warrants Shares issuable pursuant to the exercise of the Over-Allotment Option, and the Warrant Shares issuable upon the exercise of such Warrants) on the

TSX-V. Listing will be subject to the Company fulfilling all of the listing requirements of the TSX-V, including distribution of the Offered Receipts to a minimum number of public securityholders.

Standstill

Pursuant to the Agency Agreement, the Company has agreed that it shall not, directly or indirectly, issue any Common Shares or other securities of the Company or any options or warrants to purchase any Common Shares or other securities of the Company, or any securities convertible or exchangeable for or that represent the right to receive Common Shares or other securities of the Company or enter into any agreement or arrangement under which the Company may acquire or transfer to another all or a portion of the economic consequences associated with Common Shares or other securities of the Company, or agree to do any of the foregoing or publicly announce any intention to do any of the foregoing, for a period of 120 days following the Closing Date, without the prior written consent of the Co-Lead Agents, on behalf of the Agents, which consent will not be unreasonably withheld or delayed, except in conjunction with (i) the grant or vesting of Restricted Share Units or the grant or exercise of Options pursuant to the Company's Option Plan and the Share Unit Plan, respectively; (ii) to satisfy existing contractual obligations, including under the Shale Share Purchase Agreement and the Brazeau Share Purchase Agreement; and (iii) the Private Placement.

Lock Up Agreements

Pursuant to the Agency Agreement, the Company has agreed to cause each director and officer of the Company to enter into lock-up agreements to be executed and delivered upon closing of the Offering, agreeing not to, for a period of 120 days following the Closing Date, directly or indirectly, sell, grant an option or right for the sale of any Common Share, or otherwise dispose of any Common Shares, or any options or warrants to purchase any Common Shares, including Warrants, or any securities convertible or exchangeable for or that represent the right to receive Common Shares, owned directly, indirectly or beneficially by the shareholder or under control or direction of the shareholder, or enter into any agreement or arrangement that transfers all or a portion of the economic consequences associated with the ownership of such securities or agree to do any of the foregoing or publicly announce any intention to do any of the foregoing, without the prior written consent of the Co-Lead Agents, which consent will not be unreasonably withheld.

U.S. Securities Laws Matters

The Offered Receipts, Units, Unit Shares, Warrants and Warrant Shares have not been and will not be registered under the U.S. Securities Act, or under the securities laws of any state of the United States. Accordingly, the Offering Receipts may (i) be offered and sold in the United States and to, or for the account or benefit of, U.S. Persons, only by the Agents pursuant to Rule 144A to "qualified institutional buyers" (as defined in Rule 144A(a)(1), "Qualified Institutional Buyers") or (ii) be offered by certain of the Agents to "accredited investors" meeting one or more of the criteria in Rule 501(a) of Regulation D, for sale directly by the Company in a transaction in accordance with Rule 506(b) of Regulation D . Each Agent, on its own behalf and on behalf of each of its United States registered broker-dealer affiliates ("**U.S. Affiliates**"), has agreed that, except as permitted by the Agency Agreement (subject to all the agreements, covenants and restrictions set forth therein and exhibits and schedules thereto) and as expressly permitted by applicable United States federal and state securities laws, it will not offer or sell the Offered Receipts, Units, Unit Shares or Warrants, as part of its distribution at any time, within the United States or to, or for the account or benefit of, U.S. Persons and that all offers and sales of the Offered Receipts, Units, Unit Shares and Warrants will otherwise be made outside of the United States in accordance with Rule 903 of Regulation S under the U.S. Securities Act. The Agency Agreement (and the exhibits and schedules thereto) permits (i) the Agents to offer and resell the Offered Receipts, Units, Unit Shares and Warrants purchased by them to Qualified Institutional Buyers in compliance with Rule 144A, and (ii) certain of the Agents to offer the Offered Receipts, Units, Unit Shares and Warrants to accredited investors for sale by the Company in compliance with Rule 506(b) of Regulation D.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Offered Receipts, Units, Unit Shares or Warrants within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the U.S. Securities Act.

Relationship Between the Company and Certain Agents

RBC acted as financial advisor to the Company with respect to the Acquisitions. In connection therewith, RBC will receive fees from the Company and a portion of the net proceeds from the Offering will be used to pay such fees, directly or indirectly. In addition, RBC is a subsidiary of Royal Bank of Canada, a Canadian chartered bank that is anticipated to be a new lender under the New Credit Facilities anticipated to be entered into in connection with the Acquisitions. Furthermore, a director of the Company is also a managing director of Echelon. Consequently, the Company may be considered a "connected issuer" of each of RBC and Echelon within the meaning of applicable Canadian securities legislation. See "*Consolidated Capitalization*".

The decision to distribute the Offered Receipts hereunder and the determination of the Offering Price were made through negotiations between the Company and Lead Agents, on their own behalf and on behalf of the other Agents. Royal Bank of Canada did not have any involvement in such decision or determination, but have been advised of the issuance and the terms hereof. As a consequence of this issuance, RBC and Echelon will receive their respective share of the Agents' Fee. See "*Plan of Distribution*", above.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of DLA Piper (Canada) LLP, counsel to the Company, the following summary describes, as of the date hereof, the principal Canadian federal income tax considerations under the Tax Act, generally applicable to a holder who acquires Offered Receipts pursuant to the Offering, Unit Shares and Warrants comprising the Units upon satisfaction of the Escrow Release Condition, and Warrant Shares on an exercise or deemed exercise of Warrants, as beneficial owner and who, for the purposes of the Tax Act and at all relevant times, (i) acquires and holds Offered Receipts, Unit Shares, Warrants and any Warrants Shares acquired on the exercise of Warrants as capital property, and (ii) deals at arm's length and is not affiliated with the Company, the Agents and any subsequent purchaser of such securities. A holder who meets all of the foregoing requirements is referred to as a "**Holder**" herein, and this summary only addresses such Holders. Generally, Offered Receipts, Unit Shares, Warrant Shares and Warrants will be considered to be capital property to a Holder, provided that the Holder does not acquire or hold such Offered Receipts, Unit Shares, Warrant Shares, or Warrants in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a holder (i) that is a "financial institution", as defined in the Tax Act for the purposes of the mark-to-market rules contained in the Tax Act, (ii) that is a "specified financial institution", as defined in the Tax Act, (iii) that has an interest in which is a "tax shelter investment", as defined in the Tax Act, (iv) that has elected to determine its "Canadian tax results", as defined in the Tax Act, in a currency other than the Canadian currency, (v) that has entered into or will enter into a "derivative forward agreement" or a "synthetic disposition arrangement", each as defined in the Tax Act, with respect to the Offered Receipts, the Unit Shares, the Warrants or the Warrant Shares, (vi) that receives dividends on Unit Shares or Warrant Shares under or as part of a "dividend rental arrangement", as defined in the Tax Act, or (vii) that is exempt from tax under the Tax Act. Such holders should consult their own tax advisors with respect to an investment in Offered Receipts.

This summary is based upon the provisions of the Tax Act in force as of the date hereof, all specific proposals to amend the Tax Act that have been publicly and officially announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and counsels' understanding of the current administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**"), published in writing by it prior to the date hereof. This summary assumes the Proposed Amendments will be enacted in the form proposed. However, no assurance can be given that the Proposed Amendments will be enacted in their current form, or at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law or any changes in the CRA's administrative policies and assessing practices, whether by legislative, governmental or judicial action or decision, nor does it take into account or anticipate any other federal or any provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations with respect to the income tax consequences to any Holder are made. **Holders should consult their own tax advisors with respect to the tax consequences applicable to them, having regard to their own particular circumstances.**

Allocation of Cost of a Unit

Holders will be required to allocate the cost of a Unit between the Unit Share and the one-half of one Warrant on a reasonable basis in order to determine their respective costs to the Holder for the purposes of the Tax Act. The Company intends to allocate $● to each Unit Share and $● to each one-half of one Warrant. As of the date of this Prospectus, the Company believes that such allocation is reasonable, but such allocation will not be binding on the CRA or a Holder, and counsels do not express an opinion with respect to such allocation. A Holder’s adjusted cost base of a Unit Share acquired as part of a Unit will be determined by averaging the cost of such Unit Share with the adjusted cost base of all Common Shares held by the Holder as capital property immediately before such acquisition. Holders should consult their own tax advisors regarding the allocation of the cost of a Unit between the Unit Share and the one-half of one Warrant also having consideration to the Holder's *pro rata* share of any Earned Interest as described under the heading below “*Taxation of Resident Holders — Conversion of Offered Receipts”*.

Exercise of Warrants

The exercise of a Warrant to acquire a Warrant Share will be deemed not to constitute a disposition of property for purposes of the Tax Act and consequently no gain or loss will be realized by a Holder upon such exercise.

When a Warrant is exercised, the Holder’s cost of the Warrant Share acquired thereby will be equal to the aggregate of the Holder’s adjusted cost base of such Warrant and the Exercise Price paid for the Warrant Share. A Holder’s adjusted cost base of the Warrant Share so acquired will be determined by averaging the cost of the Warrant Share with the adjusted cost base to the Holder of all Common Shares held as capital property immediately before the exercise of the Warrant.

Taxation of Resident Holders

The following portion of this summary applies to Holders who at all relevant times, for the purposes of the Tax Act and any applicable income tax treaty or convention, are or are deemed to be resident in Canada (herein, “**Resident Holders**”). Certain Resident Holders who might not be considered to hold their Unit Shares or Warrant Shares as capital property may, in certain circumstances, be entitled to make an irrevocable election permitted by subsection 39(4) of the Tax Act to deem such shares and any other “Canadian security” (as defined in the Tax Act) held by them, in the taxation year of the election and each subsequent taxation year to be capital property. This election does not apply to Offered Receipts and Warrants. Resident Holders contemplating such election should consult their own tax advisors for advice as to whether it is available and, if available, whether it is advisable in their particular circumstances.

Additional considerations, not discussed herein, may be applicable to a Resident Holder that is a corporation resident in Canada and is or becomes (or does not deal at arm’s length with a corporation resident in Canada for purposes of the Tax Act that is or becomes) controlled by a non-resident person, or a group of non-resident persons, for the purposes of the Tax Act for purposes of the “foreign affiliate dumping” rules in section 212.3 of the Tax Act. Such Resident Holders should consult their tax advisors with respect to the consequences of acquiring the Offered Receipts.

Acquisition of Unit Pursuant to Terms of the Offered Receipts

No gain or loss will be realized by a Resident Holder on the acquisition of a Unit pursuant to the terms of the Offered Receipt.

The cost of a Unit issued to a Resident Holder pursuant to an Offered Receipt will generally be equal to the cost of the Offered Receipt to the Resident Holder plus the Resident Holder's *pro rata* share of any Earned Interest that is included in the Resident Holder's income but remitted to the Company upon the acquisition of the Unit pursuant to the Offered Receipt.

Expiry of Warrants

The expiry of an unexercised Warrant generally will result in a capital loss to the Resident Holder equal to the adjusted cost base of the Warrant to the Resident Holder immediately before its expiry. The taxation of capital gains and losses generally is described below under the heading *“Capital Gains and Capital Losses”*.

Taxation of Dividends

A Resident Holder will be required to include in computing income for a taxation year any dividends received, or deemed to be received, in the year by the Resident Holder on the Unit Shares or Warrant Shares. In the case of a Resident Holder that is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules normally applicable under the Tax Act to taxable dividends received from "taxable Canadian corporations" (as defined in the Tax Act), including the enhanced gross-up and dividend tax credit provisions where the Company designates the dividend as an "eligible dividend" in accordance with the provisions of the Tax Act. There may be restrictions on the ability of the Company to designate any particular dividend as an "eligible dividend".

A dividend received or deemed to be received by a Resident Holder that is a corporation on the Unit Shares or Warrant Shares must be included in computing its income but will generally be deductible in computing the corporation's taxable income, subject to all of the rules and restrictions under the Tax Act in that regard. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received or deemed to be received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

A Resident Holder that is a "private corporation" or a "subject corporation" (each as defined in the Tax Act), generally will be liable to pay an additional tax (refundable under certain circumstances) under Part IV of the Tax Act on dividends received or deemed to be received on the Unit Shares or Warrant Shares in a year to the extent such dividends are deductible in computing taxable income for the year.

Disposition of Offered Receipts, Unit Shares, Warrants and Warrant Shares

A Resident Holder who disposes, or is deemed to dispose, of an Offered Receipt, Unit Share, Warrant or a Warrant Share (other than (i) on the receipt of a Unit pursuant to the terms of the Offered Receipt, (ii) on the expiry of a Warrant, (iii) on the exercise of a Warrant for a Warrant Share, or (iv) on a disposition of a Unit Share or a Warrant Share to the Company that is not a sale in the open market in the manner in which shares would normally be purchased by any member of the public in an open market) generally will realize a capital gain (or capital loss) in the taxation year of the disposition equal to the amount, if any, by which the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base to the Resident Holder of such Offered Receipt, Unit Share, Warrant or Warrant Share, as the case may be, immediately before the disposition or deemed disposition. The taxation of capital gains and losses is generally described below under the heading *"Capital Gains and Capital Losses"*.

The cost to a Resident Holder of an Offered Receipt at any particular time will generally be equal to the Offering Price for the Offered Receipt. The adjusted cost base of an Offered Receipt acquired at any time will be determined by averaging the cost of such Offered Receipt immediately before such time with the adjusted cost base of any other Offering Receipt owned by the Resident Holder as capital property at such time.

Termination Event

In the event of a Termination Event, a Resident Holder of an Offered Receipt will be entitled to receive from the Subscription Receipt Agent the Termination Payment, being an amount equal to (i) the Offering Price, plus (ii) a *pro rata* share of any Earned Interest. The Termination Payment will be made from the balance of the Escrowed Funds at the Termination Time provided that if the balance of the Escrowed Funds is insufficient to cover the full amount of the Termination Payment, the Company will be required to pay to the Subscription Receipt Agent an amount equal to the deficiency between the amount of the Escrowed Funds and the aggregate of the Termination Payments due (the "**Top-up**").

The repayment of the issue price of the Offered Receipt out of Escrowed Funds will generally result in the Resident Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Offered Receipt exceed (or are less than) the aggregate of the Resident Holder's adjusted cost base of the Offered Receipt and any reasonable costs of disposition.

Any part of the Termination Payment that is paid to the Resident Holder as, or on account of, interest and that is included in the Resident Holder's income, will be, and the Top-up (other than any portion of the Top-up that is an amount paid by the Company as a refund of the issue price for the Offered Receipts) should be, excluded from the Resident Holder's proceeds of disposition of the Offered Receipt. Any Top-up should be included in the income of the Resident Holder in the same manner as the *pro rata* share of Earned Interest, as described below under the heading *"Pro Rata Share of Interest"*.

Pro Rata Share of Interest

A Resident Holder of an Offered Receipt that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will generally be required to include in computing its income for a taxation year any amount of interest (i) that accrues or that is deemed to accrue to it to the end of the particular taxation year, or (ii) that has become receivable by or is received by it before the end of that taxation year, except to the extent that such interest was included in computing the Resident Holder's income for a preceding taxation year, and such amounts will be excluded from the Resident Holder's proceeds of disposition. This will include any interest on the Escrowed Funds, whether or not such interest is received or receivable by the Holder, including interest on the Escrowed Funds that is remitted to the Company upon the acquisition of a Unit pursuant to the terms of the Offered Receipt. Any other Resident Holder must include in computing its income for a taxation year the amount of interest received or receivable by the Resident Holder or by the Subscription Receipt Agent on behalf of the Resident Holder in that taxation year, depending on the method regularly followed by the Resident Holder in computing income, and such interest will be excluded from the Resident Holder's proceeds of disposition.

Capital Gains and Capital Losses

Generally, a Resident Holder is required to include in computing income for a taxation year one-half of the amount of any capital gain (a "**taxable capital gain**") realized by the Resident Holder in such taxation year. Subject to and in accordance with the rules contained in the Tax Act, a Resident Holder is required to deduct one-half of the amount of any capital loss (an "**allowable capital loss**") realized in a particular taxation year against taxable capital gains realized by the Resident Holder in the year. Allowable capital losses in excess of taxable capital gains realized in a particular taxation year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition or deemed disposition of a Unit Share or Warrant Share may be reduced by the amount of any dividends received or deemed to have been received by such Resident Holder on such share or share substituted therefor, to the extent and under the circumstances described in the Tax Act. Similar rules may apply where a Resident Holder that is a corporation is a member of a partnership or a beneficiary of a trust that owns Unit Shares or Warrant Shares, directly or indirectly, through a partnership or trust. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

Additional Refundable Tax

A Resident Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) throughout the relevant taxation year or is a "substantive CCPC" (as proposed to be defined in the Proposed Amendments released on August 9, 2022) at any time in a taxation year may be liable to pay an additional refundable tax on its "aggregate investment income" (as defined in the Tax Act) for the year, including interest income, taxable capital gains and certain dividends. Resident Holders should consult their own tax advisors in this regard.

Alternative Minimum Tax

Capital gains realized and dividends received or deemed to be received by a Resident Holder that is an individual, other than certain specified trusts, may give rise to alternative minimum tax under the Tax Act. Resident Holders that are individuals should consult their own tax advisors in this regard.

Taxation of Non-Resident Holders

The following portion of this summary is generally applicable to Holders who, for the purposes of the Tax Act and any applicable income tax treaty or convention, and at all relevant times: (i) are neither resident nor deemed to be resident in Canada, and (ii) do not use or hold Offered Receipts, Unit Shares, Warrants or Warrant Shares in the course of business carried on or deemed to be carried on in Canada. Holders who meet all of the foregoing requirements are referred to herein as "**Non-Resident Holders**". Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer carrying on business in Canada and elsewhere or that is an "authorized foreign bank", as defined in the Tax Act. Such Non-Resident Holders should consult their own tax advisors.

Acquisition of Unit Pursuant to Terms of the Offered Receipts

No gain or loss will be realized by a Non-Resident Holder on the acquisition of a Unit pursuant to the terms of the Offered Receipt.

Termination Event

In the event of a Termination Event, Non-Resident Holders will be entitled to receive from the Subscription Receipt Agent an amount equal to (i) the Offering Price, plus (ii) a *pro rata* share of any Earned Interest.

A Non-Resident Holder will generally not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Subscription Receipt Agent as, on account or in lieu of payment of, or in satisfaction of, any such interest credited or received on the Escrowed Funds, which should include the Top-up (other than any portion of the Top-up that is an amount paid by the Company as a refund of the issue price for the Offered Receipts).

Receipt of Dividends

Dividends paid or credited or deemed to be paid or credited to a Non-Resident Holder on the Unit Shares or Warrant Shares are subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless reduced by the terms of an applicable tax treaty or convention between Canada and the country in which the Non-Resident Holder is resident. For example, under the Canada-United States Tax Convention (1980) as amended (the "**Treaty**"), the rate of withholding tax on dividends paid or credited to a Non-Resident Holder who is resident in the U.S. for purposes of the Treaty, is the beneficial owner of the dividends, and is entitled to full benefits under the Treaty (a "**U.S. Holder**") is generally reduced to 15% of the gross amount of the dividend (or 5% in the case of a U.S. Holder that is a company which beneficially owns at least 10% of the Company's voting shares). Non-Resident Holders should consult their own tax advisors in this regard.

Disposition of Offered Receipts, Unit Shares, Warrants and Warrant Shares

A Non-Resident Holder generally will not be subject to tax under the Tax Act in respect of a capital gain realized on the disposition or deemed disposition of an Offered Receipt, a Unit Share, a Warrant or a Warrant Share, unless such Offered Receipt, Unit Share, Warrant or Warrant Share, as the case may be, constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable tax treaty or convention between Canada and the country in which the Non-Resident Holder is resident.

Provided the Common Shares are listed on a "designated stock exchange", as defined in the Tax Act (which includes Tiers 1 and 2 of the TSX-V), at the time of disposition, the Offered Receipt, the Unit Shares, Warrants and Warrant Shares will generally not constitute taxable Canadian property of a Non-Resident Holder at that time, unless at any time during the 60-month period immediately preceding the disposition the following two conditions are satisfied concurrently: (i) (a) the Non-Resident Holder; (b) persons with whom the Non-Resident Holder did not deal at arm's length; (c) partnerships in which the Non-Resident Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnerships; or (d) any combination of the persons and partnerships described in (a) through (c), owned 25% or more of the issued shares of any class or series of shares of the Company; and (ii) more than 50% of the fair market value of such shares was derived directly or indirectly from one or any combination of: real or immovable property situated in Canada, "Canadian resource properties", "timber resource properties" (each as defined in the Tax Act), or options in respect of, or interests in or for civil law rights in, such properties, whether or not such property exists.

Notwithstanding the foregoing, in certain circumstances set out in the Tax Act, the Offered Receipt, the Unit Shares, the Warrants and the Warrant Shares may be deemed to be taxable Canadian property to a Non-Resident Holder. In the event that an Offered Receipt, a Unit Share, a Warrant or a Warrant Share is taxable Canadian property of a Non-Resident Holder, and any capital gain that would be realized on the disposition thereof is not exempt from tax under the Tax Act pursuant to the terms of an applicable income tax treaty or convention, the consequences under the heading "*Taxation of Resident Holders — Capital Gains and Capital Losses"* will generally be applicable to the Non-Resident Holder. Non-Resident Holders who may hold Offered Receipts, Unit Shares, Warrants or Warrant Shares as taxable Canadian property should consult their own tax advisors.

LEGAL MATTERS

Certain legal matters related to the Offering will be passed upon on behalf of the Company by DLA Piper (Canada) LLP, and on behalf of the Agents by Blake, Cassels & Graydon LLP. At the date of this Prospectus Supplement, the partners and associates of DLA Piper (Canada) LLP as a group beneficially own, directly or indirectly, less than 1% of the Company's outstanding securities. At the date of this Prospectus Supplement, the partners and associates of Blake, Cassels & Graydon LLP as a group beneficially own, directly or indirectly, less than 1% of the Company's outstanding securities. In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associate or affiliate of the Company except as disclosed under "*Directors and Officers"* in the AIF.

INTEREST OF EXPERTS

Oil and Gas Reserves Evaluators

Reserves estimates for the Company contained in this Prospectus Supplement or any documents incorporated by reference in the Prospectus were derived from the report "Reserves Assessment and Valuation of Canadian Oil and Gas Properties" dated effective December 31, 2022 and prepared by GLJ (the "**2022 Reserves Report**"), an independent qualified reserves evaluator. As of the date hereof, to the knowledge of the Company, the directors, officers, employees and consultants of GLJ who participated in the preparation of the 2022 Reserves Report who were in a position to directly influence the preparation or outcome of the preparation of the 2022 Reserves Report as a group, owned, directly or indirectly, less than 1% of the outstanding Common Shares. In addition, none of the officers, directors, employees or consultants of GLJ are currently expected to be elected, appointed or employed as a director, officer or employee of the Company or any of the Company's associates or affiliates.

The Brazeau Reserves Report was prepared by McDaniel, an independent qualified reserves evaluator. As of the date hereof, to the knowledge of the Company, the directors, officers, employees and consultants of McDaniel who participated in the preparation of the Brazeau Reserves Report who were in a position to directly influence the preparation or outcome of the preparation of the Brazeau Reserves Report as a group, owned, directly or indirectly, less than 1% of the outstanding Common Shares. In addition, none of the officers, directors, employees or consultants of McDaniel are currently expected to be elected, appointed or employed as a director, officer or employee of the Company or any of the Company's associates or affiliates.

The Castlegate Reserves Report was prepared by GLJ, an independent qualified reserves evaluator. As of the date hereof, to the knowledge of the Company, the directors, officers, employees and consultants of GLJ who participated in the preparation of the Castlegate Reserves Report who were in a position to directly influence the preparation or outcome of the preparation of the Castlegate Reserves Report as a group, owned, directly or indirectly, less than 1% of the outstanding Common Shares. In addition, none of the officers, directors, employees or consultants of GLJ are currently expected to be elected, appointed or employed as a director, officer or employee of the Company or any of the Company's associates or affiliates.

The Shale Reserves Report was prepared by GLJ an independent qualified reserves evaluator. As of the date hereof, to the knowledge of the Company, the directors, officers, employees and consultants of GLJ who participated in the preparation of the Shale Reserves Report who were in a position to directly influence the preparation or outcome of the preparation of the Shale Reserves Report as a group, owned, directly or indirectly, less than 1% of the outstanding Common Shares. In addition, none of the officers, directors, employees or consultants of GLJ are currently expected to be elected, appointed or employed as a director, officer or employee of the Company or any of the Company's associates or affiliates.

NI 43-101 Qualified Persons

All technical and scientific metallic mineral information discussed in this Prospectus Supplement or any documents incorporated by reference in the Prospectus, including mineral resource estimates for the Company's material properties, and all technical and scientific information for the Company's other non-material projects, 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 NI 43-101 and who is independent of the Company.

D. Roy Eccles, P.Geol. (Senior Consulting Geologist and Chief Operations Officer, APEX Geoscience Ltd.) prepared (i) the technical report titled "*NI 43-101 Technical Report, Geological Introduction to Highwood Oil Company Ltd.'s Lithium-Brine Sub-Properties in Alberta and British Columbia, Canada*" with an effective date of July 14, 2021; and (ii) the technical report titled "*NI 43-101 Technical Report, Geological Introduction to Highwood Asset Management Ltd.'s Ironstone Iron-Vanadium Project in Northwest Alberta, Canada*" with an effective date of September 21, 2021.

D. Roy Eccles, P.Geol. of APEX Geoscience Ltd.; James (Jim) Touw, B.Sc., P.Geol., of Hydrogeological Consultants Ltd.; and Charles R. Edwards, M.Sc., P.Eng., of Chuck Edwards Extractive Metallurgy Consulting, prepared the technical report titled "*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, 2022.

Each of the abovementioned firms or persons named in this subsection held, as either a registered or beneficial holder, none or less than 1% of any class of the Company's outstanding securities or of any associate or affiliate of the Company, when they prepared the aforementioned reports, or following the preparation of such reports. None of the aforementioned firms or persons named in this section received any direct or indirect interest in any securities of the Company or of any associate or affiliate of the Company in connection with the preparation and review of any technical report or this Prospectus Supplement. None of the aforementioned firms or persons named in this section nor any directors, officers or employees of such firms or persons, are currently expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associate or affiliate of the Company.

AUDITORS, REGISTRAR AND TRANSFER AGENT AND WARRANT AGENT

RSM Canada LLP are the auditors of the Company and are independent of the Company within the meaning of the rules of professional conduct of the Chartered Professional Accountants of Alberta.

Deloitte LLP are the auditors of Boulder and are independent with respect to Boulder within the meaning of the rules of professional conduct of the Chartered Professional Accountants of Alberta.

KPMG LLP are the auditors of Castlegate and have confirmed with respect to Castlegate that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

MNP LLP are the auditors of Shale and are independent of Shale within the meaning of the rules of professional conduct of the Chartered Professional Accountants of Alberta.

The reports of RSM Canada LLP, Deloitte LLP, KPMG LLP and MNP LLP included or incorporated by reference into the Prospectus refer exclusively to the historical financial statements described therein and do not extend to the prospective financial information included in this Prospectus Supplement and should not be read to do so.

The transfer agent and registrar for the Common Shares in Canada is Odyssey Trust Company at its principal office in Calgary, Alberta.

The Warrant Agent, transfer agent and registrar for the Warrants will be Odyssey Trust Company at its principal office in Calgary, Alberta.

PURCHASERS' RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus or a prospectus supplement relating to the securities purchased by a purchaser and any amendments thereto. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages if the prospectus or a prospectus supplement relating to the securities purchased by a purchaser and any amendments thereto contain a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

Under the Subscription Receipt Agreement, original purchasers of Subscription Receipts under the Offering will have a contractual right of rescission against the Company in respect of the issuance of the Unit Shares and Warrants to such purchasers as the holders of the Subscription Receipts. The contractual right of rescission will entitle original purchasers to receive the amount paid for the Subscription Receipts upon surrender of the underlying Unit Shares and Warrants gained thereby, in the event that this Prospectus Supplement (together with the Prospectus and including the documents incorporated or deemed to be incorporated by reference therein) and any amendment contains a misrepresentation, provided that the issuance of the Unit Shares and Warrants to holders of Subscription Receipts takes place within 180 days of the date of the purchase of the Subscription Receipts under this Prospectus Supplement, and the right of rescission is exercised within 180 days of the date of purchase of the Subscription Receipts. This contractual right of rescission will be consistent with the statutory right of rescission described under section 130 of the *Securities Act* (Ontario) and is in addition to any other right or remedy available to original purchasers under section 130 of the *Securities Act* (Ontario) or otherwise at law. Original purchasers are further advised that in certain provinces of Canada the statutory right of action for damages in connection with a misrepresentation in the prospectus supplement (together with the Prospectus and including the documents incorporated by reference therein) is limited to the amount paid for the Subscription Receipts that were purchased under this prospectus supplement.

An original purchaser of Subscription Receipts should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights and consult with a legal adviser.

ELIGIBILITY FOR INVESTMENT

In the opinion of DLA Piper (Canada) LLP, counsel to the Company, and Blake, Cassels & Graydon LLP, counsel to the Agents, based on the current provisions of the Tax Act in force as of the date hereof, the Offered Receipts, Unit Shares, Warrants, and Warrant Shares, if issued on the date hereof, would be a "qualified investment" under the Tax Act for a trust governed by a registered retirement savings plan, registered retirement income fund, registered education savings plan, registered disability savings plan, tax-free savings account, first home savings account (collectively referred to as "**Registered Plans**") or a deferred profit sharing plan ("**DPSP**"), provided that at such time:

(i) in the case of Unit Shares and Warrant Shares, the Unit Shares or Warrant Shares, respectively, are listed on a "designated stock exchange" as defined in the Tax Act (which currently includes Tiers 1 and 2 of the TSX-V) or the Company is otherwise a "public corporation" (as defined in the Tax Act);

(ii) in the case of the Offered Receipts, the Offered Receipts are either listed on a "designated stock exchange" or (a) the Unit Shares and Warrants Shares are qualified investments as described in (i) above, (b) neither the Company, nor any person with whom the Company does not deal at arm's length, is an annuitant, a beneficiary, an employer or a subscriber under, or a holder, of the particular Registered Plan or DPSP, and (c) the Escrowed Funds are invested in qualified investments for Registered Plans; and

(iii) in the case of the Warrants, the Warrants are either listed on a "designated stock exchange", or (a) the Warrant Shares are qualified investments as described in (i) above, and (b) neither the Company, nor any person with whom the Company does not deal at arm's length, is an annuitant, a beneficiary, an employer or a subscriber under, or a holder, of the particular Registered Plan or DPSP.

Notwithstanding the foregoing, the holder of, the annuitant under or the subscriber of a Registered Plan (the "**Controlling Individual**") will be subject to a penalty tax in respect of the Offered Receipts, Unit Shares, Warrant Shares or Warrants held in the Registered Plan if such securities are a "prohibited investment" (as defined in the Tax Act) for the particular Registered Plan. The Offered Receipts, Unit Shares, Warrant Shares or Warrants generally will not be a "prohibited investment" for a particular Registered Plan unless (i) the Controlling Individual does not deal at arm's length with the Company for the purposes of the Tax Act, or (ii) the Controlling Individual has a "significant interest" (as defined in subsection 207.01(4) of the Tax Act) in the Company. In addition, the Unit Shares and Warrant Shares will generally not be a "prohibited investment" if such securities are "excluded property" (as defined in the Tax Act) for the particular Registered Plan.

Prospective purchasers who intend to hold Offered Receipts, Unit Shares, Warrants or Warrant Shares in a trust governed by a Registered Plan should consult their own tax advisors with respect to the application of these rules in their particular circumstances.

APPENDIX A – SELECTED RESERVES AND OIL AND GAS INFORMATION REGARDING BRAZEAU ASSETS

Summary of Reserves

The reserves data for the Boulder Business set forth below is based upon the Brazeau Reserves Report dated April 3, 2023, with an effective date of December 31, 2022, as prepared by McDaniel. The reserves data summarizes the crude oil, natural gas and natural gas liquids reserves and the net present value of future net revenue for these reserves using forecast prices and costs. The Brazeau Reserves Report has been prepared in prepared in accordance with the Canadian standards set out in the COGE Handbook and NI 51-101.

The Brazeau Reserves Report was prepared for Boulder and the Company is unable to assess Boulder's procedures for providing information to McDaniel or for assembling and reporting other information to McDaniel associated with the Boulder Business. See "*Risk Factors — Unexpected Costs or Liabilities Related to the Acquisitions*".

The tables below provide a summary of the oil, natural gas and natural gas liquids reserves attributable to the Boulder Business and the net present value of future net revenue attributable to such reserves as evaluated in the Brazeau Reserves Report, based on forecast price and cost assumptions. The tables summarize the data contained in the Brazeau Reserves Report and, as a result, may contain slightly different numbers than such report due to rounding. Due to rounding, certain columns may not add exactly.

The future net revenues and net present values was calculated using the average forecast price and costs of GLJ, Sproule Associates Limited and McDaniel, as of January 1, 2023 for the future crude oil, natural gas and natural gas product prices and were presented in Canadian dollars. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to reserves estimated by McDaniel represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of oil, natural gas and natural gas liquids provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein. See "*Risk Factors*" herein and in the AIF.

All of the reserves related to the Boulder Business are located in the Province of Alberta.

Summary of Reserves as of December 31, 2022 — Forecast Prices and Costs

	Reserves							
	Light & Medium Oil		**Conventional Natural Gas (Associated)**		**Conventional Natural Gas (Non-Associated)**		**Natural Gas Liquids[3]**	
Reserves Category	**Gross[1] (Mbbls)**	**Net[2] (Mbbls)**	**Gross[1] (MMcf)**	**Net[2] (MMcf)**	**Gross[1] (MMcf)**	**Net[2] (MMcf)**	**Gross[1] (Mbbls)**	**Net[2] (Mbbl)**
Proved								
Producing	3,754.6	2,701.0	30,858.2	23,187.4	355.4	327.7	1,389.0	866.0
Non-Producing	405.7	280.3	381.1	341.5	132.2	122.9	22.8	17.4
Undeveloped	5,074.4	3,625.8	12,203.5	9,676.4	0	0	543.1	363.1
Total Proved	**9,234.7**	**6,607.0**	**43,442.8**	**33,205.3**	**487.6**	**450.6**	**1,954.9**	**1,246.6**
Total Probable	**6,093.2**	**4,071.1**	**8,315.7**	**6,378.9**	**130.5**	**118.9**	**375.9**	**239.5**
Total Proved & Probable	**15,327.9**	**10,678.1**	**51,758.5**	**39,584.2**	**618.1**	**569.5**	**2,330.8**	**1,486.1**

Notes:
(1) Gross reserves are working interest reserves before royalty deductions.
(2) Net reserves are reserves after royalty deductions.
(3) Natural Gas Liquids includes Condensate volumes.

Summary of Net Present Value of Future Net Revenue as of December 31, 2022 — Forecast Prices and Costs

Reserves Category	Before Income Taxes Discounted at (%/year) @0% (M$)	@5% (M$)	@10% (M$)	@15% (M$)	@20% (M$)	Net Unit Value Before Tax @10% ($/boe)
Proved						
Producing	174,502	139,700	116,391	100,033	88,048	15.55
Non-Producing	17,490	13,849	11,243	9,337	7,906	29.97
Undeveloped	167,508	106,127	69,484	46,457	31,325	12.40
Total Proved	**359,499**	**259,676**	**197,118**	**155,826**	**127,278**	**14.64**
Total Probable	**277,233**	**176,815**	**122,521**	**90,004**	**68,938**	**22.72**
Total Proved + Probable	**636,732**	**436,491**	**319,639**	**245,830**	**196,217**	**16.95**

Reserves Category	After Income Taxes Discounted at (%/year) @0% (M$)	@5% (M$)	@10% (M$)	@15% (M$)	@20% (M$)	Net Unit Value After Tax @10% ($/boe)
Proved						
Producing	174,502	139,700	116,391	100,033	88,048	15.55
Non-Producing	17,490	13,849	11,243	9,337	7,906	29.97
Undeveloped	143,223	91,948	60,736	40,812	27,545	10.84
Total Proved	335,214	245,497	188,370	150,181	123,498	13.99
Total Probable	215,946	137,038	94,897	69,880	53,762	17.59
Total Proved + Probable	551,160	382,536	283,267	220,061	177,260	15.02

Total Future Net Revenue (Undiscounted) as of December 31, 2022 — Forecast Prices and Costs

Reserves Category	Revenue (M$)	Prod. Taxes, Surcharges & Royalties (M$)	Operating Costs (M$)	Development Costs (M$)	Abandonment Costs (M$)	Future Net Revenue Before Income Taxes (M$)	Future Income Taxes (M$)	Future Net Revenue After Income Taxes (M$)
Total Proved	1,292,401	366,870	381,473	136,013	48,546	359,499	24,285	335,214
Total Proved + Probable	2,016,153	601,975	531,761	194,377	51,307	636,732	85,572	551,160

Net Present Value of Future Net Revenue (Discounted) by Production Group as of December 31, 2022 — Forecast Prices and Costs

Reserves Category	Product Type	Future Net Revenue Before Income Taxes (discounted @ 10%) (M$)	Net Unit Value $/boe	Net Unit Value $/Mcf
Total Proved Reserves	Light and Medium Crude Oil (including Solution Gas and products)	195,750	29.66	-
	Conventional Natural Gas (Non-Associated and Products)	1,367	-	2.20
		-	-	-

Reserves Category	Product Type	Future Net Revenue Before Income Taxes (discounted @ 10%) (M$)	Net Unit Value $/boe	Net Unit Value $/Mcf
Total Proved + Probable	Light and Medium Oil (including Solution Gas and products)	317,969	29.80	-
	Conventional Natural Gas (Non-Associated and Products)	1,670	-	2.09
		-	-	-

Pricing Assumptions

The forecast cost and price assumptions in this Prospectus Supplement assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, inflation and exchange rate utilized in the Brazeau Reserves Report were an average of three consultant's price forecasts (GLJ, Sproule Associates Limited and McDaniel) as at January 1, 2023, as follows:

Crude Oil Price Forecasts

Year	WTI Crude Oil(1) $US/bbl	Brent Crude Oil(2) $US/bbl	Edmonton Light Crude Oil(3) $C/bbl	Alberta Bow River Hardisty Crude Oil(4) $C/bbl	Western Canadian Select Crude Oil(5) $C/bbl	Alberta Heavy Crude Oil(6) $C/bbl	Sask Cromer Medium Crude Oil(7) $C/bbl	Inflation %	US/CAN Exchange Rate $US/$C
History									
2012	94.20	111.65	86.10	74.35	73.10	63.65	82.10	1.55	1.000
2013	97.95	108.60	93.05	76.55	75.25	65.25	88.25	0.95	0.970
2014	93.00	99.00	93.50	80.40	79.10	71.20	87.80	1.90	0.905
2015	48.80	52.35	57.75	46.10	44.80	39.55	51.45	1.10	0.785
2016	43.30	43.55	53.90	40.45	39.15	33.35	49.10	1.45	0.755
2017	50.90	54.25	62.85	52.00	50.70	45.20	59.85	1.60	0.770
2018	64.95	71.05	69.65	51.25	49.95	40.00	70.20	2.25	0.770
2019	57.00	64.35	69.00	60.00	58.70	54.80	68.00	2.00	0.755
2020	39.25	41.75	45.00	36.50	35.40	30.70	43.75	0.75	0.745
2021	68.00	70.70	80.35	69.40	68.85	63.15	77.75	3.40	0.800
2022	94.65	100.75	120.55	99.05	98.85	90.65	114.10	6.85	0.770
2023	80.33	84.67	103.76	77.46	76.54	68.44	99.13	0.0	0.745
2024	78.50	82.69	97.74	78.65	77.75	69.36	93.32	2.3	0.765
2025	76.95	81.03	95.27	78.42	77.55	69.92	90.90	2.0	0.768
2026	77.61	81.39	95.58	80.94	80.07	72.42	91.25	2.0	0.772
2027	79.16	82.65	97.07	82.78	81.89	74.29	92.67	2.0	0.775
2028	80.74	84.29	99.01	84.92	84.02	76.43	94.52	2.0	0.775
2029	82.36	85.98	100.99	86.65	85.73	78.01	96.42	2.0	0.775
2030	84.00	87.71	103.01	88.38	87.44	79.57	98.34	2.0	0.775
2031	85.69	89.46	105.07	90.15	89.20	81.17	100.31	2.0	0.775
2032	87.40	91.25	106.69	92.08	91.11	82.97	101.85	2.0	0.775
2033	89.15	93.07	108.83	93.92	92.93	84.63	103.89	2.0	0.775
2034	90.93	94.93	111.00	95.80	94.79	86.32	105.97	2.0	0.775
2035	92.75	96.83	113.22	97.71	96.69	88.05	108.09	2.0	0.775
2036	94.61	98.77	115.49	99.67	98.62	89.81	110.25	2.0	0.775
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.0	0.775

Notes:

(1) West Texas Intermediate at Cushing Oklahoma 40 degrees API, 0.5% sulphur.
(2) North Sea Brent Blend 37 degrees API, 1.0% sulphur
(3) Edmonton Light Sweet 40 degrees API, 0.3% sulphur.

(4) Bow River at Hardisty, Alberta (Heavy stream).
(5) Western Canadian Select at Hardisty, Alberta.
(6) Heavy crude oil 12 degrees API at Hardisty, Alberta (after deduction of blending costs to reach pipeline quality).
(7) Midale Cromer crude oil 29 degrees API, 2.0% sulphur.

Liquids Price Forecasts

Year	Edmonton Ethane $/bbl	Edmonton Propane $/bbl	Edmonton Butanes $C/bbl	Edmonton Cond. & Natural Gasolines $/bbl	Inflation %	US/CAN Exchange Rate %US/$C
Forecast						
2023	13.75	39.80	53.88	106.22	0.0	0.745
2024	14.33	39.14	52.67	101.35	2.3	0.765
2025	13.77	39.74	51.42	98.94	2.0	0.768
2026	13.98	39.86	51.61	100.19	2.0	0.772
2027	14.20	40.47	52.39	101.74	2.0	0.775
2028	14.49	41.28	53.44	103.78	2.0	0.775
2029	14.79	42.11	54.51	105.85	2.0	0.775
2030	15.09	42.95	55.60	107.97	2.0	0.775
2031	15.39	43.81	56.71	110.13	2.0	0.775
2032	15.71	44.47	57.56	112.33	2.0	0.775
2033	16.02	45.35	58.71	114.58	2.0	0.775
2034	16.34	46.26	59.88	116.87	2.0	0.775
2035	16.67	47.19	61.08	119.21	2.0	0.775
2036	17.00	48.13	62.30	121.59	2.0	0.775
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.0	0.775

Gas Price Forecasts

Year	US Henry Hub Gas Price $US/ MMBtu	Alberta AECO Spot Price(1) $C/ MMBtu	Alberta Average Plantgate (2) $C/ MMBtu	Alberta Aggregato r Plantgate $C/ MMBtu	Empress $C/ MMBtu	Sask Prov. Gas Plantgate $C/ MMBtu	British Columbia Average Plantgate $C/ MMBtu	British Columbia Station 2 $C/ MMBtu	Inflation %	US/CAN Exchange Rate %US/$C
Forecast										
2023	4.74	4.23	4.03	4.03	5.29	4.68	3.77	4.08	0.0	0.745
2024	4.50	4.40	4.19	4.19	4.87	4.70	3.96	4.28	2.3	0.765
2025	4.31	4.21	4.00	4.00	4.61	4.47	3.78	4.11	2.0	0.768
2026	4.40	4.27	4.06	4.06	4.68	4.54	3.84	4.16	2.0	0.772
2027	4.49	4.34	4.12	4.12	4.76	4.61	3.90	4.23	2.0	0.775
2028	4.58	4.43	4.21	4.21	4.85	4.70	3.99	4.32	2.0	0.775
2029	4.67	4.51	4.29	4.29	4.95	4.80	4.07	4.40	2.0	0.775
2030	4.76	4.60	4.37	4.37	5.04	4.89	4.16	4.49	2.0	0.775
2031	4.86	4.69	4.46	4.46	5.14	4.99	4.24	4.58	2.0	0.775
2032	4.95	4.79	4.55	4.55	5.25	5.09	4.33	4.67	2.0	0.775
2033	5.05	4.88	4.64	4.64	5.35	5.19	4.42	4.76	2.0	0.775
2034	5.15	4.98	4.73	4.73	5.46	5.29	4.51	4.86	2.0	0.775
2035	5.26	5.08	4.83	4.83	5.57	5.40	4.60	4.95	2.0	0.775
2036	5.36	5.18	4.92	4.92	5.68	5.51	4.69	5.05	2.0	0.775
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.0	0.775

Notes:
(1) Historical prices based on AECO 7A (near month process). 5A (daily price) expected to be equal to 7A over long term. 2022 historical prices: 7A $5.56/MMBTU, 5A $5.34/MMBTU.
(2) This forecast also applies to direct sales contracts and the Alberta gas reference price used in the Crown royalty calculations.

Additional Information Relating to Reserves Data

Undeveloped Reserves

The following discussion generally describes the basis on which Boulder attributes proved and probable undeveloped reserves and its plans for developing those undeveloped reserves.

Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty to be recoverable where significant expenditure is required to render them capable of production. Probable undeveloped reserves are those additional reserves that are less certain to be recovered than proved reserves where significant expenditure is required to render them capable of production. The Brazeau Reserves Report contains proved and probable undeveloped reserves that have been estimated in accordance with the procedures and standards contained in the COGE Handbook.

There are a number of factors that could result in delayed or cancelled development, including the following: (i) changing economic conditions (due to pricing, operating and capital expenditure fluctuations); (ii) changing technical conditions (including production anomalies, such as water breakthrough or accelerated depletion); (iii) multi-zone developments (for instance, a prospective formation completion may be delayed until the initial completion is no longer economic); (iv) a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and (v) surface access issues (including those relating to land owners, weather conditions and regulatory approvals). For more information see "*Risk Factors*" herein and in the AIF.

Proved Undeveloped Reserves

Proved undeveloped reserves have been assigned in areas where the reserves can be estimated with a high degree of certainty. In most instances, proved undeveloped reserves will be assigned on lands immediately offsetting existing producing wells within the same accumulation or pool. McDaniel has assigned 5,602 Mboe (net) of proved undeveloped reserves in the Boulder Reserves Report with $136.0 million of associated undiscounted capital (before tax).

Probable Undeveloped Reserves

Probable undeveloped reserves have been assigned in areas where the reserves can be estimated with less certainty. It is equally likely that the actual remaining quantities recovered will be greater or less than the proved plus probable reserves. In most instances probable undeveloped reserves have been assigned on lands in the area with existing producing wells but there is some uncertainty as to whether they are directly analogous to the producing accumulation or pool. McDaniel has assigned 4,155 Mboe (net) of probable undeveloped reserves in the Boulder Reserves Report with $58.4 million of associated undiscounted capital (before tax).

Significant Factors or Uncertainties Affecting Reserves Data

The process of evaluating reserves is inherently complex. It requires significant judgment and decision-making on the basis of the available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance become available and as economic conditions impacting oil and gas prices and costs change. The reserves estimates contained herein are based on production expectations, prices and economic conditions as at December 31, 2022. Factors and assumptions that affect these reserves estimates include, among other things: (a) historical production in the area compared with production rates from analogous producing areas; (b) initial production rates; (c) production decline rates; (d) ultimate recovery of reserves; (e) success of future development activities; (f) marketability of production; (g) effects of government regulations; and (h) other government levies imposed over the life of the reserves.

As circumstances change and additional data become available, reserves estimates may also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well and reservoir performance, geological conditions, production, prices, economic conditions and governmental restrictions. These revisions can be either positive or negative.

In connection with its operations, abandonment, decommissioning and reclamation costs for producing wells, suspended wells, service wells, gathering systems, facilities and surface land development will be incurred in respect of the Boulder Business. Abandonment, decommissioning and reclamation costs for all future locations have been forecasted by Boulder at approximately $80,000/well. Abandonment, decommissioning and reclamation costs for non-producing wells and other components (including but not limited to items such as: gathering systems, facilities, surface land development, etc.) have been forecasted at the property level. The estimates of the future net revenues for the Boulder Business disclosed in the Brazeau Reserves Report from which $51.3 million (undiscounted) was deducted for abandonment, decommissioning and reclamation costs.

The evaluated oil and gas properties of the Boulder Business have no material extraordinary risks or uncertainties beyond those that are inherent in unconventional oil and gas exploration and production operations. See "*Risk Factors*" herein and in the AIF.

Future Development Costs

The following table sets forth development costs deducted in the estimation of future net revenue attributable to the reserves categories noted below for the Boulder Business.

	Development Cost Forecast	
Year	**Total Proved ($M)**	**Total Proved Plus Probable ($M)**
2023	16,778	28,118
2024	26,322	26,322
2025	28,536	45,115
2026	48,777	57,988
2027	13,931	35,091
Remainder	1,669	1,743
Total (Undiscounted)	**136,013**	194,377
Total (Discounted at 10%)	**104,621**	**148,231**

The Company's current cash balance, internally-generated cash flow, and future debt and equity placements could allow the Company to complete the development costs specified above. There can be no guarantee that funds will be available or that the Board will allocate funding to develop all of the reserves attributed to the Boulder Business in the Brazeau Reserves Report. Failure to develop those reserves could have a negative impact on our future cash flows.

The interest or other costs of external funding are not included in the reserves and future net revenue estimates set forth above and would reduce reserves and future net revenue to some degree depending upon the funding sources utilized. The Company does not anticipate that interest or other funding costs would make development of any of the Boulder Business uneconomic.

The future development costs set forth above do not include costs associated with abandonment and reclamation obligations. See *"Significant Factors or Uncertainties Affecting Reserves Data"* above.

Other Oil and Natural Gas Information

Principal Oil and Natural Gas Properties

The following is a description of the Boulder Business' principal oil and natural gas properties that are on production or under development as of December 31, 2022. Information in respect of current production is average production, net to its working interest, except where otherwise indicated. Reserves noted are company interest reserves which include both working interest and royalty interest values.

The oil and natural gas properties comprising the Boulder Business are concentrated in the Brazeau area of Alberta.

Oil and Natural Gas Wells

The following table sets forth the number and status of wells as of December 31, 2022 in which the Company will acquire a working interest pursuant to the Brazeau Acquisition, all of which are located in the Brazeau area of Alberta.

	Active Wells			**Inactive Wells**	
	Gross	**Net**		**Gross**	**Net**
Producing oil	134	124	Suspended Oil	106	91
Producing gas	6	4	Suspended Gas	26	18
Observation wells	4	4	Suspended water injection	2	2
Water injection	13	12	Abandoned	81	68
Gas injection	7	7			
Total	**164**	**151**	**Total**	**215**	**178**

Properties with No Attributed Reserves

The following table sets out for the Boulder Business, the developed and undeveloped land holdings as at December 31, 2022.

Area	**Developed Acres**		**Undeveloped Acres**		**Total Acres**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Alberta	54,560	46,063	63,360	49,135	117,920	95,198

None of the rights to explore, develop and exploit these gross undeveloped land holdings could expire by March 2024.

Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves

The Company does not anticipate any significant economic factors or significant uncertainties will affect any particular components of the Boulder Business with no attributed reserves. However, the Company's decision to develop the Boulder Business with no attributed reserves can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs and royalty regimes, all of which are beyond the Company's control. There are no unusually significant abandonment and reclamation costs with the Boulder Business with no attributed reserves.

Forward Contracts

Boulder has no risk management contracts outstanding as at December 31, 2022.

Tax Horizon

As at December 31, 2022, Boulder had approximately $271.8 million of available tax pools. It is expected, based upon current legislation, the projections contained in the Boulder Reserves Report for Boulder's assets, and various other assumptions that no cash income taxes are to be paid by Boulder until 2027 for Proved plus Probable reserves. A higher or lower level of capital expenditures than those currently contemplated could further extend or shorten the estimated tax horizon.

Costs Incurred

The following table summarizes the property acquisition costs, exploration costs and development costs for the 12-months ended December 31, 2022 regarding the Boulder Business. Consistent with the presentation of the Brazeau Reserves Report, the summary of costs incurred relates to the properties to be acquired by Highwood. The amounts reported as unproved acquisition costs and exploration costs are consistent with capital expenditures classified as exploration and evaluation assets under IFRS. The amounts reported as proved acquisition costs and development costs are consistent with capital expenditures classified as property, plant and equipment under IFRS.

Acquisitions and Capital Expenditures

Nature of Cost	Amount (M$)
Corporate Acquisition Costs	-
Property Acquisition Costs	-
Unproved	-
Proved	-
Exploration Costs(1)	54
Development Costs(2)	26,380
Total	**26,434**

Note:

(1) Geological and geophysical capital expenditures and drilling costs for exploration wells.

(2) Development costs include development drilling costs and equipping, tie-in and facility costs for all wells.

Exploration and Development Activities

The following table sets forth the gross and net development wells completed during the 12-months ended December 31, 2022 in respect of the Boulder Business:

	Development Wells		**Exploration Wells**	
	Gross	**Net**	**Gross**	**Net**
Light and Medium Crude Oil	3	3	-	-
Conventional Natural Gas	-	-	-	-
Service	-	-	-	-
Dry and Abandoned	-	-	-	-
Stratigraphic Test	-	-	-	-
Total	3	3	-	-

Production Estimates

The following table sets out the first-year production forecast of volumes of Boulder's working interest (Company Gross) production for each product type estimated by McDaniel for the period of January 1, 2023 through December 31, 2023 in the Brazeau Reserves Report which is reflected in the estimate of future net revenue disclosed in the tables above. Actual results may differ significantly from the information below. See "*Cautionary Note Regarding Forward-Looking Statements*" and "*Risk Factors*" herein and in the AIF.

	Light and Medium Oil (bbl/d)	**Natural Gas (Mcf/d)**	**Natural Gas Liquids (bbl/d)**	**(boe/d)**
Total Proved	1,580	5,215	232	2,682
Total Probable	280	131	6	307
Total Proved + Probable	1,860	5,346	238	2,989

Production History

Average Daily Production

The following table sets forth, by product type, the average net daily production volumes, product prices received, royalties paid, operating expenses and resulting netbacks with respect to the Boulder Business, quarterly and for the year ended December 31, 2022.

Three months ended	March 31	June 30	September 30	December 31	Year ended December 31, 2022
Average Daily Production[(1)]					
Light and Medium oil (bbl/d)	1,418	1,526	1,633	1,555	1,533
Natural Gas (Mcf/d)	4,951	4,755	5,081	5,211	5,000
NGLs (bbl/d)	213	209	225	236	221
Total (boe/d)	2,456	2,527	2,705	2,660	2,588
BOE Metrics ($/boe)					
Price	81.65	102.31	82.62	80.32	86.59
Royalties	(19.40)	(24.19)	(23.87)	(25.18	(23.24)
Production Costs	(16.40)	(13.53)	(14.61)	(16.46)	(15.24)
Netback	**45.85**	**64.60**	**44.14**	**38.69**	**48.11**

Note:

(1) Production is presented before royalties.

APPENDIX B – BRAZEAU FINANCIAL STATEMENTS

(see attached)

Condensed consolidated interim financial statements of
Boulder Energy Ltd.

For the three months ended March 31, 2023

Boulder Energy Ltd.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

As at

(In thousands of Canadian dollars)

	Notes	March 31, 2023 $	December 31, 2022 $
Assets			
Current assets			
Cash		**33**	11,156
Accounts receivable		**4,506**	14,048
Deposits and prepaid expenses		**588**	360
		5,127	25,564
Non-current assets			
Exploration and evaluation	4	**10,395**	10,633
Property and equipment	5	**216,201**	218,980
Deferred income tax asset		**14,043**	15,303
Total assets		**245,766**	270,480
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	**7,965**	7,089
		7,965	7,089
Non-current liability			
Decommissioning provision	6	**32,645**	32,080
Total Liabilities		**40,610**	39,169
Shareholders' equity			
Share capital	7	**215,469**	242,469
Contributed surplus		**18,085**	18,085
Deficit		**(28,398)**	(29,243)
Total shareholders' equity		**205,156**	231,311
Total liabilities and shareholders' equity		**245,766**	270,480

Commitments and contingencies (note 10)

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.

Condensed Consolidated Interim Statements of Income and Comprehensive Income (unaudited)

For the three months ended March 31, 2023 and 2022

(In thousands of Canadian dollars)

	Notes	2023 $	2022 $
Revenue			
Petroleum and natural gas sales	8	**15,316**	18,044
Royalties		**(4,363)**	(4,287)
		10,953	13,757
Expenses			
Operating and transportation		**4,377**	3,624
General and administrative	9	**420**	448
Exploration and evaluation	4	**238**	—
Depletion and depreciation	5	**3,637**	4,149
Finance expenses		**176**	113
		8,848	8,334
Net income before taxes		**2,105**	5,423
Deferred income tax expense		**1,260**	—
Net income and comprehensive income for the period		**845**	5,423
Net income per share			
Basic and diluted		**—**	0.03

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.

Condensed Consolidated statements of changes in equity (unaudited)

For the three months ended March 31, 2023 and 2022

(In thousands of Canadian dollars)

	Notes	**2023** $	2022 $
Share capital			
Balance, beginning of period		**242,469**	242,469
Return of capital	7	**(27,000)**	-
Balance, end of period		**215,469**	242,469
Contributed surplus			
Balance, beginnning and end of period		**18,085**	18,085
Deficit			
Balance, beginning of period		**(29,243)**	(71,980)
Net income		**845**	5,423
Balance, end of period		**(28,398)**	(66,557)
Total shareholders' equity		**205,156**	193,997

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.

Condensed Consolidated Interim statements of cash flows (unaudited)

For the three months ended March 31, 2023 and 2022

(In thousands of Canadian dollars)

	Notes	2023 $	2022 $
Cash provided by (used in)			
Operating activities			
Net income		**845**	5,423
Adjustments for items not involving cash			
Depletion and depreciation	5	**3,637**	4,149
Deferred tax recovery		**1,260**	—
Finance expenses		**176**	113
Exploration and evaluation expense	4	**238**	—
Expenditures on decommissioning provision	6	**(21)**	(236)
Changes in non-cash working capital		**11,206**	(9,160)
Cash provided by operating activities		**17,341**	289
Financing activities			
Retun of capital	7	**(27,000)**	—
Cash used in financing activities		**(27,000)**	—
Investing activities			
Expenditures on property and equipment	5	**(448)**	(5,645)
Expenditures on exploration and evaluation assets	4	**—**	(21)
Changes in non-cash working capital		**(1,016)**	3,827
Cash used in investing activities		**(1,464)**	(1,839)
Change in cash		**(11,123)**	(1,550)
Cash, beginning of the period		**11,156**	8,118
Cash, end of period		**33**	6,568

The accompanying notes are an integral part of these financial statements.

1. Reporting entity

Boulder Energy Ltd. ("Boulder" or the "Company") is a privately owned company incorporated under the laws of Alberta. The Company is principally engaged in the exploration for and exploitation, development and production of oil and natural gas, and conducts many of its activities jointly with others. Its main office is located at Suite 500, 250 Sixth Avenue S.W., Calgary, Alberta.

On August 5, 2022, Ararat Energy ("Ararat"), a privately held company, was incorporated under the Business Corporations Act (Alberta). Ararat is a wholly owned subsidiary of Boulder and is currently non-operational.

2. Basis of presentation

a) Statement of compliance

These unaudited condensed consolidated interim financial statements ("Interim Statements") have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and using the accounting policies outlined by the Company in its annual consolidated financial statements for the year ended December 31, 2022. These Interim Statements do not include all of the information required for full annual financial statements. These Interim Statements should be read in conjunction with the annual financial statements for the year ended December 31, 2022.

The Interim Statements were authorized for issuance by the Board of Directors on June 1, 2023.

b) Significant estimates and judgements

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. As such, actual results may differ from these estimates as future confirming events occur. Estimates and underlying assumptions 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.

3. Material accounting policy information

These Interim Statements as at March 31, 2023 have been prepared following the same accounting policies as the consolidated financial statements as at December 31, 2022.

(In thousands of Canadian dollars)

4. Exploration and evaluation ("E&E") assets

E&E assets consist of the Company's exploration projects that are pending determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. The following table reconciles the change in carrying value during the three months ended March 31, 2023 and the year ended December 31, 2022.

	March 31, 2023 **$**	December 31, 2022 $
Balance, beginning of period	**10,633**	10,751
Additions	**—**	54
Exploration and evaluation expense	**(238)**	(172)
Balance, end of period	**10,395**	10,633

As at March 31, 2023, there were no indicators of impairment identified within exploration and evaluation assets. During the three months ended March 31, 2023, the Company recorded $0.2 million of E&E expense related to lease expiries on undeveloped land (year ended December 31, 2022 - $0.2 million).

5. Property and equipment ("P&E") assets

	Total $
Cost	
Balance, December 31, 2021	408,856
Additions	26,380
Changes in decommissioning provision (Note 6)	(3,590)
Balance, December 31, 2022	431,646
Additions	448
Changes in decommissioning provision (Note 6)	410
Balance at March 31, 2023	**432,504**
Accumulated depletion and depreciation	
Balance, December 31, 2021	195,279
Depletion and depreciation	17,387
Balance, December 31, 2022	212,666
Depletion and depreciation	3,637
Balance at March 31, 2023	**216,303**
Net book value	
December 31, 2022	218,980
March 31, 2023	**216,201**

At March 31, 2023, as a result of a potential corporate transaction, Boulder determined there were indicators of impairment on its P&E assets and therefore an impairment test was performed. The recoverable amount of P&E is determined as the value in use ("VIU") using a discounted cash flow method. The fair value measurement of the Company's P&E is designated Level 3 on the fair value hierarchy. The impairment test of P&E concluded that the carrying amount did not exceed the VIU and therefore an impairment was not recognized.

(In thousands of Canadian dollars)

6. Decommissioning provision

The decommissioning obligations result from net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations to be approximately $34.5 million at March 31, 2023 (December 31, 2022 – $34.5 million), which is expected to be incurred between 2023 and 2052.

A risk-free rate of 3.0% (December 31, 2022 – 3.3%) and an inflation rate of 2.0% (December 31, 2022 – 2.0%) is used to calculate the present value of the decommissioning obligations at March 31, 2023 as presented in the table below:

	March 31, 2023	December 31, 2022
	$	$
Balance, beginning of period	**32,080**	37,295
Liabilities incurred	**—**	76
Liabilities settled	**(21)**	(871)
Liabilities settled through government grants	**—**	(1,205)
Change in estimates	**(79)**	(640)
Change in discount and inflation rate	**489**	(3,026)
Accretion	**176**	451
Balance, end of period	**32,645**	32,080

Government grants

During 2022, the Company received $1.2 million in government grant funding pursuant to Alberta's Site Rehabilitation Program ("SRP") with respect to approved abandonment and reclamation expenditures incurred by the Company. All SRP funding was utilized during 2022 with no additional funding available.

7. Share capital

(i) Authorized – common shares

Unlimited number of common voting shares, no par value.

(ii) Issued – common shares

	March 31, 2023		December 31, 2022	
	#	**$**	#	$
Balance, beginning of period	**172,469,537**	**242,469**	172,469,537	242,469
Return of capital	**—**	**(27,000)**	—	—
Balance, end of period	**172,469,537**	**215,469**	172,469,537	242,469

The Company had basic and diluted weighted average shares outstanding of 172,469,537 as at March 31, 2023, and December 31, 2022.

During the first quarter of 2023 the Company paid $27.0 million as a return of capital to its primary shareholder.

(In thousands of Canadian dollars)

8. Petroleum and natural gas sales

The Company sells the majority of its production to one major purchaser. During the three months ended March 31, 2023 and 2022, sales to this purchaser represented approximately 90 percent of revenue.

The following table reconciles oil and natural gas revenues by product type:

	Three months ended March 31,	
	2023	2022
	$	$
Light oil	**12,643**	14,476
Natural gas	**1,686**	2,333
Natural gas liquids	**987**	1,235
Total petroleum and natural gas sales	**15,316**	18,044

9. Related party Transactions

Shareholder Loan

During the first quarter of 2022, the shareholder loan in the amount of $3.6 million, which was advanced to Boulder by its primary shareholder in 2021, was repaid in its entirety.

Management Services Agreement ("MSA")

In 2021, an MSA was entered into between West Lake and Boulder ("The Parties"). The MSA was entered into to ensure Boulder has access to certain management, administrative and corporate services and the availability of facilities and equipment to allow Boulder to conduct its business operations. Boulder agreed to pay West Lake ("Parent") in accordance with the terms of the MSA. Primarily all of the $0.4 million in general and administrative expenses incurred by Boulder during the first quarter of 2023 and 2022, are a result of West Lake invoicing Boulder in accordance with the MSA. As at March 31, 2023, accounts payable included $3.5 million of net payables owing to Boulder's Parent. As at December 31, 2022, accounts receivable included $7.2 million of net intercompany receivable, owing to Boulder from its parent.

10. Commitments and contingencies

The Company had the following commitments as at March 31, 2023:

In September 2022, the Company elected to spud an option well by December 29, 2022, under a farm-in agreement with a major oil and gas company. The Company was subject to a penalty of $0.6 million if it fails to fulfill the drilling commitment. In December 2022, the Company extended the spud of the option well to July 31, 2023. Due to the extension, the failure-to-perform penalty increased from $0.6 million to $1.0 million. For clarity, should Boulder fail to spud the next option well at a location of its choice by July 31, 2023, the Company shall then pay $1.0 million as agreed to in the extension request.

Consolidated financial statements of
Boulder Energy Ltd.

December 31, 2022 and 2021

Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 403-213-5791
www.deloitte.ca

Independent Auditor's Report

To the Shareholder of
Boulder Energy Ltd.

Opinion

We have audited the consolidated financial statements of Boulder Energy Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

/s/ Deloitte LLP

Chartered Professional Accountants
May 4, 2023

Boulder Energy Ltd.

Consolidated statements of financial position

As at December 31, 2022 and 2021

(In thousands of Canadian dollars)

	Notes	2022 $	2021 $
Assets			
Current assets			
Cash		**11,156**	8,118
Accounts receivable	11,14	**14,048**	3,563
Deposits and prepaid expenses	13	**360**	291
		25,564	11,972
Non-current assets			
Exploration and evaluation	4	**10,633**	10,751
Property and equipment	5	**218,980**	213,577
Deferred income tax asset	10	**15,303**	—
Total assets		**270,480**	236,300
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14	**7,089**	6,826
Shareholder loan	16	**—**	3,605
		7,089	10,431
Non-current liability			
Decommissioning provision	7	**32,080**	37,295
Total Liabilities		**39,169**	47,726
Shareholders' equity			
Share capital	8	**242,469**	242,469
Contributed surplus		**18,085**	18,085
Deficit		**(29,243)**	(71,980)
Total shareholders' equity		**231,311**	188,574
Total liabilities and shareholders' equity		**270,480**	236,300

Commitments and contingencies (note 15)

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.
Consolidated statements of income and comprehensive income
Year ended December 31, 2022 and 2021
(In thousands of Canadian dollars)

	Notes	2022 $	2021 $
Revenue			
Petroleum and natural gas sales	9	**82,370**	52,346
Royalties		**(21,949)**	(11,064)
		60,421	41,282
Expenses			
Operating and transportation		**14,398**	13,003
General and administrative	11	**1,784**	3,520
Transaction costs	6	**—**	4,517
Other income	7	**(1,205)**	(130)
Exploration and evaluation	4	**172**	403
Depletion and depreciation	5	**17,387**	12,040
Impairment reversal	5(a)	**—**	(45,279)
Gain on settlement of debt	16	**—**	(26,780)
Finance expenses	12	**451**	8,415
		32,987	(30,291)
Net income before taxes		**27,434**	71,573
Deferred income tax recovery	10	**(15,303)**	—
Net income and comprehensive income for the year		**42,737**	71,573
Net income per share			
Basic and diluted		**0.25**	0.41

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.

Consolidated statements of changes in equity

Year ended December 31, 2022 and 2021

(In thousands of Canadian dollars)

	Notes	2022 $	2021 $
Shareholders' capital			
Balance, beginning of year		**242,469**	172,469
Contribution from parent	16	**—**	70,000
Balance, end of year		**242,469**	242,469
Contributed surplus			
Balance, beginnning and end of year		**18,085**	18,085
Deficit			
Balance, beginning of year		**(71,980)**	(130,353)
Net income		**42,737**	71,573
Distribution to parent – Royalty interest	16	**-**	(13,200)
Balance, end of year		**(29,243)**	(71,980)
Total shareholders' equity		**231,311**	188,574

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.
Consolidated statements of cash flows
Year ended December 31, 2022 and 2021
(In thousands of Canadian dollars)

	Notes	2022 $	2021 $
Cash provided by (used in)			
Operating activities			
Net income		**42,737**	71,573
Adjustments for items not involving cash			
Depletion and depreciation	5	**17,387**	12,040
Impairment reversal	5	**—**	(45,279)
Deferred tax recovery	10	**(15,303)**	—
Gain on settlement of debt	16	**—**	(26,780)
Finance expenses	12	**451**	8,415
Other income	7	**(1,205)**	(130)
Exploration and evaluation expense	4	**172**	403
Interest paid	12	**—**	(8,070)
Expenditures on decommissioning provision	7	**(871)**	(571)
Changes in non-cash working capital	13	**(12,235)**	(2,069)
Cash provided by operating activities		**31,133**	9,532
Financing activities			
Repayment of bank debt	6	**—**	(71,860)
Increase (decrease) in shareholder loan	16	**(3,605)**	3,605
Contribution from parent	16	**—**	70,000
Cash (used in) provided by investing activities		**(3,605)**	1,745
Investing activities			
Expenditures on property and equipment	5	**(26,380)**	(6,107)
Expenditures on exploration and evaluation assets	4	**(54)**	(88)
Changes in non-cash working capital	13	**1,944**	3,036
Cash used in investing activities		**(24,490)**	(3,159)
Change in cash		**3,038**	8,118
Cash, beginning of the year		**8,118**	—
Cash, end of year		**11,156**	8,118

The accompanying notes are an integral part of these financial statements.

1. Reporting entity

Boulder Energy Ltd. ("Boulder" or the "Company") is a privately owned company incorporated under the laws of Alberta. The Company is principally engaged in the exploration for and exploitation, development and production of oil and natural gas, and conducts many of its activities jointly with others. Its main office is located at Suite 500, 250 Sixth Avenue S.W., Calgary, Alberta.

On August 5, 2022, Ararat Energy ("Ararat"), a privately held company, was incorporated under the Business Corporations Act (Alberta). Ararat is a wholly owned subsidiary of Boulder and is currently non-operational.

2. Basis of presentation

(a) *Statement of compliance*

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were authorized for issuance by the Board of Directors on May 3, 2023.

(b) *Basis of measurement*

The consolidated financial statements of Boulder were prepared on the historical cost basis.

(c) *Functional and presentation currency*

The consolidated financial statements are presented in Canadian dollars, which is the Corporation's and its subsidiaries' functional currency.

(d) *Going concern*

These consolidated financial statements are prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

(e) *Basis of consolidation*

The consolidated financial Statements include the accounts of Boulder and its subsidiary, Ararat. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. As at December 31, 2022, Boulder has one wholly owned subsidiary. The consolidated financial statements of the Company's subsidiary is prepared for the same reporting period as Boulder, using uniform accounting policies. The subsidiaries financial statements are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. All intercompany balances are eliminated on consolidation.

(f) *Operating Segments*

The Company conducts its business as a single operating segment, being the exploration for and exploitation, development and production of oil and natural gas.

2. Basis of presentation (continued)

(g) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and affect the results reported in these consolidated financial statements, and could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

i. Key sources of estimation uncertainty

The following are key estimates and the underlying assumptions made by management affecting the measurement of balances and transactions in the Company's consolidated financial statements.

Valuation of property and equipment

Estimation of recoverable quantities of proved plus probable reserves includes assumptions regarding future commodity prices, exchange rates, discount rates and production for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning liabilities, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property and equipment. These reserve estimates are verified by third-party professional engineers, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument (NI) 51-101, "Standards of Disclosure for Oil and Gas Activities".

Oil and natural gas development and production assets are depleted on a unit-of-production basis at a rate calculated by reference to proved and probable reserves determined in accordance with NI 51-101 and incorporate the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reserve engineers' reports and represent the estimated quantities of oil, natural gas and NGLs that geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable, it being 90 percent likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves, it being equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. The level of estimated reserves is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired.

The recoverable amounts of cash-generating units (CGUs) and individual assets have been determined based on the higher of the present value of value-in-use calculations and discounted fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate. It is reasonably possible that the commodity price assumptions may change, which may then impact the estimated life of the field and economically recoverable reserves, and may then require a material adjustment to the carrying value of property and equipment. The Company monitors internal and external indicators of impairment relating to its fixed assets.

2. Basis of presentation (continued)

(g) Use of estimates and judgments (continued)

i. Key sources of estimation uncertainty (continued)

Provisions for decommissioning costs

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Impairment

Judgments are required to assess when impairment indicators are evident and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment recovery tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

Exploration and evaluation ("E&E") assets

The accounting for E&E assets requires management to make judgments as to whether E&E activities have discovered a sufficient amount of economically recoverable reserves, which requires the quantity and realizable value of such crude oil and natural gas products to be estimated.

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the crude oil and natural gas products is technically feasible and commercially viable. E&E assets are subject to ongoing management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. In making this assessment, management considers changes to project economics, expected capital expenditures and production costs, results of other operators in the region and access to infrastructure and potential infrastructure expansions.

Depletion of crude oil and natural gas assets

The Company calculates a depletion factor based on total production as a percentage of proved plus probable reserves. The depletion factor is applied to the total depletable base determined as the net book value of the assets and the total estimated future development cost ("FDC") expenditures for each depletion unit. Estimates for reserves

2. Basis of presentation (continued)

(g) Use of estimates and judgments (continued)

i. Key sources of estimation uncertainty (continued)

Depletion of crude oil and natural gas assets (continued)

and FDCs can have a significant impact on net earnings, as they are key components in the depletion calculation.

3. Significant accounting policies

The accounting policies set out below were applied consistently to the periods presented in these consolidated financial statements.

(a) Property and equipment

Capitalization

Items of property and equipment, which include oil and natural gas development and production assets, are measured at cost less accumulated depletion, depreciation and impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of decommissioning liability, if any, and, for qualifying assets, borrowing costs. Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas properties only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas properties generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to convert those reserves into production. Proved plus probable reserves are estimated annually by independent qualified reserves evaluators and represent the estimated quantities of crude oil, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Future development costs are estimated taking into account the amount of physical development that will be required to produce the reserves. For interim consolidated financial statements, internal estimates of changes in reserves and future development costs are used for determining depletion for the period.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of 6,000 cubic feet of natural gas to 1 barrel of crude oil.

Other property and equipment are stated in the statement of financial position at cost less accumulated depreciation. Depreciation is calculated over the estimated useful life of the asset based on the original cost less estimated residual value.

3. Significant accounting policies (continued)

(a) Property and equipment (continued)

Depletion and depreciation (continued)

The methods and useful lives of the Company's other property and equipment are as follows:

Facilities	20 years straight line
Trucks and trailers	Three years straight line
Office furniture and fixtures	Declining balance at 20 percent per year

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

At each reporting date, management assesses its development and production assets for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Such indicators include changes in the business plans, significant downward revisions of estimated volumes, significant declines in

commodity prices, increases in estimated future development expenditures, changes in regulations, evidence of physical damage and low plant utilization. If any such indicator is evident, the asset's recoverable amount is estimated.

The assessment for impairment entails comparing the carrying value of the CGU with its recoverable amount, that is, the higher of fair value less costs to sell and value-in-use. Each CGU is identified in accordance with International Accounting Standard (IAS) 36 – "Impairment of Assets". If necessary, impairment is charged through the statement of operations and comprehensive income or loss if the capitalized costs of the CGU exceed the recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased. An impairment loss is reversed if there has been an increase in the estimated recoverable amount of a previously impaired asset. An impairment loss may never be reversed beyond the asset's original carrying amount, net of depreciation or depletion.

(b) E&E assets

Capitalization

Pre-license costs are recognized in profit or loss as incurred.

Oil and natural gas E&E assets are accounted for in accordance with IFRS 6 – "Exploration for and Evaluation of Mineral Resources", whereby costs associated with the exploration for and evaluation of oil and natural gas reserves are accumulated on an area-by-area basis and are capitalized as either tangible or intangible E&E assets when incurred. E&E costs, including the costs of acquiring licenses and of drilling and completing wells, initially are capitalized as E&E assets according to the expenditure's nature. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

When a specific well, field or area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property and equipment. When a specific well, field or area is determined not to be technically feasible or commercially viable, or the Company decides not to continue with the project, the unrecoverable costs are charged to profit or loss as E&E expenses.

No depletion or depreciation is provided for E&E assets.

3. Significant accounting policies (continued)

(b) E&E assets (continued)

Impairment

E&E assets are assessed for impairment: (i) when E&E assets are transferred to property and equipment once sufficient data exists to determine technical feasibility and commercial viability, and (ii) if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are tested at an operating segment level.

(c) Joint operations

The Company conducts a portion of its exploration, development and production activities through jointly controlled assets. These consolidated financial statements reflect only the Company's proportionate interest of these jointly controlled assets and the proportionate share of the relevant revenue and related costs.

(d) Revenue recognition

Revenue from the sale of commodities is recognized when the performance obligations are satisfied and revenue can be reliably measured. Revenue recognition reflects the transfer of goods and services for the amount the Company expects to receive, when control is transferred to the purchaser. The contracts specify the point at which control is transferred, usually when the commodities enter the pipeline.

The Company sells its production pursuant to fixed and variable-priced contracts. The transaction price for variable-priced 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. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed upon transaction. Royalty expenses are recognized as production occurs.

Consistent with industry standards, revenue is collected on the 25th day of the following month. As the Company sells its products to credit worthy customers, there have been no issues with collectability.

(e) Decommissioning liabilities

The present value of expected future abandonment and reclamation costs is recorded on the statement of financial position as both a decommissioning liability and a charge to property and equipment at the time the obligation is incurred or modified due to a change in estimate. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and is discounted using a risk-free rate of return. The amount included as property and equipment is depleted over the life of the reserves by the unit-of-production method. The liability accretes until the Company settles the decommissioning liability; this accretion charge is included as a finance cost on the statement of income and comprehensive income. Actual abandonment and reclamation costs incurred are charged against the liability to the extent the liability was established.

Estimates for future abandonment and reclamation costs are based on historical costs to abandon and reclaim similar sites, taking into consideration current costs as well as industry guidelines. The liability is based on the Company's net interest in the respective sites.

3. Significant accounting policies (continued)

(f) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(g) Financial instruments

IFRS 9 contains three principal classification categories for initial classification of financial assets: measured at amortized cost; fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). Financial assets are categorized based on the Company's objective for the asset and the contractual cash flows. A financial asset is classified as amortized cost if the asset is held with the objective to collect contractual cash flows that are solely payments of principal and interest on principal amounts outstanding. All other financial assets are measured at FVTPL.

The measurement categories for each class of financial asset and financial liability are set forth in the following table:

Financial instruments	Classification
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Shareholder loan	Amortized cost

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability classified as FVTPL are expensed at inception of the contract. For a financial asset or a financial liability carried at amortized cost, transaction costs directly attributable to acquiring or issuing the asset or liability are added to, or deducted from, the fair value on initial recognition and amortized through net income or loss over the term of the financial instrument. Debt issuance costs related to the restructuring of credit facilities are capitalized and amortized as financing costs over the term of the credit facilities.

The Company formally documents its risk management objectives and strategies to manage exposures to fluctuations in commodity prices, interest rates and foreign currency exchange

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

rates. The risk management policy permits the use of certain derivative financial instruments, including swaps and collars, to manage these fluctuations. All transactions of this nature entered into by the Company are related to underlying financial instruments or future petroleum and natural gas production. These instruments are classified as FVTPL.

The Company has accounted for its physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts.

As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statements of financial position. Settlements on these physical delivery sales contracts are recognized in revenue in the period the product is delivered to the sales point.

Fair value of financial instruments

A number of the Company's accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Boulder classifies the fair value of these transactions according to the following hierarchy based on the nature of the observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide continuous pricing information.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations are derived from inputs that are not based on observable market data.

i. Accounts receivable and accounts payable and accrued liabilities

The fair value of accounts receivable and accounts payable and accrued approximated their carrying value at December 31, 2022 due to their short term to maturity.

(h) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and stock options are recognized as a deduction from equity, net of deferred income taxes.

(i) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Government grants related to income are recorded as other income in the period in which eligible expenses were incurred or when the services have been performed.

(In thousands of Canadian dollars)

3. Significant accounting policies (continued)

(j) Recent accounting pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued by are not yet effective and determined that no pronouncements or amendments are expected to have a material impact on future consolidated financial statements.

4. Exploration and Evaluation ("E&E") assets

E&E assets consist of the Company's exploration projects that are pending determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. The following table reconciles the change in carrying value during the years:

	2022	2021
	$	$
Balance, beginning of year	**10,751**	11,128
Additions	**54**	88
Transfers to P&E assets (Note 5)	**—**	(62)
Exploration and evaluation expense	**(172)**	(403)
Balance, end of year	**10,633**	10,751

For the years ended December 31, 2022 and December 31, 2021 there were no indicators of impairment identified within exploration and evaluation assets and no impairment tests were performed. During years ended December 31, 2022 and 2021, the Company recorded $0.2 million and $0.4 million respectively of E&E expense related to lease expiries on undeveloped land.

(In thousands of Canadian dollars)

5. Property and equipment ("P&E") assets

	Total $
Cost	
Balance, January 1, 2021	412,797
Additions	6,107
Transfers from E&E assets (Note 4)	62
Distribution to parent – Royalty interest (note 16)	(13,200)
Changes in decommissioning provision (Note 7)	3,090
Balance, December 31, 2021	408,856
Additions	26,380
Changes in decommissioning provision (Note 7)	(3,590)
Balance, December 31, 2022	**431,646**
Accumulated depletion and depreciation	
Balance, January 1, 2021	228,518
Depletion and depreciation	12,040
Impairment reversal	(45,279)
Balance, December 31, 2021	195,279
Depletion and depreciation	17,387
Balance, December 31, 2022	**212,666**
Net book value	
December 31, 2021	213,577
December 31, 2022	**218,980**

The Company identified one cash generating unit as of December 31, 2022 and 2021, based on the lowest level at which properties generate cash inflows while applying judgment to consider factors such as similar reserve characteristics, geographical location, and shared infrastructure.

Boulder assessed its CGU for indicators of impairment as at December 31, 2022, and concluded there are no indicators of impairment or indicators of impairment reversals.

(a) 2021 Impairment Reversal

For the year ended December 31, 2021, due to increases in forward oil and natural gas prices, a test for impairment reversal was completed on the Company's CGU. Recoverable value was estimated at fair value less costs to sell based on before tax discounted cash flows from oil and gas proved plus probable reserves. It was determined that the estimated recoverable amount exceeded its carrying value and as a result, previous impairment, net of depletion, of $45.3 million was reversed. The before tax discount rates applied in the calculation as at December 31, 2021 was 15 percent.

The results of the Company's impairment tests are sensitive to changes in any of the key significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, royalty costs and future development costs which impact the estimate of cash flows from proved and probable oil and gas reserves, in addition to the discount rate, of which changes could decrease or increase the estimated recoverable amounts of CGUs and result in additional impairment charges or in the recovery of previously recorded impairment charges.

(In thousands of Canadian dollars)

5. Property and equipment ("P&E") assets (continued)

(a) 2021 Impairment Reversal (continued)

The following table outlines forecasted oil and gas commodity prices and exchange rates used in the impairment reversal test at December 31, 2021. The forecasted oil and gas commodity prices are consistent with those used by the Corporation's external reserve evaluators and are a significant assumption in assessing the recoverable amount. The reserve report also includes significant financial assumptions regarding forecasted production, royalty rates, operating costs, and future development costs that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities.

	Western Canadian Select Crude Oil	Alberta Heavy Crude Oil	Alberta AECO Spot Price	US/CAN Exchange Rate
Forecast	**$C/bbl**	**$C/bbl**	**$C/MMBtu**	**$US/$CAN**
2021 (6 mos)	72.86	67.00	3.40	0.800
2022	74.42	66.45	3.56	0.797
2023	69.17	61.90	3.21	0.797
2024	66.54	59.45	3.05	0.797
2025	67.87	60.64	3.11	0.797
2026	69.23	61.87	3.17	0.797
2027	70.61	63.11	3.23	0.797
2028	72.02	64.37	3.30	0.797
2029	73.46	65.67	3.36	0.797
2030	74.69	66.68	3.43	0.797
2031	76.19	68.02	3.50	0.797
2032	77.71	69.38	3.57	0.797
2033	79.27	70.77	3.64	0.797
2034	80.85	72.18	3.71	0.797
2035	82.47	73.63	3.79	0.797
2036	84.12	75.10	3.86	0.797
Therafter	+2%/ry	+2%/ry	+2%/ry	0.797

(b) Future development costs

During the year ended December 31, 2022 and 2021, an estimated $194.4 million and $138.1 million, respectively, of future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion and depreciation expense.

6. Bank debt

On June 26, 2020, the Company entered into an amended and restated credit agreement (the "ARCA") with a syndicate of lenders ("Lenders") providing the Company with a credit facility (the "Syndicated Facility") comprised of a revolving facility of $65.0 million, an operating facility of $7.5 million (together, the "Borrowing Base Credit Facilities") and a term facility of $40.0 million (the "Term Facility").

(In thousands of Canadian dollars)

6. Bank debt (continued)

In January 2021, the Lenders issued a demand letter to the Company noting the Company in default of its obligations under the ARCA, declaring all amounts owing the ARCA immediately due and payable and demanding immediate payment of all such amounts. The Lenders also provided the Company with a notice of intention to enforce security under section 244 of the Bankruptcy and Insolvency Act (Canada) and the Company consented to the early enforcement by the Lenders of the security under the ARCA.

As a requirement of the amended forbearance agreement entered into during the first quarter of 2021, in conjunction with an extension of the forbearance, the Company was required to enter into a sales process with key milestone dates and subject to mandatory repayments amounts on the Term Facility. During the second quarter of 2021, as a result of the sales process, the Company executed a pre-acquisition agreement with West Lake Energy Corp. (“West Lake”), a privately held, intermediate oil and natural gas company focused on development and exploration in western Canada. Pursuant to the pre-acquisition agreement, West Lake agreed to acquire all the issued and outstanding shares of Boulder plus the payment of Boulder’s transaction costs and a cash settlement in satisfaction of Boulder’s credit facility debt (the “Corporate Transaction”) (see note 8 for more details). The Corporate Transaction was completed by an offer to purchase sent to Boulder’s shareholders. The Transaction closed on September 8, 2021, and the Company’s credit facility balance was paid off in its entirety (note 16).

7. Decommissioning liabilities

The decommissioning obligations result from net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations to be approximately $34.5 million at December 31, 2022 (December 31, 2021 – $36.5 million), which is expected to be incurred between 2023 and 2052.

A risk-free rate of 3.3% (December 31, 2021 – 1.7%) and an inflation rate of 2.0% (December 31, 2021 – 2.0%) is used to calculate the present value of the decommissioning obligations at December 31, 2022 as presented in the table below:

	2022 **$**	2021 $
Balance, beginning of year	**37,295**	34,563
Liabilities incurred	**76**	—
Liabilities settled	**(871)**	(571)
Liabilities settled through government grants	**(1,205)**	(130)
Change in estimates	**(640)**	3,092
Change in discount and inflation rate	**(3,026)**	(4)
Accretion	**451**	345
Balance, end of year	**32,080**	37,295

Government grants

The Company received government grant funding pursuant to Alberta’s Site Rehabilitation Program (“SRP”) with respect to approved abandonment and reclamation expenditures incurred by the Company. SRP funding of $1.2 million was received in 2022 ($0.1 million in 2021) and has been reported as other income.

(In thousands of Canadian dollars)

8. Share capital

(i) Authorized – common shares

Unlimited number of common voting shares, no par value.

(ii) Issued – common shares

	2022 #	**2022** $	2021 #	2021 $
Balance, beginning of year	**172,469,537**	**242,469**	172,469,537	172,469
Contribution from parent (note 16)	**—**	**—**	—	70,000
Balance, end of year	**172,469,537**	**242,469**	172,469,537	242,469

The Company had basic and diluted weighted average shares outstanding of 172,469,537 for the years ended December 31, 2022 and 2021.

9. Oil and natural gas revenues

The Company sells the majority of its production to one major purchaser. During the years ended December 31, 2022 and 2021, sales to this purchaser represented approximately 90 percent of revenue.

The following table reconciles oil and natural gas revenues by product type:

	2022 $	2021 $
Light oil	**65,831**	42,322
Natural gas	**10,726**	6,207
Natural gas liquids	**5,232**	3,398
Blending	**581**	419
Total petroleum and natural gas sales	**82,370**	52,346

10. Income taxes

(a) Deferred income tax recovery

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before income taxes. These differences are explained as follows:

(In thousands of Canadian dollars)

10. Income taxes (continued)

(a) Deferred income tax recovery (continued)

	2022 $	2021 $
Income before income taxes	**27,434**	71,573
Canadian statutory rate	**23%**	23%
Expected income tax expense at statutory rates	**6,310**	16,462
Effect on income tax of		
Change in unrecognized deferred tax asset	**(21,303)**	(15,033)
Other	**(310)**	(1,429)
Deferred tax recovery	**(15,303)**	—

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(b) Deferred income tax asset

The components of the Company's net deferred income tax assets and liabilities are as follows:

	2022 $	2021 $
Deferred tax assets		
Property & equipment	**(11,591)**	(6,443)
Decommissioning	**7,378**	6,300
Non-capital loss carryforwards	**19,516**	19,444
Unrecognized Deferred Tax Asset	**—**	(19,301)
Deferred tax asset	**15,303**	—

	2022 $	2021 $
Deferred tax assets, begginning of year	**—**	—
Deferred tax recovery	**15,303**	—
Deferred tax assets, end of year	**15,303**	—

At December 31, 2022, the Company recognized deferred tax assets in respect to deductible temporary differences of $15.3 million ($nil - December 31, 2021).

Deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilized. Therefore, the Company has recognized a deferred tax asset at December 31, 2022 ($nil – December 31, 2021).

(In thousands of Canadian dollars)

11. Related party Transactions

Shareholder Loan

On September 8, 2021, West Lake, the primary shareholder of Boulder, advanced $3.6 million to Boulder (see note 16 for more details). The $3.6 million loan did not bear any interest and there were no repayment terms associated with the loan. During the first quarter of 2022, the shareholder loan was repaid in its entirety.

Management Services Agreement ("MSA")

Effective September 9, 2021, an MSA was entered into between West Lake and Boulder ("The Parties"). The MSA was entered into to ensure Boulder has access to certain management, administrative and corporate services and the availability of facilities and equipment to allow Boulder to conduct its business operations. Boulder agreed to pay West Lake in accordance with the terms of the MSA. Primarily all of the $1.8 million in general and administrative expenses incurred by Boulder in 2022 are a result of West Lake invoicing Boulder in accordance with the MSA. As at December 31, 2022, accounts receivable included $7.2 million of net intercompany receivable, owing to Boulder from its parent.

12. Finance expenses

	2022 **$**	2021 $
Accretion of decommissioning obligations (note 7)	**451**	345
Interest expense	**—**	8,070
Total financing expense	**451**	8,415

13. Supplemental cash flow

Changes in non-cash working capital are comprised of:

Changes in non-cash working capital		
Accounts receivable	**(10,485)**	(12)
Deposits and prepaid expense	**(69)**	61
Accounts payable and accrued liabilities	**263**	918
	(10,291)	967
Changes in non-cash working capital relating to		
Operating activities	**(12,235)**	(2,069)
Investing activities	**1,944**	3,036
	(10,291)	967

14. Capital management

The Company's capital structure consists of working capital and shareholders' equity comprising issued share capital, contributed surplus and retained earnings.

The following summarizes the Company's capital structure:

(In thousands of Canadian dollars)

14. Capital management (continued)

	2022 $	2021 $
Working capital [1]	**18,475**	1,541
Shareholders' equity	**231,311**	188,574

[1]) Working capital includes cash, accounts receivable, deposits and prepaid expenses, accounts payable and current accrued liabilities and short-term loan.

To facilitate its capital management, the Company prepares annual capital expenditure budgets which are updated as necessary in light of varying factors including: current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the Company's inventory of investment opportunities, current and forecast net cash, current and forecast commodity prices, and other factors that influence commodity prices and funds from operations, such as quality and basis differentials, royalties and operating costs.

15. Commitments and contingencies

The Company had the following commitments as at December 31, 2022 and 2021:

In September 2022, the Company elected to spud an option well by December 29, 2022, under a farm-in agreement with a major oil and gas company. The company is subject to a penalty of $0.6 million if it fails to fulfill the drilling commitment. In December 2022, the Company extended the spud of the option well to July 31, 2023. Due to the extension, the failure-to-perform penalty increased from $0.6 million to $1.0 million. For clarity, should Boulder fail to spud the next option well at a location of its chouse by July 31, 2023, the Company shall then pay $1.0 million as agreed to in the extension request.

16. Corporate Transaction

On September 8, 2021, West Lake acquired all issued and outstanding shares of Boulder (the "Boulder Shares") for an aggregate purchase price of $10 and paid off the Company's credit facility balance and certain liabilities for total consideration of $73.6 million consisting of (a) $70.0 million cash payment to settle Boulder's credit facility balance of $96.8 million (note 6) resulting in a $26.8 million gain on settlement of debt and (b) $3.6 million shareholder loan to pay off additional certain liabilities. The shareholder loan was paid off in its entirety during the first quarter of 2022.

On September 8, 2021, the $70.0 million indebtedness of West Lake by Boulder, for the repayment of the Boulder credit facility, was converted to equity increasing Boulder's share capital by $70.0 million. West Lake owns all 172,469,537 issued and outstanding common shares of Boulder and the Parties agreed to increase the stated capital account in respect of such shares in the amount of the Boulder indebtedness (without the issuance of additional Boulder shares).

Concurrent with the Corporate Transaction, West Lake disposed of a 2 percent gross overriding royalty ("GORR") on certain West lake and Boulder combined assets to Topaz Energy Corp ("the Disposition"). Boulder received no proceeds from the Disposition and no gain or loss on sale was recognized in the statement of income and comprehensive income. To account for Boulder's share of the Disposition, a distribution to shareholders for Boulder's share of the GORR interest was recognized in 2022 in the amount of $13.2 million. This reduced the Company's P&E assets and increased the Company's deficit recorded on the statement of financial position.

APPENDIX C – SELECTED RESERVES AND OIL AND GAS INFORMATION REGARDING CASTLEGATE

Summary of Reserves

The reserves data for Castlegate set forth below is based upon the Castlegate Reserves Report dated May 24, 2023, with an effective date of December 31, 2022, as prepared by GLJ. The reserves data summarizes the crude oil, natural gas and natural gas liquids reserves and the net present value of future net revenue for these reserves using forecast prices and costs. The Castlegate Reserves Report has been prepared in prepared in accordance with the Canadian standards set out in the COGE Handbook and NI 51-101.

The Castlegate Reserves Report was prepared for Castlegate,

The tables below provide a summary of the oil, natural gas and natural gas liquids reserves attributable to Castlegate and the net present value of future net revenue attributable to such reserves as evaluated in the Castlegate Reserves Report, based on forecast price and cost assumptions. The tables summarize the data contained in the Castlegate Reserves Report and, as a result, may contain slightly different numbers than such report due to rounding. Due to rounding, certain columns may not add exactly.

The future net revenues and net present values was calculated using the forecast price and costs of GLJ, as of January 1, 2023 for the future crude oil, natural gas and natural gas product prices and were presented in Canadian dollars. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to reserves estimated by GLJ represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of oil, natural gas and natural gas liquids provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein. See "*Risk Factors*" herein and in the AIF.

All of Castlegate's reserves are located in the Provinces of Alberta.

Summary of Reserves as of December 31, 2022 — Forecast Prices and Costs

	Reserves									
	Light & Medium Oil		Conventional Natural Gas (Associated)		Conventional Natural Gas (Non-Associated)		Natural Gas Liquids(3)		Non-Conventional Natural Gas (Non-Associated)	
Reserves Category	**Gross(1) (bbls)**	**Net(2) (bbls)**	**Gross(1) (MMcf)**	**Net(2) (MMcf)**	**Gross(1) (MMcf)**	**Net(2) (MMcf)**	**Gross(1) (bbls)**	**Net(2) (Mbbl)**	**Gross (MMcf)**	**Net (MMcf)**
Proved										
Producing	807	668	1418	1246	144	120	236	197	0	0
Non-Producing	0	0	0	0	0	0	0	0	0	0
Undeveloped	413	345	406	370	0	0	43	36	0	0
Total Proved	1221	1012	1824	1616	144	120	279	233	0	0
Total Probable	1657	1314	2308	2035	44	37	337	276	0	0
Total Proved & Probable	2878	2327	4132	3651	189	157	615	508	0	0

Notes:
(1) Gross reserves are working interest reserves before royalty deductions.
(2) Net reserves are reserves after royalty deductions.
(3) Natural Gas Liquids includes Condensate volumes.

Summary of Net Present Value of Future Net Revenue as of December 31, 2022 — Forecast Prices and Costs

Reserves Category	Before Income Taxes Discounted at (%/year) @0% (M$)	@5% (M$)	@8% (M$)	@10% (M$)	@15% (M$)	@20% (M$)	Net Unit Value Before Tax @10% ($/boe)
Proved							
Producing	55,235	46,255	42,176	39,902	35,327	31,882	30.62
Non-Producing	0	0	0	0	0	0	0
Undeveloped	16,394	12,280	10,380	9,301	7,120	5,490	17.75
Total Proved	**71,629**	**58,504**	**52,555**	**49,203**	**42,447**	**37,372**	**26.93**
Total Probable	**95,695**	**61,690**	**49,273**	**42,982**	**31,703**	**24,366**	**18.01**
Total Proved + Probable	**167,324**	**120,194**	**101,828**	**92,185**	**74,149**	**61,738**	**21.88**

Reserves Category	After Income Taxes Discounted at (%/year) @0% (M$)	@5% (M$)	@8% (M$)	@10% (M$)	@15% (M$)	@20% (M$)
Proved						
Producing	44,654	37,550	34,310	32,483	28,794	26,009
Non-Producing	0	0	0	0	0	0
Undeveloped	12,561	9,214	7,667	6,790	5,020	3,704
Total Proved	**57,215**	**46,764**	**41,977**	**39,273**	**33,814**	**29,714**
Total Probable	**73,536**	**47,094**	**37,385**	**32,468**	**23,671**	**17,997**
Total Proved + Probable	**130,751**	**93,858**	**79,362**	**71,740**	**57,485**	**47,691**

Total Future Net Revenue (Undiscounted) as of December 31, 2022 — Forecast Prices and Costs

Reserves Category	Revenue (M$)	Prod. Taxes, Surcharges & Royalties (M$)	Operating Costs (M$)	Development Costs (M$)	Abandonment Costs (M$)	Future Net Revenue Before Income Taxes (M$)	Future Income Taxes (M$)	Future Net Revenue After Income Taxes (M$)
Total Proved	137,028	22,923	27,473	12,156	2,976	71,629	14,414	57,214
Total Proved + Probable	332,476	60,327	65,166	35,196	4,636	167,324	36,573	130,751

Net Present Value of Future Net Revenue (Discounted) by Production Group as of December 31, 2022 — Forecast Prices and Costs

Reserves Category	Product Type	Future Net Revenue Before Income Taxes (discounted @ 10%) (M$)	Net Unit Value $/boe	Net Unit Value $/Mcfe
Total Proved Reserves	Light and Medium Crude Oil (including Solution Gas and products)	48,638	32.64	5.44
	Conventional Natural Gas (Non-Associated and Products)	565	12.65	2.11
	Non-Conventional Oil and Gas	0	0	-

Reserves Category	Product Type	Future Net Revenue Before Income Taxes (discounted @ 10%) (M$)	Net Unit Value $/boe	Net Unit Value $/Mcfe
Total Proved + Probable	Light and Medium Oil (including Solution Gas and products)	91,466	26.81	4.47
	Conventional Natural Gas (Non-Associated and Products)	718	12.36	2.06
	Non-Conventional Oil and Gas	0	0	-

Pricing Assumptions

The forecast cost and price assumptions in this Prospectus Supplement assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, inflation and exchange rate utilized in the Castlegate Reserves Report was the GLJ price forecast as at January 1, 2023, as follows:

Crude Oil Price Forecasts

Year	WTI Crude Oil(1) $US/bbl	Brent Crude Oil(2) $US/bbl	Edmonton Light Crude Oil(3) $C/bbl	Alberta Bow River Hardisty Crude Oil(4) $C/bbl	Western Canadian Select Crude Oil(5) $C/bbl	Alberta Heavy Crude Oil(6) $C/bbl	Sask Cromer Medium Crude Oil(7) $C/bbl	Inflatio n %	US/CAN Exchange Rate $US/$C
History									
2013	97.96	108.77	93.47	76.33	75.01	65.11	88.13	0.9	.971
2014	93.00	99.71	94.58	81.08	81.03	73.73	89.67	1.9	.906
2015	48.78	53.60	57.20	45.50	44.82	39.25	51.87	1.1	.783
2016	43.38	45.05	53.08	39.83	38.96	32.78	48.84	1.4	.756
2017	50.94	54.80	62.84	50.91	50.53	44.74	59.96	1.6	.771
2018	64.73	71.55	69.22	49.03	49.52	39.42	69.60	2.3	.772
2019	57.02	64.24	69.16	59.26	58.75	54.11	67.97	1.9	.754
2020	39.44	43.28	45.28	36.21	35.56	30.45	44.01	0.7	.746
2021	67.92	70.78	79.71	69.24	68.74	62.14	77.58	3.4	.798
2022	94.23	98.89	119.60	98.16	97.07	89.65	114.74	6.9	.769
2023	75	80	97.96	66.05	65.65	54.54	95.51	0.0	.735
2024	75	80.5	95.30	68.86	68.46	58.19	92.92	2.0	.745
2025	75.43	81.5	94.50	73.82	73.42	64.87	92.14	2.0	.755
2026	76.94	82.00	95.14	80.06	79.66	71.99	92.76	2.0	.765
2027	78.48	82.53	95.79	82.31	81.91	74.71	93.39	2.0	.775
2028	80.05	84.14	97.70	85.43	85.03	78.15	95.26	2.0	.775
2029	81.65	85.85	99.66	87.23	86.83	79.86	97.17	2.0	.775
2030	83.28	87.58	101.65	88.95	88.55	81.47	99.10	2.0	.775
2031	84.95	89.32	103.68	90.74	90.34	83.13	101.09	2.0	.775
2032	86.65	91.11	104.31	92.93	92.53	85.31	101.70	2.0	.775
2033	88.38	92.93	106.40	94.79	94.38	87.02	103.74	2.0	.775
2034	90.15	94.79	108.52	96.68	96.27	88.76	105.81	2.0	.775
2035	91.95	96.69	110.69	98.62	98.19	90.53	107.93	2.0	.775
2036	93.79	98.62	112.91	100.59	100.16	92.34	110.09	2.0	.775
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.0	.775

Notes:

(1) West Texas Intermediate at Cushing Oklahoma 40 degrees API, 0.5% sulphur.
(2) North Sea Brent Blend 37 degrees API, 1.0% sulphur
(3) Edmonton Light Sweet 40 degrees API, 0.3% sulphur.
(4) Bow River at Hardisty, Alberta (Heavy stream).
(5) Western Canadian Select at Hardisty, Alberta.

(6) Heavy crude oil 12 degrees API at Hardisty, Alberta (after deduction of blending costs to reach pipeline quality).
(7) Midale Cromer crude oil 29 degrees API, 2.0% sulphur.

Liquids Price Forecasts

Year	Edmonton Ethane $/bbl	Edmonton Propane $/bbl	Edmonton Butanes $C/bbl	Edmonton Cond. & Natural Gasolines $/bbl	Inflation %	US/CAN Exchange Rate %US/$C
Forecast						
2023	14.05	39.18	55.84	99.32	0.0	.735
2024	15.46	40.50	57.18	99.33	2.0	.745
2025	14.42	42.53	56.70	98.58	2.0	.755
2026	14.50	42.81	57.08	101.88	2.0	.765
2027	14.62	43.10	57.47	102.58	2.0	.775
2028	14.93	43.97	58.62	104.63	2.0	.775
2029	15.25	44.85	59.79	106.72	2.0	.775
2030	15.56	45.74	60.99	108.85	2.0	.775
2031	15.88	46.66	62.21	111.03	2.0	.775
2032	16.23	46.94	62.59	113.25	2.0	.775
2033	16.55	47.88	63.84	115.52	2.0	.775
2034	16.89	48.84	65.12	117.83	2.0	.775
2035	17.22	49.81	66.42	120.19	2.0	.775
2036	17.57	50.81	67.75	122.59	2.0	.775
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.0	.775

Gas Price Forecasts

Year	US Henry Hub Gas Price $US/ MMBtu	Alberta AECO Spot Price(1) $C/ MMBtu	Alberta Average Plantgate (2) $C/ MMBtu	Alberta Aggregator Plantgate $C/ MMBtu	Empress $C/ MMBtu	Sask Prov. Gas Plantgate $C/ MMBtu	British Columbia Average Plantgate $C/ MMBtu	British Columbia Station 2 $C/ MMBtu	Inflation %	US/CAN Exchange Rate %US/$C
Forecast										
2023	4.71	4.36	4.04	4.04	4.61	4.18	3.83	4.26	0.0	.735
2024	4.50	4.77	4.44	4.44	4.82	4.59	4.29	4.72	2.0	.745
2025	4.27	4.47	4.14	4.14	4.52	4.29	4.03	4.47	2.0	.755
2026	4.35	4.49	4.17	4.17	4.54	4.31	4.06	4.49	2.0	.765
2027	4.44	4.53	4.20	4.20	4.58	4.35	4.09	4.53	2.0	.775
2028	4.53	4.62	4.29	4.29	4.67	4.44	4.18	4.62	2.0	.775
2029	4.62	4.71	4.38	4.38	4.76	4.53	4.27	4.71	2.0	.775
2030	4.71	4.80	4.47	4.47	4.85	4.62	4.37	4.80	2.0	.775
2031	4.80	4.89	4.56	4.56	4.94	4.71	4.46	4.89	2.0	.775
2032	4.90	4.99	4.66	4.66	5.04	4.81	4.56	4.99	2.0	.775
2033	5.01	5.09	4.75	4.75	5.14	4.91	4.65	5.09	2.0	.775
2034	5.11	5.19	4.85	4.85	5.24	5.01	4.74	5.19	2.0	.775
2035	5.21	5.30	4.95	4.95	5.35	5.11	4.84	5.30	2.0	.775
2036	5.31	5.40	5.04	5.04	5.46	5.21	4.94	5.40	2.0	.775
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.0	.775

Notes:
(1) Historical prices based on AECO 7A (near month process). 5A (daily price) expected to be equal to 7A over long term. 2021 historical prices: 7A 3.55/MMBTU, 5A $3.60/MMBTU.
(2) This forecast also applies to direct sales contracts and the Alberta gas reference price used in the Crown royalty calculations.

Additional Information Relating to Reserves Data

Undeveloped Reserves

The following discussion generally describes the basis on which Castlegate attributes proved and probable undeveloped reserves and its plans for developing those undeveloped reserves.

Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty to be recoverable where significant expenditure is required to render them capable of production. Probable undeveloped reserves are those additional reserves that are less certain to be recovered than proved reserves where significant expenditure is required to render them capable of production. The Castlegate Reserves Report contains proved and probable undeveloped reserves that have been estimated in accordance with the procedures and standards contained in the COGE Handbook.

There are a number of factors that could result in delayed or cancelled development, including the following: (i) changing economic conditions (due to pricing, operating and capital expenditure fluctuations); (ii) changing technical conditions (including production anomalies, such as water breakthrough or accelerated depletion); (iii) multi-zone developments (for instance, a prospective formation completion may be delayed until the initial completion is no longer economic); (iv) a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and (v) surface access issues (including those relating to land owners, weather conditions and regulatory approvals). For more information see "*Risk Factors*" herein and in the AIF.

Proved Undeveloped Reserves

The undeveloped reserves are located in Wilson Creek area. Proved undeveloped reserves have been assigned in areas where the reserves can be estimated with a high degree of certainty. In most instances, proved undeveloped reserves will be assigned on lands immediately offsetting existing producing wells within the same accumulation or pool. GLJ has assigned 442 Mboe (net after royalty), 524 Mboe company interest (gross) of proved undeveloped reserves in the Castlegate Reserves Report with $12.2 million of associated undiscounted capital (before tax).

Probable Undeveloped Reserves

Probable undeveloped reserves have been assigned in areas where the reserves can be estimated with less certainty. It is equally likely that the actual remaining quantities recovered will be greater or less than the proved plus probable reserves. In most instances probable undeveloped reserves have been assigned on lands in the area with existing producing wells but there is some uncertainty as to whether they are directly analogous to the producing accumulation or pool. GLJ has assigned 1,524 Mboe (net after royalty) 1,894 Mboe company interest (gross) of probable undeveloped reserves in the Castlegate Reserves Report with $23.0 million of associated undiscounted capital (before tax).

Significant Factors or Uncertainties Affecting Reserves Data

The process of evaluating reserves is inherently complex. It requires significant judgment and decision-making on the basis of the available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance become available and as economic conditions impacting oil and gas prices and costs change. The reserves estimates contained herein are based on production expectations, prices and economic conditions as at December 31, 2022. Factors and assumptions that affect these reserves estimates include, among other things: (a) historical production in the area compared with production rates from analogous producing areas; (b) initial production rates; (c) production decline rates; (d) ultimate recovery of reserves; (e) success of future development activities; (f) marketability of production; (g) effects of government regulations; and (h) other government levies imposed over the life of the reserves.

As circumstances change and additional data become available, reserves estimates may also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well and reservoir performance, geological conditions, production, prices, economic conditions and governmental restrictions. These revisions can be either positive or negative.

In connection with its operations, abandonment, decommissioning and reclamation costs for producing wells, suspended wells, service wells, gathering systems, facilities and surface land development will be incurred in respect of Castlegate's assets. Abandonment, decommissioning and reclamation costs for all producing wells and future locations have been forecasted by Castlegate at approximately $92,000/well. Abandonment, decommissioning and reclamation costs for non-producing wells and other components (including but not limited to items such as: gathering systems, facilities, surface land development, etc.) have been forecasted at the property level. The estimates of the future net revenues for Castlegate's assets disclosed in the Castlegate Reserves Report from which $4.6 million (undiscounted) was deducted for abandonment, decommissioning and reclamation costs.

The evaluated oil and gas properties of Castlegate's assets have no material extraordinary risks or uncertainties beyond those that are inherent in unconventional oil and gas exploration and production operations. See "*Risk Factors*" herein and in the AIF.

Future Development Costs

The following table sets forth development costs deducted in the estimation of future net revenue attributable to the reserves categories noted below for Castlegate's assets.

	Development Cost Forecast	
Year	**Total Proved ($M)**	**Total Proved Plus Probable ($M)**
2023	4.7	4.7
2024	7.4	7.4
2025	-	9.6
2026	-	13.4
2027	-	-
Remainder	-	-
Total (Undiscounted)	**12.2**	**35.2**
Total (Discounted at 10%)	**10.8**	**28.0**

The Company's current cash balance, internally-generated cash flow, and future debt and equity placements could allow the Company to complete the development costs specified above. There can be no guarantee that funds will be available or that the Board will allocate funding to develop all of the reserves attributed to Castlegate's assets in the Castlegate Reserves Report. Failure to develop those reserves could have a negative impact on our future cash flows.

The interest or other costs of external funding are not included in the reserves and future net revenue estimates set forth above and would reduce reserves and future net revenue to some degree depending upon the funding sources utilized. The Company does not anticipate that interest or other funding costs would make development of any of Castlegate's assets uneconomic.

The future development costs set forth above do not include costs associated with abandonment and reclamation obligations. See *"Significant Factors or Uncertainties Affecting Reserves Data"* above.

Other Oil and Natural Gas Information

Principal Oil and Natural Gas Properties

The following is a description of the Castlegate's principal oil and natural gas properties that are on production or under development as of December 31, 2022. Information in respect of current production is average production, net to its working interest, except where otherwise indicated. Reserves noted are company interest reserves which include both working interest and royalty interest values.

Castlegate's oil and natural gas properties are concentrated in the Wilson Creek and Westrose areas. The Turin property located in Alberta has no booked reserves.

Oil and Natural Gas Wells

The following table sets forth the number and status of wells as of December 31, 2022 in which the Company will acquire a working interest pursuant to the Castlegate Acquisition, all of which are located in Alberta.

Area	Oil		Gas	
	Gross	Net	Gross	Net
Alberta				
Producing	18	11.4	11	3.2
Non-Producing	18	9.8	18	1.5
Total	**36**	**21.2**	**29**	**4.6**

Properties with No Attributed Reserves

The following table sets out for Castlegate's assets, the developed and undeveloped land holdings as at December 31, 2022.

Area	Developed Acres		Undeveloped Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	17,760	5,485	5,600	5,181	23,360	10,660

None of the rights to explore, develop and exploit these gross undeveloped land holdings could expire by December 31, 2023.

Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves

The Company does not anticipate any significant economic factors or significant uncertainties will affect any particular components of Castlegate's assets with no attributed reserves. However, the Company's decision to develop Castlegate's assets with no attributed reserves can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs and royalty regimes, all of which are beyond the Company's control. There are no unusually significant abandonment and reclamation costs with Castlegate's assets with no attributed reserves.

Forward Contracts

Castlegate has not entered into any risk management contracts.

Tax Horizon

As at December 31, 2022, Castlegate had approximately $10.3 million of available tax pools. It is expected, based upon current legislation, the projections contained in the Castlegate Reserves Report for Castlegate's assets, and various other assumptions, that cash taxes with expected to become payable in 2023 and thereafter. A higher or lower level of capital expenditures than those currently contemplated could further extend or shorten the estimated tax horizon.

Costs Incurred

The following table summarizes Castlegate's property acquisition costs, exploration costs and development costs for the 12-months ended December 31, 2022. Consistent with the presentation of the Castlegate Reserves Report, the summary of costs incurred relates to the properties to be acquired by Highwood. The amounts reported as unproved acquisition costs and exploration costs are consistent with capital expenditures classified as exploration and evaluation assets under IFRS. The amounts reported as proved acquisition costs and development costs are consistent with capital expenditures classified as property, plant and equipment under IFRS.

Acquisitions and Capital Expenditures

Nature of Cost	Amount (M$)
Corporate Acquisition Costs	0
Property Acquisition Costs	0
Unproved	0
Proved	0
Exploration Costs(1)	0
Development Costs(2)	7.0
Total	**7.0**

Notes:

(1) Geological and geophysical capital expenditures and drilling costs for exploration wells.

(2) Development costs include development drilling costs and equipping, tie-in and facility costs for all wells.

Exploration and Development Activities

The following table sets forth the gross and net development wells completed by Castlegate during the 12-months ended December 31, 2022 in respect of Castlegate's assets:

	Development Wells		Exploration Wells	
	Gross	**Net**	**Gross**	**Net**
Light and Medium Crude Oil	2	1.95	0	0
Conventional Natural Gas	0	0	0	0
Service	0	0	0	0
Dry and Abandoned	1	1	0	0
Stratigraphic Test	0	0	0	0
Total	3	2.95	0	0

Production Estimates

The following table sets out the first-year production forecast of volumes of Castlegate's working interest (Company Gross) production for each product type estimated by GLJ for the period of January 1, 2023 through December 31, 2023 in the Castlegate Reserves Report which is reflected in the estimate of future net revenue disclosed in the tables above. Actual results may differ significantly from the information below. See "*Cautionary Note Regarding Forward-Looking Statements*" and "*Risk Factors*" herein and in the AIF.

	Light and Medium Oil (bbl/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (bbl/d)	(boe/d)
Total Proved	546	836	120	806
Total Probable	38	45	6	51
Total Proved + Probable	584	881	126	856

Production History

Average Daily Production

The following table sets forth, by product type, the average net daily production volumes, product prices received, royalties paid, operating expenses and resulting netbacks with respect to Castlegate's assets, quarterly and for the year ended December 31, 2022.

Three months ended	March 31	June 30	September 30	December 31	Year ended December 31, 2022
Average Daily Production[1]					
Light and Medium oil (bbl/d)	487	686	634	641	613
Natural Gas (Mcf/d)	900	1015	917	930	940
NGLs (bbl/d)	78	95	127	159	115
Total (boe/d)	**715**	**951**	**914**	**956**	**885**
BOE Metrics ($/boe)					
Price	87.14	109.84	91.07	83.95	93.38
Royalties	12.43	20.30	23.35	20.89	19.69
Production Costs	9.09	7.68	8.05	7.80	8.09
Netback	**65.62**	**81.85**	**59.66**	**55.26**	**65.60**

Note:
(1) Production is presented before royalties.

APPENDIX D – CASTLEGATE FINANCIAL STATEMENTS

(see attached)

Castlegate Energy Ltd.

Condensed Interim Consolidated Statements of Financial Position

(unaudited)

		March 31, 2023		December 31, 2022
Assets				
Current				
Cash	$	8,076,565	$	6,090,345
Accounts receivable		2,175,425		2,058,298
Prepaid expenses and deposits		34,966		303,581
		10,286,956		8,452,224
Property, plant and equipment (note 4)		21,462,121		17,582,833
	$	31,749,077	$	26,035,057
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities	$	8,595,012	$	4,687,707
Decommissioning obligations (note 5)		80,080		80,095
		8,675,092		4,767,802
Decommissioning obligations (note 5)		1,514,439		1,515,589
Deferred income tax		1,966,310		2,316,952
Shareholders' equity				
Share capital (note 6)		486,000		486,000
Contributed surplus (note 6)		400,000		400,000
Retained earnings		18,707,236		16,548,714
		19,593,236		17,434,714
	$	31,749,077	$	26,035,057

See accompanying notes to the condensed interim consolidated financial statements

Castlegate Energy Ltd.

Condensed Interim Consolidated Statements of Income and Comprehensive Income

(unaudited)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Revenues:		
Oil and gas revenue (note 7)	$ 6,100,982	$ 5,666,572
Royalty revenue (note 7)	30,761	53,553
Royalties	(1,429,595)	(799,311)
	4,702,148	4,920,814
Expenses:		
Administrative	113,366	141,194
Operating	656,601	545,443
Transportation	109,187	101,041
Depletion and depreciation (note 4)	1,030,177	841,215
	1,909,331	1,628,893
Other (income) expenses:		
Interest and finance expense	14,770	16,190
Interest income	(25,252)	(289)
	(10,482)	15,901
Income before income taxes	2,803,299	3,276,020
Taxes:		
Current income tax expense	995,419	569,616
Deferred income tax expense (recovery)	(350,642)	168,869
	644,777	738,485
Net income	$ 2,158,522	$ 2,537,535

See accompanying notes to the condensed interim consolidated financial statements

Castlegate Energy Ltd.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Cash provided by (used in):		
Operating activities:		
Net income	$ 2,158,522	$ 2,537,535
Non-cash items:		
Depletion and depreciation (note 4)	1,030,177	841,215
Finance expense (note 5)	14,770	16,190
Income tax expense	644,777	738,485
Decommissioning obligations settled (note 5)	(15)	33,030
	3,848,231	4,166,455
Change in non-cash working capital (note 8)	(379,082)	(479,539)
	3,469,149	3,686,916
Investing activities:		
Property, plant and equipment additions (note 4)	(4,925,385)	(2,964,965)
Change in non-cash working capital (note 8)	3,442,456	(635,818)
	(1,482,929)	(3,600,783)
Change in cash	1,986,220	86,133
Cash, beginning of period	6,090,345	1,667,825
Cash, end of period	$ 8,076,565	$ 1,753,958

See accompanying notes to the condensed interim consolidated financial statements

Castlegate Energy Ltd.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

	Common shares	Contributed surplus	Retained earnings	Shareholders' equity
Balance January 1, 2023	486,000	400,000	16,548,714	17,434,714
Net income	-	-	2,158,522	2,158,522
Balance March 31, 2023	486,000	400,000	18,707,236	19,593,236
Balance January 1, 2022	5,250,000	890,000	3,894,862	10,034,862
Net Income	-	-	2,537,535	2,537,535
Balance as at March 31, 2022	5,250,000	890,000	6,432,397	12,572,397

See accompanying notes to the condensed interim consolidated financial statements

1. Nature of operations

Castlegate Energy Ltd. (“Castlegate” or “the Company”) is a privately owned, crude oil and natural gas company, engaged in the acquisition, exploration, development and production of crude oil and natural gas from properties located in the province of Alberta, Canada. The Company’s corporate head office address is located at 300, 715 – 5th Ave. SW, Calgary, AB T2P 2X6.

2. Basis of preparation

Statement of compliance and authorization

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”) using the same accounting policies as those set out in Note 3 of the audited financial statements for the year ended December 31, 2022. The condensed interim financial statements contain disclosures that are supplemental to the Company’s December 31, 2022 audited financial statements. Certain disclosures, which are normally required to be included in the notes to the audited annual financial statements have been condensed or omitted. The condensed interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2022.

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on June 12, 2023.

3. Estimation uncertainty

Management makes judgments and assumptions about the future in deriving estimates used in preparation of these financial statements in accordance with International Financial Reporting Standards. Sources of estimation uncertainty include estimates used to determine economically recoverable oil, natural gas, and natural gas liquids reserves, the recoverable amount of long-lived assets or cash-generating unit and the provision for decommissioning obligations.

A full list of the key sources of estimation uncertainty can be found in note 2 of the annual consolidated financial statements for the year ended December 31, 2022.

4. Property, plant and equipment

(a) Oil and natural gas assets

As at	**March 31, 2023**	December 31, 2022
Cost		
Balance, beginning of the period	**25,125,805**	18,648,998
Decommissioning obligations	**(15,920)**	(534,990)
Additions	**4,925,385**	7,011,797
Balance, end of the period	**30,035,270**	25,125,805
Accumulated depletion and depreciation		
Balance, beginning of the period	**(7,542,972)**	(3,402,188)
Depletion and depreciation	**(1,030,177)**	(4,140,784)
Balance, end of the period	**(8,573,149)**	(7,542,972)
Net carrying value, end of the period	**21,462,121**	17,582,833

The Company did not capitalize any of its general and administrative costs.

(a) Depletion, depreciation and impairment

The depletion cost base includes future development costs ("FDC") associated with proved and probable reserves. At March 31, 2023, the Company estimated its FDC to be $32.0 million (December 31, 2022 - $35.2 million).

There were no indications of impairment as at March 31, 2023 or December 31, 2022.

5. Decommissioning obligations

The following table presents the continuity of the Company's decommissioning obligations.

As at	**March 31, 2023**	December 31, 2022
Balance, beginning of the period	**1,595,684**	2,205,175
Obligations settled	**(15)**	(137,141)
Obligations incurred	**49,920**	134,830
Changes in estimates	**(65,840)**	(669,820)
Accretion	**14,770**	62,640
Total	**1,594,519**	1,595,684
Current portion of decommissioning obligations	**80,080**	80,095
Balance, end of the period	**1,514,439**	1,515,589

The future estimated cash outflows required to settle the obligations have been discounted using a risk-free rate of 3.02% at March 31, 2023 (December 31, 2022 at 3.3%). An inflation rate of 1.68% at March 31, 2023 (December 31, 2022 at 2.1.%) was used as an estimate to determine the future cash outflows required to settle the obligations. The total undiscounted and uninflated amount of future cash outflows as estimated at March 31, 2023 was $2.9 million (December 31, 2022 - $2.8 million). Payments to settle decommissioning obligations occur over the operating lives of the underlying assets, estimated to be over the next 40 years, with most of the expected expenditures to be incurred between 2026 and 2063.

6. Share capital

During the three month period ended March 31, 2023 there has been no change in share capital.

(a) Authorized shares

Unlimited voting common shares – without nominal or par value
Unlimited non-voting common shares – without nominal or par value

(b) Issued voting common shares

	Number	$
Balance, December 31, 2021	**5,250,000**	**5,250,000**
Warrant exercise	**787,500**	**1,023,750**
Contributed surplus on warrant exercise	-	**490,000**
Return of capital	-	**(6,273,750)**
Share issue expense	-	**(4,000)**
Balance, December 31, 2022 and March 31, 2023	**6,037,500**	**486,000**

The following table presents the continuity of contributed surplus.

As at	March 31, 2023	December 31, 2022
Balance, beginning of the period	**400,000**	890,000
Exercise of warrants	**-**	(490,000)
Balance, end of the period	**400,000**	400,000

7. Revenues

The Company derives its revenue from contracts with customers for oil and natural gas sales through the transfer of commodities at particular sales points and for processing income through the provision of services at particular facilities. The company also receives overriding royalties on various wells. Royalty revenue from these wells for the three months ended March 31, 2023 was $30,761 (March 31, 2022 - $53,553). All revenue of the Company is generated through sales in Alberta.

Oil and natural gas sales are comprised of the following major product types.

	Three Months ended March 31, 2023	Three Months ended March 31, 2022
Crude oil	**5,380,847**	4,972,204
Natural gas liquids	**456,574**	303,691
Natural gas	**263,561**	390,677
Total	**6,100,982**	5,666,572

8. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Three Months ended March 31, 2023	Three Months ended March 31, 2022
Cash provided by (used in):		
Accounts receivable	**(117,127)**	1,048,737
Prepaid expenses and deposits	**268,615**	16,988
Accounts payable and accrued liabilities	**2,911,886**	(2,181,082)
	3,063,374	(1,115,357)
Related to:		
Operating activities	**(379,082)**	(479,539)
Investing activities	**3,442,456**	(635,818)
Changes in non-cash working capital for the year	**3,063,374**	(1,115,357)

9. Risk management and financial instruments

(a) Overview of risk management

The Company's activities expose it to a variety of financial risks that arise from its exploration, development, production and financing activities. The risks include credit risk, liquidity risk and market risk. The Company employs risk management strategies and polices to ensure that any exposure to risk complies with the Company's business objectives and risk tolerance levels. While the Board of Directors of the Company has the overall responsibility for the establishment and oversight of the Company's risk management framework, management has the responsibility to administer and monitor these risks.

(b) 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 Company's accounts receivable are substantially with oil and natural gas marketers and industry partners.

The Company's operations are conducted in Canada. The Company's exposure to credit risk is based on the credit worthiness of each customer, however, changes in industry conditions that negatively impact its customers' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies to which credit is extended.

The Company currently markets its production to one oil and natural gas marketers and monitors its credit rating. Revenues from the sale of oil and natural gas are normally collected on the 25th day of the month following production.

The Company has not recorded an expected credit loss as at March 31, 2023 and December 31, 2022. When determining whether past due accounts are collectible, the Company factors in the credit history of the counterparties. The Company considers amounts outstanding more than 90 days as past due. The maximum exposure to credit risk is the amount of cash, accounts receivable, and prepaid expenses and deposits. Cash is on deposit at a Canadian chartered bank. Prepaid expenses and deposits are with industry partners.

Accounts receivables comprised of the following carrying amounts, of which $220 as at March 31, 2023 was greater than 90 days (March 31, 2022 - $69,400).

As at	**March 31, 2023**	December 31, 2022
Oil and natural gas revenue	**1,783,904**	1,800,034
Industry partners	**391,521**	258,264
Total trade and other receivables	**2,175,425**	2,058,298

(c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Company's earnings or the value of financial instruments. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for oil and natural gas are impacted by global economic and political events that dictate the levels of supply and demand. Management continuously monitors commodity prices and contracts to manage exposure to these risks when it deems appropriate. The Company does not utilize derivative financial instruments for trading or speculative purposes.

The Company's production is sold using "spot" or near-term contracts, with prices fixed at the time of transfer of custody or based on a monthly average market price. The Company did not have any financial commodity price contracts outstanding at March 31, 2023 or December 31, 2022.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by monitoring cash flows from operating activities, reviewing actual capital expenditures against budget, managing maturity profiles of financial assets and liabilities and managing its commodity price risk management program. These activities ensure sufficient funds are available to meet the Company's financial obligations when due.

The Company has financial liabilities comprised of accounts payable and accrued liabilities at March 31, 2023 of $8,595,012 which mature within one year.

Management prepares an operating and capital budget for presentation to the Board of Directors of the Company. Management presents quarterly updates of the operating and capital budgets (including potential acquisitions and dispositions) to the Board of Directors of the Company and adjustments to planned activities are made depending on projected cash flows and capital resources.

(e) Capital management

The Company's objective is to maintain access to sources of capital, defined to be working capital, shareholders' equity and cash flow from operations, with which to finance its operations. The Company manages its capital structure and revises the structure for changes in economic conditions, opportunities for accretive acquisitions and the risk characteristics of the underlying investments. The Company balances its overall capital structure through cash flow from operations and share issues as deemed appropriate in the circumstances. The Company is not subject to any externally imposed capital requirements.

(f) Fair value

The carrying value of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities included in the statement of financial position approximate fair value due to the short-term nature of those instruments.

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel 403-691-8000
Fax 403-691-8008
www.kpmg.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Castlegate Energy Ltd.

Opinion

We have audited the consolidated financial statements of Castlegate Energy Ltd. (the Company), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS issued the by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
May 19, 2023

Castlegate Energy Ltd.
Consolidated Statements of Financial Position

		December 31, 2022		December 31, 2021
Assets				
Current				
Cash	$	6,090,345	$	1,667,825
Accounts receivable		2,058,298		4,229,545
Prepaid expenses and deposits		303,581		37,408
		8,452,224		5,934,778
Property, plant and equipment (note 4)		17,582,833		15,246,810
	$	26,035,057	$	21,181,588
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities	$	4,687,707	$	7,512,272
Decommissioning obligations (note 5)		80,095		62,112
		4,767,802		7,574,384
Decommissioning obligations (note 5)		1,515,589		2,143,063
Deferred income tax (note 11)		2,316,952		1,429,279
Shareholders' equity				
Share capital (note 6)		486,000		5,250,000
Contributed surplus (note 6)		400,000		890,000
Retained earnings		16,548,714		3,894,862
		17,434,714		10,034,862
	$	26,035,057	$	21,181,588

See accompanying notes to the consolidated financial statements

"David Eastham"
Director

"Gary Simpson"
Director

Castlegate Energy Ltd.
Consolidated Statements of Income and Comprehensive Income

	Year Ended December 31, 2022	Year Ended December 31, 2021
Revenues:		
Oil and gas revenue (note 8)	$ 30,464,830	$ 9,237,954
Royalty revenue (note 8)	170,580	360,316
Royalties	(6,356,978)	(1,267,750)
	24,278,432	8,330,520
Expenses:		
Administrative	775,038	402,189
Operating	2,502,454	1,212,370
Transportation	466,781	214,028
Depletion and depreciation (note 4)	4,140,784	1,685,958
	7,885,057	3,514,545
Other (income) expense:		
Interest and finance expense (note 5)	62,640	56,590
Other income (note 5)	(25,000)	(380,234)
	7,922,697	3,190,901
Income before income taxes	16,355,735	5,139,619
Taxes: (note11)		
Current income tax expense	2,814,210	-
Deferred income tax expense	887,673	1,182,112
	3,701,883	1,182,112
Net income for the year	$ 12,653,852	$ 3,957,507

See accompanying notes to the consolidated financial statements

Castlegate Energy Ltd.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash provided by (used in):		
Operating activities:		
Net income for the year	$ 12,653,852	$ 3,957,507
Non-cash items:		
Depletion and depreciation (note 4)	4,140,784	1,685,958
Finance expense (note 5)	62,640	56,590
Income tax expense (note 11)	3,701,883	1,182,112
Other income (note 5)	(25,000)	(380,234)
Decommissioning obligations settled (note 5)	(112,141)	(131,892)
	20,422,018	6,370,041
Change in non-cash working capital (note 9)	632,320	(964,619)
	21,054,338	5,405,422
Financing activities:		
Return of capital (note 6)	(5,250,000)	-
Share issue costs	(4,000)	-
	(5,254,000)	-
Investing activities:		
Property, plant and equipment additions (note 4)	(7,011,797)	(9,587,170)
Property, plant and equipment asset acquisitions (note 4)	-	(452,500)
Change in non-cash working capital (note 9)	(4,366,022)	4,277,589
	(11,377,819)	(5,762,081)
Change in cash	4,422,519	(356,659)
Cash, beginning of year	1,667,826	2,024,484
Cash, end of year	$ 6,090,345	$ 1,667,825

See accompanying notes to the consolidated financial statements

Castlegate Energy Ltd.
Consolidated Statements of Changes in Shareholders' Equity

	Comon shares	Contributed surplus	Retained earnings	Shareholders' equity
Balance January 1, 2021	5,250,000	890,000	(62,645)	6,077,355
Net income for the year	-	-	3,957,507	3,957,507
Balance December 31, 2021	5,250,000	890,000	3,894,862	10,034,862
Balance January 1, 2022	5,250,000	890,000	3,894,862	10,034,862
Common shares (note 6)	(6,273,750)	-	-	(6,273,750)
Warrant exercise (note 6)	1,513,750	(490,000)	-	1,023,750
Share Issue costs (note 6)	(4,000)	-	-	(4,000)
Net income for the year	-	-	12,653,852	12,653,852
Balance December 31, 2022	486,000	400,000	16,548,714	17,434,714

See accompanying notes to the consolidated financial statements

1. Nature of operations

Castlegate Energy Ltd. ("Castlegate" or "the Company") is a privately owned, crude oil and natural gas company, engaged in the acquisition, exploration, development and production of crude oil and natural gas from properties located in the province of Alberta, Canada. The Company's corporate head office address is located at 300, 715 – 5th Ave. SW, Calgary, AB T2P2X6.

2. Basis of preparation

Statement of compliance and authorization

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") as set forth in Note 3.

The financial statements were approved and authorized for issuance by the Board of Directors on May 18, 2023.

Reporting entity

The financial statements of the Company comprise the Company only as its wholly owned subsidiary, 231882 Alberta Ltd.

Basis of measurement

The financial statements have been prepared on an historical cost basis, except for certain financial and non-financial assets and liabilities, which have been measured at fair value.

Functional and presentation currency

The financial statements are presented in Canadian dollars, the Company's functional currency.

Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period of revision and in any future years affected.

Business combinations

The initial recognition of business combinations requires management judgment in making key assumptions and estimating fair values in determining the purchase price allocation to the identifiable assets, liabilities and contingent liabilities for each acquisition or combination.

Cash-generating units ("CGU")

The Company's assets are aggregated into CGUs for calculating impairment. Cash-generating units are determined based on the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Determination of CGUs is subject to management's judgment and is based on geology, geographical proximity, shared infrastructure, similar exposure to market risk and how management monitors its operations. The asset composition of the Company's CGUs could change due to new information and circumstances.

The Company has one CGU for the years ended December 31, 2022 and 2021.

Impairment

Judgment is required to assess when indicators of impairment or impairment reversal exist and testing for the recoverability of assets is necessary. Determining the recoverable amount of assets, in the absence of quoted market prices, is based on the estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates and other relevant factors. The key estimates used in the determination of cash flows from crude oil and natural gas assets are outlined below:

> Reserves – Assumptions that are valid at the time of the reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production levels or results of future drilling may change the economic status of reserves and may result in reserves being revised.
>
> Oil and natural gas prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, access to facilities and pipelines, inventory levels, exchange rates, weather and economic and geopolitical factors.
>
> Operating, royalty and capital costs – Future operating, royalty and capital costs are used in the cash flow model, based on an analysis of actual costs incurred in recent years and then escalated for assumed future inflation. Actual results in the future may vary considerably from these estimates.
>
> Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of a discount rate specific to the risk of the CGU being assessed for impairment. Changes in the general economic environment could result in significant changes to this estimate.

Reserve estimates also have a financial effect on depletion expense and decommissioning obligations. The reserve estimates at December 31, 2022 were evaluated by a third-party reserve evaluator, who work with information provided by the Company to establish reserve amounts in accordance with National Instrument ("NI" 51-101, Standards of Disclosure for Oil and Gas Activities). The reserve estimates at December 31, 2021 were based on a third party reserve evaluator reserve estimates at March 31, 2022 and internally adjusted for company production and capital activity during the period from December 31, 2021 to March 31, 2022. Changes in circumstances may impact these estimates which could have a material effect in future periods.

Deferred taxes

Deferred taxes are based on estimates as to the timing over which temporary differences will reverse, substantially enacted income tax rates applicable to future years and the likelihood of assets being realized. The estimate of future capital activities can impact the timing of the reversal of any temporary differences. Judgements are made by management to determine the likelihood of whether deferred income tax assets at the end of every reporting period will be realized from future taxable earnings.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

Decommissioning obligations

Amounts recorded for decommissioning obligations require the use of estimates with respect to the amount and timing of decommissioning expenditures and discount rates. Actual costs incurred can differ from estimates due to public expectations, changes in laws and regulations, market conditions, discovery and analysis of site conditions and changes in technology.

Stock based compensation

The estimated fair value of stock options and warrants uses pricing models such as the Black-Scholes model which is based on assumptions such as the price of the option, the life of the option, dividend yields, interest rates, volatility and forfeiture rates. Judgement is required by management in determining these assumptions.

Changing regulation

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board has issued a draft IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements other than as disclosed herein.

Jointly owned assets

The Company’s oil and natural gas activities consist of jointly owned and operated assets, which are not conducted through separate vehicles. The financial statements include the Company’s share of these jointly owned assets, liabilities, revenue and expenses.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of oil and natural gas assets includes: the cost of acquisitions, the costs to drill a well and the costs of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the estimated cost of asset retirement; geological and geophysical costs; and directly attributable internal costs.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in earnings.

Subsequent costs

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Depletion and depreciation

The net carrying value of the oil and natural gas assets is depleted using the unit of production method based on estimated proved plus probable reserves, including estimated future development costs necessary to bring those reserves into production.

Impairment

Financial assets

The Company recognizes loss allowances for expected credit losses ("ECL") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the life of a financial asset. ECLs are a probability-weighted estimate of credit losses and are discounted at the effective interest rate of the related financial asset.

Non-financial assets

Exploration and evaluation assets are assessed for impairment when they are transferred to property, plant and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to their related cash-generating unit ("CGU"). The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment or impairment reversal. If any such indication exists, then the recoverable amount of each CGU is estimated at the greater of its value in use (VIU) and its fair value less costs to sell (FVLCS).

FVLCS is estimated based on the discounted present value of the future cash flows generated by the CGU, including development prospects. The future cash flows are those estimated for proved plus probable reserves using forecast prices and costs as prepared by a qualified reserves evaluator. The discount rate is the rate likely to be applied by an independent market participant. The Company may also consider an evaluation of comparable asset transactions. VIU is estimated based on the discounted present value of the future cash flows from proved and probable reserves using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in earnings if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

An impairment reversal is recognized in earnings if there has been a subsequent increase in the estimate of the recoverable amount following the recognition of an impairment loss in prior periods. The reversal of prior impairment is recognized only to the extent of the increase in the estimated recoverable amount or the asset's carrying amount, net of depletion, that would have resulted had no impairment loss been recognized on the asset in prior periods.

Decommissioning obligations

Decommissioning obligations are recognized in the period in which a well or related asset is drilled, constructed or acquired, based on the discounted present value of estimated future costs to abandon and reclaim oil and natural gas properties. The future cash flows are discounted using a pre-tax risk-free rate and this amount is initially capitalized as part of the carrying amount of the related property, plant and equipment with a corresponding liability being recognized at the same time. The capitalized amount is depleted on the unit of production method on the same basis as the related asset while the liability is accreted to earnings until it is settled or sold. Changes in the estimated liability resulting from revisions to discount rates, expected timing or future asset retirement costs, are recognized as a change in the related asset and the asset retirement liability. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision.

Revenue

The Company primarily generates revenue from the sale of commodities, which include crude oil, natural gas and natural gas liquids. Revenue from the sale of commodities is recognized when control is transferred from the Company to its customer. This transfer is generally at the point in time the customer takes legal possession of the product through the physical transfer of the product at the delivery point agreed with the customer, generally pipelines or product receipt terminals. The revenue is measured based on the consideration specified in the contracts with customers. Payment terms for the sales contracts are on the 25th day of the month following delivery.

Castlegate evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. Castlegate is considered the principal in a transaction when it has primary responsibility for the delivery of the product. If Castlegate acts as an agent rather than as the principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company for the transaction.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Stock based compensation

The fair value of stock based compensation is determined at the grant date using the Black-Scholes option-pricing model and is recognized over the vesting period of the options and warrants as stock based compensation expense and contributed surplus. Upon the exercise of the stock option or a warrant, consideration together with the amount previously recognized in contributed surplus, is credited to share capital. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial instruments, including derivatives, are recognized on the statement of financial position at fair value at the time the Company becomes a party to the contract. Subsequently, all financial assets and liabilities, except financial assets and liabilities carried at fair value through earnings, are measured at amortized cost determined using the effective interest method. Financial assets and liabilities carried at fair value through earnings or loss are measured at fair value with changes in fair value recognized in earnings.

Transaction costs attributable to financial instruments carried at fair value through earnings or loss are expensed as incurred. All other transaction costs related to the Company's financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has the legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or if it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company accounts for its physical commodity sales and purchase contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Settlements on these physical sales contracts are recognized in crude oil and natural gas sales.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity, net of any tax effects.

Business combinations

Business combinations are accounted for using the acquisition method. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Any excess of the fair value of the consideration transferred over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the fair value of the consideration transferred below the fair value of the net assets acquired is recorded as a gain on acquisition through earnings. Transaction costs associated with the acquisition are expensed when incurred.

Leases

Leases or contractual obligations are capitalized as right of use assets with a corresponding lease obligation on the statement of financial position calculated as the present value of future lease payments. The effective interest method is applied to the lease and the right of use asset is depreciated over the term of the lease. The discount rate used to determine the present value of future lease payments is the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Certain lease payments will continue to be expensed through earnings. These types of leases would be short-term leases equal to or less than twelve months, variable lease payments, leases for the purpose of oil and gas extraction or leases whereby the underlying asset is of low value.

Income taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. When the conditions of a grant relate to income or expense, it is recognized in earnings in the period in which the expenditures are incurred or income is earned. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related assets and amortized into income through depletion and depreciation.

4. Property, plant and equipment

(a) Oil and natural gas assets

As at	**December 31, 2022**	December 31, 2021
Cost		
Balance, beginning of the year	**18,648,998**	8,516,628
Acquisitions	**-**	452,500
Decommissioning obligations	**(534,990)**	92,700
Additions	**7,011,797**	9,587,170
Balance, end of the year	**25,125,805**	18,648,998
Accumulated depletion and depreciation		
Balance, beginning of the year	**(3,402,188)**	(1,716,230)
Depletion and depreciation	**(4,140,784)**	(1,685,958)
Balance, end of the year	**(7,542,972)**	(3,402,188)
Net carrying value, end of the year	**17,582,833**	15,246,810

The Company did capitalize any of its general and administrative costs or stock based compensation associated with development activities for the year ended December 31, 2022 and 2021. Acquisitions during the year ended December 31, 2021 of $452,500 consisted of a number of land acquisitions located in the Company's CGU purchased from other operating companies at market values.

(a) Depletion, depreciation and impairment

The depletion cost base includes future development costs ("FDC") as appropriate. At December 31, 2022, the Company estimated its FDC to be $35.2 million (December 31, 2021 - $37.1 million).

There were no indications of impairment as at December 31, 2022 and 2021.

5. Decommissioning obligations

The following table presents the continuity of the Company's decommissioning obligations.

As at	**December 31, 2022**	December 31, 2021
Balance, beginning of the year	**2,205,175**	2,568,011
Obligations settled	**(137,141)**	(512,126)
Obligations incurred	**134,830**	718,301
Changes in estimates	**(669,820)**	(625,601)
Accretion (note 7)	**62,640**	56,590
Total	**1,595,684**	2,205,175
Current portion of decommissioning obligations	**80,095**	62,112
Balance, end of the year	**1,515,589**	2,143,063

The future estimated cash outflows required to settle the obligations have been discounted using a risk-free rate of 3.3% at December 31, 2022 (December 31, 2021 – 1.7%). An inflation rate of 2.1.% at

December 31, 2022 (December 31, 2021 – 1.8%) was used as an estimate to determine the future cash outflows required to settle the obligations. The total undiscounted and inflated amount of future cash outflows as estimated at December 31, 2022 was $2.8 million (December 31, 2021 - $2.7 million). Payments to settle decommissioning obligations occur over the operating lives of the underlying assets, estimated to be over the next 40 years, with most of the expected expenditures to be incurred between 2026 and 2050.

The discount rate increased from 1.7% at December 31, 2021 to 3.3% at December 31, 2022 resulting in a decrease in decommissioning obligations of $669,820 outlined as a change in estimates in the table above. During the year ended December 31, 2021 the changes in estimates of $625,601 was a result of of an increase in the discount rate from 1.2% at December 31, 2020 to 1.7% at December 31, 2022 as well as adjustments to costs and well lives.

During the year ended December 31, 2022, the Company incurred $137,141 (December 31, 2021 - $512,126) in abandoning 7 gross (1.5 net) wells, represented by $112,141 (December 31, 2021 - $131,892) funded from cash flow from operations and $25,000 (December 31, 2021 - $380,234) from eligible government grants from the Site Rehabilitation Program of the Government of Alberta.

Pursuant to the AER's mandatory spending requirement for the abandonment of inactive wells, sites and facilities, the Company was required to spend $62,112 in decommissioning obligations in 2022 (2021 - $nil). The Company is required to spend $80,095 in 2023 under the AER's mandatory spending requirement.

6. Share capital

(a) Authorized shares

Unlimited voting common shares – without nominal or par value
Unlimited non-voting common shares – without nominal or par value

(b) Issued voting common shares

	Number	**$**
Balance, December 31, 2021 and 2020	**5,250,000**	**5,250,000**
Warrant exercise	**787,500**	**1,023,750**
Contributed surplus on warrant exercise	-	**490,000**
Return of capital	-	**(6,273,750)**
Share issue expense	-	**(4,000)**
Balance, December 31, 2022	**6,037,500**	**486,000**

During the year ended December 31, 2022 787,500 warrants with an exercise price of $1.30 per share were exercised for total proceeds of $1,023,750. During the year ended December 31, 2022 the Company declared and paid a return of capital in the amount of its paid up capital of $6,273,750 ($1.04 per share).

The following table presents the continuity of contributed surplus.

As at	**December 31, 2022**	December 31, 2021
Balance, beginning of the year	**890,000**	890,000
Exercise of warrants	**(490,000)**	-
Balance, end of the year	**400,000**	890,000

The Company has provided for equity-settled, share based payments in the form of options and warrants to acquire voting common shares which the Board of Directors has granted to directors, officers and employees. Options of 525,000 with an exercise price of $1.00 were granted by the Board of Directors on May 15, 2018. Share based compensation recognized on issuance was $400,000. The options vested immediately on grant and expire on May 15, 2028. No other options have been issued, cancelled, forfeited or exercised since 2018.

Warrants of 787,500 with an exercise price of $1.30 were granted to management by the Board of Directors on May 15, 2018. Share based compensation recognized on issuance was $490,000. The warrants vested immediately on grant and expire on January 31, 2025.

The fair value of the options at the date of measurement was determined based on a Black-Scholes calculation with a volatility of 70%, exercise and share price of $1.00, expected option life of 10 years and a risk free interest rate of 2.4%.

The fair value of the warrants at the date of measurement was determined based on a Black-Scholes calculation with a volatility of 70%, share price of $1.00, exercise price of $1.30, expected warrant life of 6.7 years and a risk free interest rate of 2.4%.

At December 31, 2020, 2021 and 2022 there were 525,000 options outstanding and exercisable at a weighted average exercise price of $1.00 per share.

During the year ended December 31, 2022 the 787,500 warrants were exercised at $1.30 per share for gross proceeds of $1,023,750. Warrants of 787,500 were outstanding at December 31, 2021.

7. Finance costs

Finance costs are comprised of accretion of decommissioning obligations of $62,640 for the year ended December 31, 2022 (December 31, 2021 $56,590).

8. Revenues

The Company derives its revenue from contracts with customers for oil and natural gas sales through the transfer of commodities at particular sales points and for processing income through the provision of services at particular facilities. The company also receives overriding royalties on various wells. Royalty revenue from these wells for the year ended December 31, 2022 was $170,580 (2021 - $360,316). All revenue of the Company is generated through sales in Alberta.

Oil and natural gas sales are comprised of the following major product types.

	Year ended December 31, 2022	Year ended December 31, 2021
Crude oil	**26,771,075**	8,136,543
Natural gas liquids	**1,843,667**	577,353
Natural gas	**1,850,088**	524,058
Total	**30,464,830**	9,237,954

9. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Year ended December 31, 2022	Year ended December 31, 2021
Cash provided by (used in):		
Accounts receivable	**2,171,247**	(3,840,206)
Prepaid expenses and deposits	**(266,174)**	(3,679)
Accounts payable and accrued liabilities	**(5,638,775)**	7,156,855
	(3,733,702)	3,312,970
Related to:		
Operating activities	**632,320**	(964,619)
Investing activities	**(4,366,022)**	4,277,589
Changes in non-cash working capital for the year	**3,733,702**	3,312,970

10. Risk management and financial instruments

(a) Overview of risk management

The Company’s activities expose it to a variety of financial risks that arise from its exploration, development, production and financing activities. The risks include credit risk, liquidity risk and market risk. The Company employs risk management strategies and polices to ensure that any exposure to risk complies with the Company’s business objectives and risk tolerance levels. While the Board of Directors of the Company has the overall responsibility for the establishment and oversight of the Company’s risk management framework, management has the responsibility to administer and monitor these risks.

(b) 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 Company’s accounts receivable are substantially with oil and natural gas marketers and industry partners.

The Company's operations are conducted in Canada. The Company's exposure to credit risk is based on the credit worthiness of each customer, however, changes in industry conditions that negatively impact its customers' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies to which credit is extended.

The Company currently markets its production to one oil and natural gas marketers and monitors its credit rating. Revenues from the sale of oil and natural gas are normally collected on the 25th day of the month following production.

The Company has not recorded an expected credit loss as at December 31, 2022 and 2021. When determining whether past due accounts are collectible, the Company factors in the credit history of the counterparties. The Company considers amounts outstanding more than 90 days as past due. The maximum exposure to credit risk is the amount of cash, accounts receivable, and prepaid expenses and deposits. Cash is on deposit at a Canadian chartered bank. Prepaid expenses and deposits are with industry partners.

Accounts receivables comprised of the following carrying amounts, of which $0.01 million (December 31, 2021 - $0.2 million) as at December 31, 2022 was greater than 90 days.

As at	**December 31, 2022**	December 31, 2021
Oil and natural gas revenue	**1,800,034**	1,119,717
Industry partners	**258,264**	3,109,828
Total trade and other receivables	**2,058,298**	4,229,545

(c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Company's earnings or the value of financial instruments. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for oil and natural gas are impacted by global economic and political events that dictate the levels of supply and demand. Management continuously monitors commodity prices and contracts to manage exposure to these risks when it deems appropriate. The Company does not utilize derivative financial instruments for trading or speculative purposes.

The Company's production is sold using "spot" or near-term contracts, with prices fixed at the time of transfer of custody or based on a monthly average market price. The Company did not have any financial commodity price contracts outstanding at December 31, 2022 or 2021.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by monitoring cash flows from operating activities, reviewing actual capital expenditures against budget, managing maturity profiles of financial assets and liabilities and managing its commodity price risk management program. These activities ensure sufficient funds are available to meet the Company's financial obligations when due.

The Company has financial liabilities comprised of accounts payable and accrued liabilities at December 31, 2022 of $4,687,707 which mature within one year.

Management prepares an operating and capital budget for presentation to the Board of Directors of the Company. Management presents quarterly updates of the operating and capital budgets (including potential acquisitions and dispositions) to the Board of Directors of the Company and adjustments to planned activities are made depending on projected cash flows and capital resources.

(e) Capital management

The Company's objective is to maintain access to sources of capital, defined to be working capital, shareholders' equity and cash flow from operations, with which to finance its operations. The Company manages its capital structure and revises the structure for changes in economic conditions, opportunities for accretive acquisitions and the risk characteristics of the underlying investments. The Company balances its overall capital structure through cash flow from operations and share issues as deemed appropriate in the circumstances. The Company is not subject to any externally imposed capital requirements.

(f) Fair value

The carrying value of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities included in the statement of financial position approximate fair value due to the short-term nature of those instruments.

11. Income taxes

(a) Income tax rate reconciliation

The provision for income taxes varies from the amounts that would be computed by applying the effective Canadian federal and provincial income tax rates to the earnings (loss) before income taxes as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Earnings before income taxes	**16,355,735**	5,139,619
Expected future income tax rate	**23%**	23%
Expected income tax expense (recovery)	**3,761,819**	1,182,112
Differences resulting from:		
Permanent differences	**64**	-
Small business deduction	**(60,000)**	-
Deferred income tax expense (recovery)	**3,701,883**	1,182,112
Current income tax expense	**2,814,210**	-
Deferred income tax expense	**887,673**	1,182,112

(b) Movement in deferred tax balances during the year

The following table presents the movement in the deferred tax assets (liabilities) for the periods ended December 31, 2022 and 2021:

Year ended December 31, 2022	Opening Balance	Earnings	Other	Closing Balance
Property, plant & equipment	(1,592,887)	67,318	-	(1,525,569)
Decommissioning obligations	507,238	(140,158)	-	367,080
Deferred partnership income	(1,114,455)	(44,009)	-	(1,158,463)
Non-capital losses	770,825	(770,824)	-	-
Total	(1,429,279)	(887,673)	-	(2,316,952)
Year ended December 31, 2021	**Opening Balance**	**Earnings**	**Other**	**Closing Balance**
Property, plant & equipment	(890,908)	(701,979)	-	(1,592,887)
Decommissioning obligations	590,746	(83,508)	-	507,238
Deferred partnership income	-	(1,114,455)	-	(1,114,455)
Non-capital losses	52,995	717,830	-	770,825
Total	(247,167)	(1,182,112)	-	(1,429,279)

12. Supplemental information

(a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is comprised of the following:

	Year ended December 31, 2022	Year ended December 31, 2021
Salaries, benefits and severance	**360,000**	360,000

APPENDIX E – SELECTED RESERVES AND OIL AND GAS INFORMATION REGARDING SHALE

Summary of Reserves

The reserves data for Shale set forth below is based upon the Shale Reserves Report dated January 18, 2023, with an effective date of December 31, 2022, as prepared by GLJ. The reserves data summarizes the crude oil, natural gas and natural gas liquids reserves and the net present value of future net revenue for these reserves using forecast prices and costs. The Shale Reserves Report has been prepared in prepared in accordance with the Canadian standards set out in the COGE Handbook and NI 51-101.

The Shale Reserves Report was prepared for Shale and the Company is unable to assess Shale's procedures for providing information to GLJ or for assembling and reporting other information to GLJ associated with the Shale Business. See "*Risk Factors — Unexpected Costs or Liabilities Related to the Acquisitions*".

The tables below provide a summary of the oil, natural gas and natural gas liquids reserves attributable to Shale and the net present value of future net revenue attributable to such reserves as evaluated in the Shale Reserves Report, based on forecast price and cost assumptions. The tables summarize the data contained in the Shale Reserves Report and, as a result, may contain slightly different numbers than such report due to rounding. Due to rounding, certain columns may not add exactly.

The future net revenues and net present values was calculated using the average forecast price and costs of GLJ as of January 1, 2023 for the future crude oil, natural gas and natural gas product prices and were presented in Canadian dollars. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to reserves estimated by GLJ represent the fair market value of those reserves. Other assumptions and qualifications relating to costs, prices for future production and other matters are summarized herein. The recovery and reserve estimates of oil, natural gas and natural gas liquids provided herein are estimates only. Actual reserves may be greater than or less than the estimates provided herein. See "*Risk Factors*" herein and in the AIF.

All of Shale's reserves are located in the Province of Alberta.

Summary of Reserves as of December 31, 2022 — Forecast Prices and Costs

	Reserves									
	Light & Medium Oil		Conventional Natural Gas (Associated)		Conventional Natural Gas (Non-Associated)		Natural Gas Liquids(3)		Non-Conventional Natural Gas (Non-Associated)	
Reserves Category	**Gross(1) (bbls)**	**Net(2) (bbls)**	**Gross(1) (MMcf)**	**Net(2) (MMcf)**	**Gross(1) (MMcf)**	**Net(2) (MMcf)**	**Gross(1) (bbls)**	**Net(2) (Mbbl)**	**Gross (MMcf)**	**Net (MMcf)**
Proved										
Producing	13	13	3,486	3,197	0	0	317	253	0	0
Non-Producing	0	0	0	0	0	0	0	0	0	0
Undeveloped	0	0	6,164	5,395	0	0	488	366	0	0
Total Proved	**13**	**13**	**9,649**	**8,593**	**0**	**0**	**805**	**618**	**0**	**0**
Total Probable	**3**	**3**	**25,457**	**22,384**	**0**	**0**	**2,010**	**1,520**	**0**	**0**
Total Proved & Probable	**17**	**16**	**35,106**	**30,977**	**0**	**0**	**2,815**	**2,138**	**0**	**0**

Notes:
(1) Gross reserves are working interest reserves before royalty deductions.
(2) Net reserves are reserves after royalty deductions.
(3) Natural Gas Liquids includes Condensate volumes.

Summary of Net Present Value of Future Net Revenue as of December 31, 2022 — Forecast Prices and Costs

Reserves Category	Before Income Taxes Discounted at (%/year) @0% (M$)	@5% (M$)	@8% (M$)	@10% (M$)	@15% (M$)	@20% (M$)	Net Unit Value Before Tax @10% ($/boe)
Proved							
Producing	12,524	11,358	10,485	9,939	8,761	7,833	12.45
Non-Producing	0	0	0	0	0	0	0
Undeveloped	23,587	15,557	12,443	10,823	7,833	5,813	8.56
Total Proved	**36,111**	**26,915**	**22,928**	**20,762**	**16,594**	**13,646**	**10.06**
Total Probable	**114,696**	**67,063**	**50,875**	**42,956**	**29,269**	**20,735**	**8.18**
Total Proved + Probable	**150,807**	**93,978**	**73,803**	**63,718**	**45,863**	**34,381**	**8.71**

Reserves Category	After Income Taxes Discounted at (%/year) @0% (M$)	@5% (M$)	@8% (M$)	@10% (M$)	@15% (M$)	@20% (M$)	Net Unit Value After Tax @10% ($/boe)
Proved							
Producing	12,524	11,358	10,485	9,939	8,761	7,833	12.45
Non-Producing	0	0	0	0	0	0	0
Undeveloped	19,169	12,961	10,486	9,181	6,734	5,044	7.26
Total Proved	**31,693**	**24,319**	**20,971**	**19,120**	**15,495**	**12,878**	**9.27**
Total Probable	**88,283**	**51,220**	**38,492**	**32,251**	**21,457**	**14,739**	**6.14**
Total Proved + Probable	**119,976**	**75,539**	**59,463**	**51,371**	**36,952**	**27,617**	**7.02**

Total Future Net Revenue (Undiscounted) as of December 31, 2022 — Forecast Prices and Costs

Reserves Category	Revenue (M$)	Prod. Taxes, Surcharges & Royalties (M$)	Operating Costs (M$)	Development Costs (M$)	Abandonment Costs (M$)	Future Net Revenue Before Income Taxes (M$)	Future Income Taxes (M$)	Future Net Revenue After Income Taxes (M$)
Total Proved	101,543	15,438	33,809	11,726	4,459	36,111	4,418	31,693
Total Proved + Probable	377,098	57,979	112,441	49,515	6,355	150,807	30,832	119,976

Net Present Value of Future Net Revenue (Discounted) by Production Group as of December 31, 2022 — Forecast Prices and Costs

Reserves Category	Product Type	Future Net Revenue Before Income Taxes (discounted @ 10%) (M$)	Net Unit Value $/boe	Net Unit Value $/Mcf
Total Proved Reserves	Light and Medium Crude Oil (including Solution Gas and products)	1	10.75	1.79
	Conventional Natural Gas (Non-Associated and Products)	20,761	10.06	1.68
	Non-Conventional Oil and Gas	0	0	0

Reserves Category	Product Type	Future Net Revenue Before Income Taxes (discounted @ 10%) (M$)	Net Unit Value $/boe	Net Unit Value $/Mcf
Total Proved + Probable	Light and Medium Oil (including Solution Gas and products)	1	9.79	1.63
	Conventional Natural Gas (Non-Associated and Products)	63,717	8.71	1.45
	Non-Conventional Oil and Gas	0	0	0

Pricing Assumptions

The forecast cost and price assumptions in this Prospectus Supplement assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, inflation and exchange rate utilized in the Shale Reserves Report was the GLJ price forecast as at January 1, 2023, as follows:

Crude Oil Price Forecasts

Year	WTI Crude Oil(1) $US/bbl	Brent Crude Oil(2) $US/bbl	Edmonton Light Crude Oil(3) $C/bbl	Alberta Bow River Hardisty Crude Oil(4) $C/bbl	Western Canadian Select Crude Oil(5) $C/bbl	Alberta Heavy Crude Oil(6) $C/bbl	Sask Cromer Medium Crude Oil(7) $C/bbl	Inflation %	US/CAN Exchange Rate $US/$C
History									
2013	97.96	108.77	93.47	76.33	75.01	65.11	88.13	0.9	.971
2014	93.00	99.71	94.58	81.08	81.03	73.73	89.67	1.9	.906
2015	48.78	53.60	57.20	45.50	44.82	39.25	51.87	1.1	.783
2016	43.38	45.05	53.08	39.83	38.96	32.78	48.84	1.4	.756
2017	50.94	54.80	62.84	50.91	50.53	44.74	59.96	1.6	.771
2018	64.73	71.55	69.22	49.03	49.52	39.42	69.60	2.3	.772
2019	57.02	64.24	69.16	59.26	58.75	54.11	67.97	1.9	.754
2020	39.44	43.28	45.28	36.21	35.56	30.45	44.01	0.7	.746
2021	67.92	70.78	79.71	69.24	68.74	62.14	77.58	3.4	.798
2022	94.23	98.89	119.60	98.16	97.07	89.65	114.74	6.9	.769
2023	75	80	97.96	66.05	65.65	54.54	98.94	0.0	.735
2024	75	80.5	95.30	68.86	68.46	58.19	96.26	2.0	.745
2025	75.43	81.5	94.50	73.82	73.42	64.87	95.45	2.0	.755
2026	76.94	82.00	95.14	80.06	79.66	71.99	96.09	2.0	.765
2027	78.48	82.53	95.79	82.31	81.91	74.71	96.75	2.0	.775
2028	80.05	84.14	97.70	85.43	85.03	78.15	98.68	2.0	.775
2029	81.65	85.85	99.66	87.23	86.83	79.86	100.65	2.0	.775
2030	83.28	87.58	101.65	88.95	88.55	81.47	102.66	2.0	.775
2031	84.95	89.32	103.68	90.74	90.34	83.13	104.72	2.0	.775
2032	86.65	91.11	104.31	92.93	92.53	85.31	105.35	2.0	.775
2033	88.38	92.93	106.40	94.79	94.38	87.02	107.46	2.0	.775
2034	90.15	94.79	108.52	96.68	96.27	88.76	109.61	2.0	.775
2035	91.95	96.69	110.69	98.62	98.19	90.53	111.80	2.0	.775
2036	93.79	98.62	112.91	100.59	100.16	92.34	114.03	2.0	.775
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.0	.775

Notes:

(1) West Texas Intermediate at Cushing Oklahoma 40 degrees API, 0.5% sulphur.
(2) North Sea Brent Blend 37 degrees API, 1.0% sulphur
(3) Edmonton Light Sweet 40 degrees API, 0.3% sulphur.
(4) Bow River at Hardisty, Alberta (Heavy stream).
(5) Western Canadian Select at Hardisty, Alberta.

(6) Heavy crude oil 12 degrees API at Hardisty, Alberta (after deduction of blending costs to reach pipeline quality).
(7) Midale Cromer crude oil 29 degrees API, 2.0% sulphur.

Liquids Price Forecasts

Year	Edmonton Ethane $/bbl	Edmonton Propane $/bbl	Edmonton Butanes $C/bbl	Edmonton Cond. & Natural Gasolines $/bbl	Inflation %	US/CAN Exchange Rate %US/$C
Forecast						
2023	14.05	39.18	55.84	99.32	0.0	.735
2024	15.46	40.50	57.18	99.33	2.0	.745
2025	14.42	42.53	56.70	98.58	2.0	.755
2026	14.50	42.81	57.08	101.88	2.0	.765
2027	14.62	43.10	57.47	102.58	2.0	.775
2028	14.93	43.97	58.62	104.63	2.0	.775
2029	15.25	44.85	59.79	106.72	2.0	.775
2030	15.56	45.74	60.99	108.85	2.0	.775
2031	15.88	46.66	62.21	111.03	2.0	.775
2032	16.23	46.94	62.59	113.25	2.0	.775
2033	16.55	47.88	63.84	115.52	2.0	.775
2034	16.89	48.84	65.12	117.83	2.0	.775
2035	17.22	49.81	66.42	120.19	2.0	.775
2036	17.57	50.81	67.75	122.59	2.0	.775
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.0	.775

Gas Price Forecasts

Year	US Henry Hub Gas Price $US/ MMBtu	Alberta AECO Spot Price(1) $C/ MMBtu	Alberta Average Plantgate (2) $C/ MMBtu	Alberta Aggregator Plantgate $C/ MMBtu	Empress $C/ MMBtu	Sask Prov. Gas Plantgate $C/ MMBtu	British Columbia Average Plantgate $C/ MMBtu	British Columbia Station 2 $C/ MMBtu	Inflation %	US/CAN Exchange Rate %US/$C
Forecast										
2023	4.71	4.36	4.04	4.04	4.61	4.18	3.83	4.26	0.0	.735
2024	4.50	4.77	4.44	4.44	4.82	4.59	4.29	4.72	2.0	.745
2025	4.27	4.47	4.14	4.14	4.52	4.29	4.03	4.47	2.0	.755
2026	4.35	4.49	4.17	4.17	4.54	4.31	4.06	4.49	2.0	.765
2027	4.44	4.53	4.20	4.20	4.58	4.35	4.09	4.53	2.0	.775
2028	4.53	4.62	4.29	4.29	4.67	4.44	4.18	4.62	2.0	.775
2029	4.62	4.71	4.38	4.38	4.76	4.53	4.27	4.71	2.0	.775
2030	4.71	4.80	4.47	4.47	4.85	4.62	4.37	4.80	2.0	.775
2031	4.80	4.89	4.56	4.56	4.94	4.71	4.46	4.89	2.0	.775
2032	4.90	4.99	4.66	4.66	5.04	4.81	4.56	4.99	2.0	.775
2033	5.01	5.09	4.75	4.75	5.14	4.91	4.65	5.09	2.0	.775
2034	5.11	5.19	4.85	4.85	5.24	5.01	4.74	5.19	2.0	.775
2035	5.21	5.30	4.95	4.95	5.35	5.11	4.84	5.30	2.0	.775
2036	5.31	5.40	5.04	5.04	5.46	5.21	4.94	5.40	2.0	.775
Thereafter	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	+2%/yr	2.0	.775

Notes:
(1) Historical prices based on AECO 7A (near month process). 5A (daily price) expected to be equal to 7A over long term. 2021 historical prices: 7A 3.55/MMBTU, 5A $3.60/MMBTU.
(2) This forecast also applies to direct sales contracts and the Alberta gas reference price used in the Crown royalty calculations.

Additional Information Relating to Reserves Data

Undeveloped Reserves

The following discussion generally describes the basis on which Highwood attributes proved and probable undeveloped reserves and its plans for developing those undeveloped reserves.

Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty to be recoverable where significant expenditure is required to render them capable of production. Probable undeveloped reserves are those additional reserves that are less certain to be recovered than proved reserves where significant expenditure is required to render them capable of production. The Shale Reserves Report contains proved and probable undeveloped reserves that have been estimated in accordance with the procedures and standards contained in the COGE Handbook.

There are a number of factors that could result in delayed or cancelled development, including the following: (i) changing economic conditions (due to pricing, operating and capital expenditure fluctuations); (ii) changing technical conditions (including production anomalies, such as water breakthrough or accelerated depletion); (iii) multi-zone developments (for instance, a prospective formation completion may be delayed until the initial completion is no longer economic); (iv) a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and (v) surface access issues (including those relating to land owners, weather conditions and regulatory approvals). For more information see "*Risk Factors*" herein and in the AIF.

Proved Undeveloped Reserves

Proved undeveloped reserves have been assigned in areas where the reserves can be estimated with a high degree of certainty. In most instances, proved undeveloped reserves will be assigned on lands immediately offsetting existing producing wells within the same accumulation or pool. GLJ has assigned 1,265 Mboe (net) of proved undeveloped reserves in the Shale Reserves Report with $11.726 million of associated undiscounted capital (before tax).

Probable Undeveloped Reserves

Probable undeveloped reserves have been assigned in areas where the reserves can be estimated with less certainty. It is equally likely that the actual remaining quantities recovered will be greater or less than the proved plus probable reserves. In most instances probable undeveloped reserves have been assigned on lands in the area with existing producing wells but there is some uncertainty as to whether they are directly analogous to the producing accumulation or pool. GLJ has assigned 5,046 Mboe (net) of probable undeveloped reserves in the Shale Reserves Report with $37.789 million of associated undiscounted capital (before tax).

Significant Factors or Uncertainties Affecting Reserves Data

The process of evaluating reserves is inherently complex. It requires significant judgment and decision-making on the basis of the available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance become available and as economic conditions impacting oil and gas prices and costs change. The reserves estimates contained herein are based on production expectations, prices and economic conditions as at December 31, 2022. Factors and assumptions that affect these reserves estimates include, among other things: (a) historical production in the area compared with production rates from analogous producing areas; (b) initial production rates; (c) production decline rates; (d) ultimate recovery of reserves; (e) success of future development activities; (f) marketability of production; (g) effects of government regulations; and (h) other government levies imposed over the life of the reserves.

As circumstances change and additional data become available, reserves estimates may also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well and reservoir performance, geological conditions, production, prices, economic conditions and governmental restrictions. These revisions can be either positive or negative.

In connection with its operations, abandonment, decommissioning and reclamation costs for producing wells, suspended wells, service wells, gathering systems, facilities and surface land development will be incurred in respect of Shale's assets. Abandonment, decommissioning and reclamation costs for all producing wells and future locations have been forecasted by Shale at an average of approximately $131,300/well. Abandonment, decommissioning and reclamation costs for non-producing wells and other components (including but not limited to items such as: gathering systems, facilities, surface land development, etc.) have been forecasted at the property level. The estimates of the future net revenues for Shale's assets disclosed in the Shale Reserves Report from which $6.355 million (undiscounted) was deducted for abandonment, decommissioning and reclamation costs.

The evaluated oil and gas properties of Shale's assets have no material extraordinary risks or uncertainties beyond those that are inherent in unconventional oil and gas exploration and production operations. See "*Risk Factors*" herein and in the AIF.

Future Development Costs

The following table sets forth development costs deducted in the estimation of future net revenue attributable to the reserves categories noted below for Shale's assets.

	Development Cost Forecast	
Year	**Total Proved ($M)**	**Total Proved Plus Probable ($M)**
2022	0	0
2023	6,580	13,028
2024	5,146	15,438
2025	0	21,049
2026	0	0
2027	0	0
Remainder	0	0
Total (Undiscounted)	**11,726**	**49,515**
Total (Discounted at 10%)	**10,440**	**41,682**

The Company's current cash balance, internally-generated cash flow, and future debt and equity placements could allow the Company to complete the development costs specified above. There can be no guarantee that funds will be available or that the Board will allocate funding to develop all of the reserves attributed to Shale's assets in the Shale Reserves Report. Failure to develop those reserves could have a negative impact on our future cash flows.

The interest or other costs of external funding are not included in the reserves and future net revenue estimates set forth above and would reduce reserves and future net revenue to some degree depending upon the funding sources utilized. The Company does not anticipate that interest or other funding costs would make development of any of Shale's assets uneconomic.

The future development costs set forth above do not include costs associated with abandonment and reclamation obligations. See *"Significant Factors or Uncertainties Affecting Reserves Data"* above.

Other Oil and Natural Gas Information

Principal Oil and Natural Gas Properties

The following is a description of Shale's principal oil and natural gas properties that are on production or under development as of December 31, 2022. Information in respect of current production is average production, net to its working interest, except where otherwise indicated. Reserves noted are company interest reserves which include both working interest and royalty interest values.

Shale's oil and natural gas properties are concentrated in the Ricinus, Harmattan and Claresholm areas of Alberta.

Oil and Natural Gas Wells

The following table sets forth the number and status of wells as of December 31, 2022 in which the Company will acquire a working interest pursuant to the Shale Acquisition, all of which are located in Alberta.

Area	Oil		Gas	
	Gross	Net	Gross	Net
Alberta				
Producing	12	3.5	31	24.9
Non-Producing	25	5.3	24	18.9
Total	**37**	**16.1**	**55**	**43.8**

Properties with No Attributed Reserves

The following table sets out for Shale's assets, the developed and undeveloped land holdings as at December 31, 2022.

Area	Developed Acres		Undeveloped Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	18,879	12,914	85,080	71,333	103,959	84,247

None of the rights to explore, develop and exploit these gross undeveloped land holdings could expire by December 31, 2023.

Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves

The Company does not anticipate any significant economic factors or significant uncertainties will affect any particular components of Shale's assets with no attributed reserves. However, the Company's decision to develop Shale's assets with no attributed reserves can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs and royalty regimes, all of which are beyond the Company's control. There are no unusually significant abandonment and reclamation costs with Shale's assets with no attributed reserves.

Forward Contracts

Shale has no risk management contracts in place.

Tax Horizon

As at December 31, 2022, Shale had approximately $28.4 million of available tax pools. It is expected, based upon current legislation, the projections contained in the Shale Reserves Report for Shale's assets, and various other assumptions that no cash income taxes are to be paid by Shale for approximately one year. A higher or lower level of capital expenditures than those currently contemplated could further extend or shorten the estimated tax horizon.

Costs Incurred

The following table summarizes Shale's property acquisition costs, exploration costs and development costs for the 12-months ended December 31, 2022. Consistent with the presentation of the Shale Reserves Report, the summary of costs incurred relates to the properties to be acquired by Highwood. The amounts reported as unproved acquisition costs and exploration costs are consistent with capital expenditures classified as exploration and evaluation assets under IFRS. The amounts reported as proved acquisition costs and development costs are consistent with capital expenditures classified as property, plant and equipment under IFRS.

Acquisitions and Capital Expenditures

Nature of Cost	Amount (M$)
Corporate Acquisition Costs	-
Property Acquisition Costs	-

Acquisitions and Capital Expenditures

Nature of Cost	Amount (M$)
Unproved	-
Proved	-
Exploration Costs(1)	-
Development Costs(2)	167.9
Total	**167.9**

Note:

(1) Geological and geophysical capital expenditures and drilling costs for exploration wells.

(2) Development costs include development drilling costs and equipping, tie-in and facility costs for all wells.

Exploration and Development Activities

The following table sets forth the gross and net development wells completed by Shale during the 12-months ended December 31, 2022 in respect of Shale's assets:

	Development Wells		Exploration Wells	
	Gross	Net	Gross	Net
Light and Medium Crude Oil	0	0	0	0
Conventional Natural Gas	0	0	0	0
Service	0	0	0	0
Dry and Abandoned	0	0	0	0
Stratigraphic Test	0	0	0	0
Total	0	0	0	0

Production Estimates

The following table sets out the first-year production forecast of volumes of Shale's working interest (Company Gross) production for each product type estimated by GLJ for the period of January 1, 2023 through December 31, 2023 in the Shale Reserves Report which is reflected in the estimate of future net revenue disclosed in the tables above. Actual results may differ significantly from the information below. See "*Cautionary Note Regarding Forward-Looking Statements*" and "*Risk Factors*" herein and in the AIF.

	Light and Medium Oil (bbl/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (bbl/d)	(boe/d)
Total Proved	8	1,875	177	498
Total Probable	0	467	48	126
Total Proved + Probable	9	2,343	225	624

Production History

Average Daily Production

The following table sets forth, by product type, the average net daily production volumes, product prices received, royalties paid, operating expenses and resulting netbacks with respect to Shale's assets, quarterly and for the year ended December 31, 2022.

Three months ended	March 31	June 30	September 30	December 31	Year ended December 31, 2022
Average Daily Production(1)					
Light and Medium oil (bbl/d)	41	72	24	24	28

Three months ended	March 31	June 30	September 30	December 31	Year ended December 31, 2022
Natural Gas (Mcf/d)	2,137	1,907	1,946	1,679	1,916
NGLs (bbl/d)	162	112	165	141	158
Total (boe/d)	**559**	**502**	**513**	**445**	**505**
BOE Metrics ($/boe)					
Price	45.27	60.27	42.11	42.73	47.62
Royalties	5.57	5.80	11.59	7.73	7.65
Production Costs	15.58	15.52	19.00	15.75	16.48
Netback	**24.12**	**38.95**	**11.52**	**19.25**	**23.49**

Note:
(1) Production is presented before royalties.

APPENDIX F – SHALE FINANCIAL STATEMENTS

(see attached)

SHALE PETROLEUM LTD.

Condensed Interim Financial Statements

For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)

(unaudited)

Shale Petroleum Ltd.

Condensed Statements of Financial Position
As at March 31, 2023 and December 31, 2022
(Expressed in Canadian dollars)

	Notes	March 31, 2023 *(unaudited)*	December 31, 2022 *(audited)*
Assets			
Current assets			
Cash		$ 3,645,544	$ 3,442,857
Accounts receivable	3(c)	444,922	702,900
Deposits and prepaid expenses		132,678	106,871
Total current assets		4,223,144	4,252,628
Right-of-use asset	13	144,000	-
Exploration and evaluation assets	5	1,440,335	1,440,335
Property and equipment	6	6,974,602	7,224,605
Total assets		$12,782,081	$12,917,568
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3(d)	$ 945,361	$ 1,096,840
Lease liability – current portion	14	77,600	
Total current liabilities		1,022,961	1,096,840
Lease liability	14	71,400	
Decommissioning liabilities	7	5,287,624	5,248,847
Total liabilities		6,381,985	6,345,687
Shareholders' Equity			
Share capital	8	30,382,431	30,382,431
Contributed surplus		2,929,648	2,877,683
Accumulated deficit		(26,911,983)	(26,688,233)
Total shareholders' equity		6,400,096	6,571,881
Total liabilities and shareholders' equity		$12,782,081	$12,917,568

Subsequent event *(note 15)*.

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

Approved on behalf of the Board of Directors:

(signed) "David Gardner"
Director

(signed) "Neil Harbury"
Director

Shale Petroleum Ltd.

Condensed Statements of Loss and Comprehensive Loss
For the three months ended March 31, 2023 and 2022

(Expressed in Canadian dollars)
(unaudited)

	Notes	March 31, 2023	March 31, 2022
Revenue			
Oil and natural gas sales	10	$1,316,262	$2,278,072
Royalties		(222,779)	(280,099)
		1,093,483	1,997,973
Expenses			
Production and operating		651,386	784,194
Depletion and depreciation	6, 13	266,603	329,939
Impairment	5	-	2,972,098
General and administrative		329,957	378,182
Share-based compensation	9	51,965	147,073
Total expenses		1,299,911	4,611,486
Loss before the following:		(206,428)	(2,613,513)
Net finance expense	11	(17,322)	(16,480)
Net loss and comprehensive loss for the period		$ (223,750)	$ (2,629,993)

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

Shale Petroleum Ltd.

Condensed Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2023 and 2022

(Expressed in Canadian dollars)
(unaudited)

	Notes	Number of common shares	Share capital	Contributed surplus	Accumulated deficit	Total
Balance at January 1, 2022		139,219,625	$30,382,431	$2,574,715	$(24,771,317)	$8,185,829
Share-based compensation	9	-	-	147,073	-	147,073
Net loss and comprehensive loss for the period		-	-	-	(2,629,993)	(2,629,993)
Balance at March 31, 2022		139,219,625	$30,382,431	$2,721,788	$(27,401,310)	$5,702,909
Balance at January 1, 2023		139,219,625	$30,382,431	$2,877,683	$(26,688,233)	$6,571,881
Share-based compensation	9	-	-	51,965	-	51,965
Net loss and comprehensive loss for the period		-	-	-	(223,750)	(223,750)
Balance at March 31, 2023		139,219,625	$30,382,431	$2,929,648	$(26,911,983)	$6,400,096

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

Shale Petroleum Ltd.

Condensed Statements of Cash Flows
For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

	Notes	March 31, 2023	March 31, 2022
Operating activities:			
Net loss for the period		$(223,750)	$(2,629,993)
Adjustments for:			
Share-based compensation	9	51,965	147,073
Depletion and depreciation	6, 13	266,603	329,939
Accretion of decommissioning liabilities	7	38,777	20,491
Accretion of lease liability	7	3,600	-
Impairment	5	-	2,972,098
Changes in non-cash working capital	4	129,719	(117,414)
Net cash from operating activities		266,914	722,194
Investing activities:			
Additions to property and equipment		-	(92,763)
Additions to exploration and evaluation assets		-	(377,578)
Changes in non-cash working capital	4	(49,027)	57,764
Net cash used in investing activities		(49,027)	(412,577)
Financing activities:			
Lease payments		(15,200)	-
Net cash used in investing activities		(15,200)	-
Change in cash		202,687	309,617
Cash, beginning of period		3,442,857	3,476,474
Cash, end of period		$3,645,544	$3,786,091

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

1. Reporting entity

Shale Petroleum Ltd. ("Shale" or the "Corporation") is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves in western North America. Shale was incorporated on February 16, 2011 under the Alberta Business Corporations Act.

The registered office is located at 1200, 520 – 5th Avenue SW, Calgary, Alberta, T2P 3R7.

2. Basis of presentation

(a) Basis of accounting

These unaudited condensed interim financial statements ("interim financial statements") as at and for the three months ended March 31, 2023 have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Corporation's last annual financial statements as at and for the year ended December 31, 2022 ("last annual financial statements"). They do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in the Corporation's financial position and performance since the last annual financial statements.

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

These interim financial statements were approved and authorized for issuance by the Board of Directors on June 12, 2023.

(b) Use of judgments and estimates

In preparing these interim financial statements, management made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

(c) Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Corporation's financial statements as at and for the year ended December 31, 2022.

(d) New and revised accounting standards and pronouncements

The Corporation has reviewed all new and revised accounting standards and pronouncements and has determined that there were none issued during the period ended March 31, 2023 that would have a significant impact.

3. Financial instruments and risk management

(a) Fair value of determination

The fair values of cash, accounts receivable, and accounts payable approximate their carrying values due to the short-term maturity of those instruments.

(b) Risk management

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk as a result of the use of financial instruments. The Corporation employs risk management strategies and polices to ensure that any exposures to risk are in compliance with the Corporation's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, management has the responsibility to administer and monitor these risks.

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Accounts receivable

Substantially all of the Corporation's accounts receivable are due from marketers of the Corporation's petroleum and natural gas production and, joint interest partners and are subject to normal industry credit risk.

Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partners. The Corporation attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure and, in certain circumstances, may elect to cash call a joint interest partner in advance of the work. However, the receivables 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, escalation costs and the risk of unsuccessful drilling. The Corporation does not typically obtain collateral from oil and natural gas marketers or joint interest partners, however, the Corporation does have the ability to withhold production from joint interest partners in the event of non-payment.

Receivables from petroleum and natural gas marketers are generally collected on the 25^{th} day of the month following production and sale. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Corporation has not experienced any collection issues with its marketers.

(Expressed in Canadian Dollars)

As at March 31, 2023, the Corporation's accounts receivable were comprised of the following:

	March 31, 2023
Marketers	$344,307
Joint interest partners	92,931
Other	7,684
	$444,922

The Corporation considers amounts greater than 90 days past due and establishes an allowance for expected credit losses based on management's assessment of collection. Therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. There were no receivables allowed for or written off during the period ended March 31, 2023.

Aging analysis of accounts receivable is as follows:

	March 31, 2023
Current	$378,519
31 – 60 days	25,345
61 – 90 days	15,465
Greater than 90 days	25,593
	$444,922

Cash

All of the Corporations' cash is held at one financial institution as at March 31, 2023, which is a Canadian Chartered Bank. Management believes that the risk of loss is minimal but the Corporation is subject to concentration of credit risk.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to settle its liabilities when they fall due. The Corporation's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn.

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as through future equity and debt financings.

Accounts payable and accrued liabilities

The Corporation's accounts payable and accrued liabilities as at March 31, 2023 are normally due within 30 to 60 days from the date of the invoice and comprises the following:

	March 31, 2023
Operational payables	$945,361
Payables for capital expenditure	-
	$945,361

The Corporation's lease liability (undiscounted lease payments) is due as follows:

- Within the next 12 months $66,552
- Between 1 and 3 years $77,644

(e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Corporation's profit or loss or the value of financial instruments. These risks are largely outside the control of the Corporation. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Market risks affecting the Corporation are as follows:

Commodity price risk

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian dollar and United States dollar, but also world economic events that dictate the levels of supply and demand. As at and during the period ended March 31, 2023, the Corporation had no contracts in place to reduce its exposure to commodity price risk.

Interest rate risk

The Corporation's does not have any loans or investments; therefore, it has no exposure to interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Prices for petroleum are determined in global markets and generally denominated in U.S. dollars. Natural gas prices obtained by the Corporation will be influenced by both U.S. and Canadian demand and the corresponding North American supply, and by exports of liquefied natural gas. In general, while the underlying foreign exchange rate affects petroleum prices received, the Corporation does not sell any petroleum or natural gas denominated in U.S. dollars. The Corporation had no foreign exchange contracts or financial instruments denominated in foreign currencies as at and during the period ended March 31, 2023; therefore, the Corporation is not subject to foreign currency risk.

(Expressed in Canadian Dollars)

(f) Capital management

The Corporation's policy is to maintain an adequate capital base for the objectives of maintaining financial flexibility, creditor and investor confidence and to sustain the future development of the business.

The Corporation defines capital as working capital, which as at and during the period ended March 31, 2023 is as follows:

	March 31, 2023
Current assets	$4,223,144
Current liabilities	(1,022,961)
Working capital surplus	$3,200,183

There has been no change to management’s approach to managing capital during the three months ended March 31, 2023. The Corporation is not required to meet any financial covenants and is not subject to any other externally imposed capital requirements.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may from time-to-time issue shares, sell assets, obtain additional debt financing and adjust its capital spending to manage current and projected working capital and available funds for operations and capital projects.

4. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	March 31, 2023	**March 31, 2022**
Sources (uses) of cash:		
Accounts receivable	$257,978	$(254,596)
Deposits and prepaid expenses	(25,807)	19,071
Accounts payable and accrued liabilities	(151,479)	175,875
	$80,692	$ (59,650)
Related to operating activities	$129,719	$(117,414)
Related to investing activities	(49,027)	57,764
	$ 80,692	$ (59,650)

(Expressed in Canadian Dollars)

5. Exploration and evaluation assets

At December 31, 2022	$1,440,335
At March 31, 2023	$1,440,335

During the period ended March 31, 2023, there was no change the Corporation's exploration and evaluation assets.

As at March 31, 2023, no indicators of impairment were identified. Accordingly, no impairment test was required. As at March 31, 2022, the Corporation determined an impairment of $2,972,098 relating to an unsuccessful well.

6. Property and equipment

	Petroleum and natural gas interests Total
Cost	
At December 31, 2022	$17,123,553
At March 31, 2023	$17,123,553
Accumulated depletion, depreciation and impairment losses	
At December 31, 2022	$(9,898,948)
Depletion and depreciation	(250,003)
At March 31, 2023	$(10,148,951)
Net book value:	
At December 31, 2022	$7,224,605
At March 31, 2023	$6,974,602

Depletion calculation for the three months ended March 31, 2023 include estimated future development costs of $49,515,000 (three months ended March 31, 2022 - $50,901,000) associated with the development of the Corporation's proved and probable reserves, which is added to the Corporation's net carrying value of property and equipment in the depletion calculation.

As at March 31, 2023, no indicators of impairment were identified. Accordingly, no impairment test was required.

(Expressed in Canadian Dollars)

7. Decommissioning liabilities

The Corporation's decommissioning liabilities result from its ownership interest in petroleum and natural gas assets including well sites and gathering systems. The total decommissioning liabilities are estimated based on the Corporation'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 total estimated, inflated undiscounted cash flows required to settle the provision is $7,939,770 at March 31, 2023 (December 31, 2022 - $7,939,770), which have been discounted using risk-free rate ranges between 2.88% to 3.02% per annum at March 31, 2023 (December 31, 2022 - 2.94% to 3.01% per annum).

These obligations are to be settled based on the economic lives of the underlying assets, which currently ranges between 9 and 38 years.

The following table summarizes changes in decommissioning liabilities for the period ended March 31, 2023:

	March 31, 2023
Balance, December 31, 2022	$5,248,847
Accretion expense	38,777
Balance, March 31, 2023	$5,287,624

8. Share capital

(a) Authorized

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value.

(b) Issued

Common shares	**Number of shares**	**Amount**
Balance, December 31, 2022 and March 31, 2023	139,219,625	$30,382,431

(Expressed in Canadian Dollars)

9. Share-based compensation

Under the Corporation's share option plan, the Corporation may grant options to its directors, officers, employees and consultants up to a maximum of 10% of the issued common shares. The exercise price of each option is determined by the Board of Directors of the Corporation when such option is granted. The options vest at the rate of one-third each on the date of grant, second-year anniversary from the date of grant and third-year anniversary from the date of grant and are expensed on a graded vesting schedule. The option's maximum term is five years.

The following is a summary of changes to the Corporation's share option plan during the periods:

	Number	Weighted Average Exercise Price
Outstanding, December 31, 2022	11,740,000	$0.15
Granted	-	-
Forfeited	-	-
Outstanding, March 31, 2023	11,740,000	$0.15
Exercisable, March 31, 2023	10,233,333	$0.15

The Corporation's share options have average remaining life ranging between 0.25 years to 3.97 years, with weighted average life of 2.41 years as at March 31, 2023.

The Corporation recorded share-based compensation of $51,965 for the three months ended March 31, 2023 (2022 - $147,073).

10. Revenue from petroleum and natural gas sales

The Corporation sells its products 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.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The amount of each significant category of revenue recognized for the three months ended March 31, 2023 and 2022 is as follows:

	March 31, 2023	March 31, 2022
Crude oil	$ 155,101	$ 403,459
Natural gas	502,785	972,399
Natural gas liquids	658,376	902,214
	$1,316,262	$2,278,072

(Expressed in Canadian Dollars)

11. Net finance expenses

	March 31, 2023	March 31, 2022
Finance income		
Interest income on cash	$25,055	$ 4,011
Finance expenses		
Accretion of decommissioning liabilities *(note 7)*	(38,777)	(20,491)
Accretion of lease liability *(note 14)*	(3,600)	-
Net finance income (expense)	$(17,322)	$(16,480)

12. Related party transactions

General and administrative expenses for the three months ended March 31, 2023 includes $90,000 incurred for services provided by various officers and directors for management services (March 31, 2022 - $135,000).

The related party transactions are in the normal course of operations and have been initially measured at fair value, which is the amount of consideration established and agreed to by the related party and is similar to amounts negotiated independently with third parties.

<u>Executive compensation</u>

Key management personnel include executive officers and directors. Executive officers receive consulting fees by virtue of their consulting agreements with the Corporation, and also participate in the Corporation’s share option program.

Key management personnel cash compensation is as follows:

	March 31, 2023	March 31, 2022
Consulting fees	$90,000	$135,000

13. Right-of-use asset

During the three months ended March 31, 2023, the Corporation recorded depreciation totalling $16,600 for the right-of-use asset in respect of the office premises *(note 14)*, the net book value of which as at March 31, 2023 totalled $144,000.

14. Lease liability

The Corporation has a lease in respect of its office premises; its term ends on May 31, 2025. The Corporation has used an incremental borrowing rate of 10% per annum to present value the lease liability upon initial recognition.

During the three months ended March 31, 2023, the Corporation recorded accretion on the lease liability totalling $3,600, paid rent totalling $15,200 and the balance of lease liability as at March 31, 2023 totalled $149,000 of which $77,600 was due within the next 12 months and $71,400 thereafter.

15. Subsequent event

In April 2023, the Corporation signed a letter of intent (the "Letter of Intent") for the potential sale of the Corporation. At the date of these condensed interim financial statements, final negotiations and due diligence continue.

SHALE PETROLEUM LTD.

Financial Statements

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

To the Shareholders of Shale Petroleum Ltd.:

Opinion

We have audited the financial statements of Shale Petroleum Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2022 and December 31, 2021, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and December 31, 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

MNP LLP
1500, 640 - 5th Avenue SW, Calgary AB, T2P 3G4 1.877.500.0792 T: 403.263.3385 F: 403.269.8450

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Calgary, Alberta

MNP LLP

February 13, 2023

Chartered Professional Accountants

Shale Petroleum Ltd.

Statements of Financial Position

As at December 31, 2022 and 2021

(Expressed in Canadian dollars)

	Notes	2022	2021
Assets			
Current assets			
Cash		$ 3,442,857	$ 3,476,474
Accounts receivable	4(c)	702,900	760,618
Deposits and prepaid expenses		106,871	137,760
Total current assets		4,252,628	4,374,852
Exploration and evaluation assets	6	1,440,335	4,008,464
Property and equipment	7	7,224,605	8,690,812
Total assets		$ 12,917,568	$ 17,074,128
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4(d)	$ 1,096,840	$ 1,057,489
Total current liabilities		1,096,840	1,057,489
Decommissioning liabilities	8	5,248,847	5,945,768
Total liabilities		6,345,687	7,003,257
Shareholders' Equity			
Share capital	10	30,382,431	30,382,431
Contributed surplus		2,877,683	2,574,715
Accumulated deficit		(26,688,233)	(22,886,275)
Total shareholders' equity		6,571,881	10,070,871
Total liabilities and shareholders' equity		$ 12,917,568	$ 17,074,128

See accompanying notes to the financial statements.

Approved on behalf of the Board of Directors:

(signed) "David Gardner"
Director

(signed) "Neil Harbury"
Director

Shale Petroleum Ltd.

Statements of Loss and Comprehensive Loss

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

	Notes	2022	2021
Revenue			
Oil and natural gas sales	12	$ 8,770,420	$ 7,145,871
Royalties		(1,408,932)	(593,580)
		7,361,488	6,552,291
Expenses			
Production and operating		3,035,125	2,786,436
Depletion and depreciation	7	1,180,104	1,426,609
Impairment	6	5,112,216	5,418,330
General and administrative		1,612,242	1,246,286
Share-based compensation	11	302,968	123,416
Total expenses		11,242,655	11,001,077
Loss before the following:		(3,881,167)	(4,448,786)
Net finance expense	13	(32,791)	(10,423)
Government grant for settlement of decommissioning liabilities	8	112,000	155,012
Net loss and comprehensive loss for the year		$ (3,801,958)	$ (4,304,197)

See accompanying notes to the financial statements.

Shale Petroleum Ltd.

Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

	Notes	Number of common shares	Share capital	Contributed surplus	Accumulated deficit	Total
Balance at December 31, 2020		99,219,625	$ 24,382,431	$ 2,451,299	$(18,582,078)	$ 8,251,652
Issuance of common shares for cash	10	40,000,000	6,000,000	-	-	6,000,000
Share-based compensation	11	-	-	123,416	-	123,416
Net loss and comprehensive loss for the year		-	-	-	(4,304,197)	(4,304,197)
Balance at December 31, 2021		139,219,625	$ 30,382,431	$ 2,574,715	$(22,886,275)	$ 10,070,871
Share-based compensation	11	-	-	302,968	-	302,968
Net loss and comprehensive loss for the year		-	-	-	(3,801,958)	(3,801,958)
Balance at December 31, 2022		139,219,625	$ 30,382,431	$ 2,877,683	$(26,688,233)	$ 6,571,881

See accompanying notes to the financial statements.

Shale Petroleum Ltd.
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

	Notes	2022	2021
Operating activities:			
Net loss for the year		$ (3,801,958)	$ (4,304,197)
Adjustments for:			
Share-based compensation		302,968	123,416
Depletion and depreciation	7	1,180,104	1,426,609
Accretion of decommissioning liabilities	13	84,092	33,618
Impairment	6	5,112,216	5,418,330
Settlement of decommissioning liabilities:			
- cash payment	8	(215,000)	(205,951)
- through Government grant	8	(112,000)	(155,012)
Changes in non-cash working capital	5	230,597	299,173
Net cash from operating activities		2,781,019	2,635,986
Investing activities:			
Additions to property and equipment	7	(167,910)	(210,165)
Additions to exploration and evaluation assets	6	(2,544,087)	(8,971,291)
Changes in non-cash working capital	5	(102,639)	(282,352)
Net cash used in investing activities		(2,814,636)	(9,463,808)
Financing activities:			
Issuance of common shares	10	-	6,000,000
Net cash from financing activities		-	6,000,000
Decrease in cash		(33,617)	(827,822)
Cash, beginning of year		3,476,474	4,304,296
Cash, end of year		$ 3,442,857	$ 3,476,474

See accompanying notes to the financial statements.

1. General business description

Shale Petroleum Ltd. ("Shale" or the "Corporation") is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves in western North America. Shale was incorporated on February 16, 2011 under the Alberta Business Corporations Act.

The registered office is located at 1200, 520 – 5th Avenue SW, Calgary, Alberta, T2P 3R7.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared by management in accordance International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

These financial statements were approved and authorized for issuance by the Board of Directors on February 13, 2023.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates, judgments and assumptions in preparation of the financial statements:

(i) Determination of cash-generating units

Property and equipment is aggregated into cash-generating-units ("CGUs") based on the ability to generate largely independent cash flows and are used for impairment testing. The determination CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Corporation's operations. The Corporation has one CGU called Ricinus.

(ii) Impairment of petroleum and natural gas assets

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of petroleum and natural gas reserves, production rates, future oil and natural gas prices, future costs, discount rates and other relevant assumptions.

(iii) Exploration and evaluation (E&E) assets

The determination of technical feasibility and commercial viability of E&E assets for the purposes of reclassifying such assets to property, plant, and equipment is subject to management judgement. Management uses the establishment of commercial reserves as the basis for determining technical feasibility and commercial viability.

(iv) Deferred taxes

Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit and loss in the period in which the change occurs.

Key sources of estimation uncertainty:

The following are the key estimates and their assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of the assets and liabilities.

(i) Reserves

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production volumes, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Corporation’s petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning liabilities, and the recognition of deferred tax assets due to changes in expected future cash flows.

(ii) Decommissioning liabilities

The calculation of decommissioning liabilities and related accretion expense includes management’s estimates of current risk-free interest rates, future inflation rates, future restoration and reclamation expenditures and the timing of those expenditures. In most instances, removal of assets occurs many years in the future.

(iii) Share-based payments

The amounts recorded for share-based compensation expense relating to the fair value of share options issued are estimated using the Black-Scholes option pricing model including management's estimates of the future volatility of the Corporation's share value, expected forfeiture rates, expected lives of the share options (based on historical experience and general holder behaviour) and the risk-free interest rate (based on government bonds).

(iv) Taxes

The amounts recorded for deferred tax asset are based on management's estimate as to the timing of the reversal of temporary differences and tax rates currently substantively enacted and the likelihood of tax assets being realized. The availability of tax pools and other deductions are subject to audit and interpretation by taxation authorities.

3. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these financial statements.

(a) Jointly controlled operations and jointly controlled assets

A portion of the Corporation's petroleum and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The financial statements include only the Corporation's share of these jointly controlled assets, liabilities, related revenue and expenses.

(b) Cash

Cash consist of amounts on deposit with a Canadian Chartered Bank.

(c) Exploration and evaluation assets and property and equipment

(i) Exploration and evaluation assets

Pre-license expenditures incurred before the Corporation has obtained legal rights to explore an area are expensed as exploration and evaluation expenses.

Exploration and evaluation assets on the statement of financial position include the costs of acquiring licenses, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting petroleum and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated. Exploration and evaluation assets, net of any impairment losses, are transferred to property and equipment when proved and/or probable reserves are determined to exist.

Exchanges or swaps that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the divestiture of exploration and evaluation assets are recognized in profit or loss.

(ii) Property and equipment

All costs directly associated with the development and production of petroleum and natural gas interests are capitalized as petroleum and natural gas interests and are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and costs transferred from exploration and evaluation assets.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Exchanges or swaps of property and equipment are measured at fair value unless the transactions lack commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in profit or loss.

(iii) Depletion and depreciation

Petroleum and natural gas interests are depleted using the unit-of-production method on an area-by-area basis by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods that affect the unit-of-production calculations, such as proved and probable reserve revisions, do not give rise to prior period adjustments and are dealt with on a prospective basis.

Well and production equipment and facilities are depleted using the unit-of-production method along with the related reserves when the assets have expected lives similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, are significant in relation to the total cost of the related asset and have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life.

(d) Impairment of non-financial assets

The carrying amounts of the Corporation’s non-financial assets are reviewed for indicators of impairment and facts and circumstances that suggest that the carrying amount exceeds the recoverable amount at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated to determine the amount of impairment. Exploration and evaluation assets are also assessed for impairment when they are reclassified to property and equipment.

For the purposes of assessing impairment, property and equipment are grouped into CGUs defined as the lowest levels for which there are separately identifiable independent cash inflows. Any goodwill is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill.

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs of disposal may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued used of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in profit or loss in the period in which they are determined.

Exploration and evaluation assets are tested separately for impairment. If at any time, it is determined that the Corporation has no future exploration plans and commercial production cannot be achieved in relation to an area, the associated costs are written down to the estimated recoverable amount or fully derecognized and the amount of the write-down is charged to profit or loss.

The fair value less costs of disposal values used to determine the recoverable amounts of property and equipment are classified as Level 3 fair value measurements as they are not based on observable market data.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. A goodwill impairment loss is not reversed.

(e) Provisions

Provisions are recognized by the Corporation when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(f) Decommissioning liabilities

Decommissioning liabilities are recognized for decommissioning and restoration obligations associated with the Corporation's exploration and evaluation assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the reporting date is recorded on a discounted basis using the pre-tax risk-free interest rate at each reporting date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property and equipment asset and is depleted or depreciated in accordance with the Corporation's policy for the particular asset.

The provision is accreted overtime through charges to finance expenses, with actual expenditures charged against the accumulated obligation. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred.

(g) Taxes

Income taxes are comprised of current and deferred taxes. Income tax expense (recovery) is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive loss.

Current taxes are the expected taxes payable on the taxable income for the year plus any adjustment to taxes payable in respect of previous years.

Deferred taxes are recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences including carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred taxes are not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred taxes are not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(h) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Corporation and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

Revenue from the sale of crude oil and natural gas is recognized when title to the products passes to the purchasers based on volumes delivered at contracted delivery points and prices and are recorded gross of transportation charges incurred by the Corporation. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

(i) Share-based payments

Share options granted to directors, officers, employees and consultants of the Corporation are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the option at the grant date using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When share options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

The Corporation measures share-based payments to non-employees at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options is measured using the Black-Scholes option pricing model.

(j) Financial instruments

The Corporation recognizes financial assets and financial liabilities on the statements of financial position when the Corporation becomes a party to the contract. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized from the financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability.

Financial assets, financial liabilities and derivatives are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument’s classification, as described below.

- *Amortized cost*

A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the cash flows; and all contractual cash flows represent only principal and interest on that principal. All financial liabilities are measured at amortized cost using the effective interest method except for liabilities incurred for the purposes of selling or repurchasing in the short-term liabilities, if they are held-for trading and those that meet the definition of a derivative.

The Corporation’s cash, accounts receivable, and accounts payable and accrued liabilities are measured at amortized cost.

- *Fair value through other comprehensive income (‘‘FVTOCI’’)*

A financial asset shall be measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest (‘‘SPPI’’) on the principal amount outstanding.

The Corporation has not financial assets or financial liabilities under this measurement criteria.

- *Fair value through profit or loss (‘‘FVTPL’’)*

All financial assets that do not meet the definition of being measured at amortized cost or FVTOCI are measured at FVTPL, this includes all derivative financial assets. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition.

For financial assets and liabilities, the Corporation may make an irrevocable election to designate an asset at FVTPL. If the election is made it is irrevocable, meaning that asset, liability, or group of financial instruments must be recorded at FVTPL until that asset, liability or group of financial instruments are derecognized.

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of commodity in accordance with the Corporation's expected purchase, sale or usage fall within the normal purchase or sale exemption and are accounted for as executory contracts.

Financial assets are assessed with an expected credit loss model. The new impairment model applies to financial assets measured at amortized cost, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract.

The Corporation has not financial assets or financial liabilities under this measurement criteria.

(k) Equity instruments

The Corporation's outstanding common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(l) Impairment of financial assets

The Corporation recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Corporation measures allowances an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate credit loss and are discounted at the effective interest rate of the related financial asset.

(m) New and revised accounting standards and pronouncements

The Corporation has reviewed all new and revised accounting standards and pronouncements and has determined that there were none issued during the year ended December 31, 2022 that would have a significant impact.

4. Financial instruments and risk management

(a) Fair value of determination

The fair values of cash, accounts receivable, and accounts payable approximate their carrying values due to the short-term maturity of those instruments.

(b) Risk management

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk as a result of the use of financial instruments. The Corporation employs risk management strategies and polices to ensure that any exposures to risk are in compliance with the Corporation's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, management has the responsibility to administer and monitor these risks.

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Accounts receivable

Substantially all of the Corporation's accounts receivable are due from marketers of the Corporation's petroleum and natural gas production and, joint interest partners and are subject to normal industry credit risk.

Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partners. The Corporation attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure and, in certain circumstances, may elect to cash call a joint interest partner in advance of the work. However, the receivables 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, escalation costs and the risk of unsuccessful drilling. The Corporation does not typically obtain collateral from oil and natural gas marketers or joint interest partners, however, the Corporation does have the ability to withhold production from joint interest partners in the event of non-payment.

Receivables from petroleum and natural gas marketers are generally collected on the 25th day of the month following production and sale. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Corporation has not experienced any collection issues with its marketers.

(Expressed in Canadian Dollars)

As at December 31, 2022 and 2021, the Corporation's accounts receivable were comprised of the following:

	2022	2021
Marketers	$ 537,047	$ 684,268
Joint interest partners	142,375	73,537
Other	23,478	2,813
	$ 702,900	$ 760,618

The Corporation considers amounts greater than 90 days past due and establishes an allowance for expected credit losses based on management's assessment of collection. Therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. There were no receivables allowed for or written off during the years ended December 31, 2022 and 2021.

Aging analysis of accounts receivable is as follows:

	2022	2021
Current	$ 575,131	$ 707,235
31 – 60 days	26,596	6,767
61 – 90 days	84,909	19,596
Greater than 90 days	16,264	27,020
	$ 702,900	$ 760,618

Cash

All of the Corporations' cash is held at one financial institution as at December 31, 2022 and 2021, which is a Canadian Chartered Bank. Management believes that the risk of loss is minimal but the Corporation is subject to concentration of credit risk.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to settle its liabilities when they fall due. The Corporation's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn.

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as through future equity and debt financings.

Accounts payable and accrued liabilities

The Corporation's accounts payable and accrued liabilities as at December 31, 2022 and 2021 are normally due within 30 to 60 days from the date of the invoice and comprises the following:

	2022	2021
Operational payables	$ 1,047,813	$ 151,666
Payables for capital expenditure	49,027	905,823
	$ 1,096,840	$ 1,057,489

(e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Corporation's profit or loss or the value of financial instruments. These risks are largely outside the control of the Corporation. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Market risks affecting the Corporation are as follows:

Commodity price risk

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian dollar and United States dollar, but also world economic events that dictate the levels of supply and demand. As at and during the year ended December 31, 2022 and 2021, the Corporation had no contracts in place to reduce its exposure to commodity price risk.

Interest rate risk

The Corporation's does not have any loans or investments; therefore, it has no exposure to interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Prices for petroleum are determined in global markets and generally denominated in U.S. dollars. Natural gas prices obtained by the Corporation will be influenced by both U.S. and Canadian demand and the corresponding North American supply, and by exports of liquefied natural gas. In general, while the underlying foreign exchange rate affects petroleum prices received, the Corporation does not sell any petroleum or natural gas denominated in U.S. dollars. The Corporation had no foreign exchange contracts or financial instruments denominated in foreign currencies as at and during the years ended December 31, 2022 and 2021; therefore, the Corporation is not subject to foreign currency risk.

(Expressed in Canadian Dollars)

(f) Capital management

The Corporation's policy is to maintain an adequate capital base for the objectives of maintaining financial flexibility, creditor and investor confidence and to sustain the future development of the business.

The Corporation defines capital as working capital, which as at and during the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Current assets	$ 4,252,628	$ 4,374,852
Current liabilities	(1,096,840)	(1,057,489)
Working capital surplus	$ 3,155,788	$ 3,317,363

There has been no change to management's approach to managing capital during the years ended December 31, 2022 and 2021. The Corporation is not required to meet any financial covenants and is not subject to any other externally imposed capital requirements.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may from time-to-time issue shares, sell assets, obtain additional debt financing and adjust its capital spending to manage current and projected working capital and available funds for operations and capital projects.

5. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	2022	2021
Sources (uses) of cash:		
Accounts receivable	$ 57,718	$ (74,100)
Deposits and prepaid expenses	30,889	(9,394)
Accounts payable and accrued liabilities	39,351	100,315
	$ 127,958	$ 16,821
Related to operating activities	$ 230,597	$ 299,173
Related to investing activities	(102,639)	(282,352)
	$ 127,958	$ 16,821

(Expressed in Canadian Dollars)

6. Exploration and evaluation assets

At January 1, 2021	$ 1,075,062
Additions	9,215,342
Impairment	(5,418,330)
Transfer to property and equipment (note 7)	(863,610)
At December 31, 2021	4,008,464
Additions	2,544,087
Impairment	(5,112,216)
At December 31, 2022	$ 1,440,335

During the year ended December 31, 2021, the Corporation acquired undeveloped lands totaling $212,180, incurred lease expenditure of $41,820 and incurred drilling and related costs on two exploratory wells totaling $8,961,342 (including decommissioning liability of $244,041 – note 8) at Ricinus CGU. For the first well (cost incurred $6,281,940), in line with the requirements of IFRS 6 *Exploration for and evaluation of mineral resources*, the Corporation assessed it for impairment prior to reclassifying to property and equipment and determined an impairment expense of $5,418,330, which was recorded in profit or loss. The balance totaling $863,610 was transferred to property and equipment.

During the year ended December 31, 2022, the Corporation acquired undeveloped lands totaling $67,500, incurred lease expenditure of $43,773 and incurred further drilling and related costs on the second totaling $2,432,814 that was spud in 2021. The well was not successful and, therefore, the total costs associated with that well up to that date of $5,112,216 ($2,679,402 in 2021 and $2,432,814 in 2022) was written off to profit or loss.

(Expressed in Canadian Dollars)

7. Property and equipment

	Petroleum and natural gas interests Total
Cost	
At January 1, 2021	$ 16,679,460
Change in estimates of decommissioning liabilities (note 8)	(343,579)
Additions	210,165
Transfer from exploration and evaluation assets	863,610
At December 31, 2021	$ 17,409,656
Change in estimates of decommissioning liabilities (note 8)	(454,013)
Additions	167,910
At December 31, 2022	$ 17,123,553
Accumulated depletion, depreciation and impairment losses	
At January 1, 2021	$ (7,292,235)
Depletion and depreciation	(1,426,609)
At December 31, 2021	$ (8,718,844)
Depletion and depreciation	(1,180,104)
Impairment	-
At December 31, 2022	$ (9,898,948)
Net book value:	
At December 31, 2021	$ 8,690,812
At December 31, 2022	$ 7,224,605

Depletion calculation for the year ended December 31, 2022 include estimated future development costs of $49,515,000 (2021 - $50,901,000) associated with the development of the Corporation's proved and probable reserves, which is added to the Corporation's net carrying value of property and equipment in the depletion calculation.

As at December 31, 2022 and 2021, no indicators of impairment were identified. Accordingly, no impairment test was required.

(Expressed in Canadian Dollars)

8. Decommissioning liabilities

The Corporation's decommissioning liabilities result from its ownership interest in petroleum and natural gas assets including well sites and gathering systems. The total decommissioning liabilities are estimated based on the Corporation'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 total estimated, inflated undiscounted cash flows required to settle the provision is $7,939,770 at December 31, 2022 (2021 - $7,214,451), which have been discounted using risk-free rate ranges between 2.94% to 3.01% at December 31, 2022 (2021 - 0.95% to 1.68%).

These obligations are to be settled based on the economic lives of the underlying assets, which currently ranges between 9 and 38 years.

The following table summarizes changes in decommissioning liabilities for the years ended December 31, 2022 and 2021:

	2022	2021
Beginning of year	$ 5,945,768	$ 6,372,641
Accretion expense	84,092	33,618
Liabilities incurred	-	244,041
Settlement of liabilities – payment of cash	(215,000)	(205,941)
– Government grant *	(112,000)	(155,012)
Change in estimates	(454,013)	(343,579)
End of year	$ 5,248,847	$ 5,945,768

* During the year ended December 31, 2022, the Corporation received $112,000 (2021 – $155,012) in the form of a grant from the Alberta Government in conjunction with the Alberta Site Rehabilitation Program that was paid directly to the vendors hired to perform abandonment and reclamation work. Hence, no cash was received by the Corporation.

Changes in estimates and assumptions for the years ended December 31, 2022 and 2021 relate to both the change in discount rates used and revisions to abandonment and reclamation cost estimates and future abandonment dates of the Corporation's wells and facilities.

(Expressed in Canadian Dollars)

9. Income tax

The provision for income taxes reflects an effective tax rate that differs from the combined federal and provincial statutory tax rate as follows:

	2022	2021
Loss before taxes	$ (3,801,958)	$ (4,304,197)
Combined statutory tax rate	23%	23%
Computed income tax expense (recovery)	(874,450)	(989,965)
Increase (decrease) resulting from:		
Non-deductible share-based compensation	69,683	28,386
Other non-deductible expenses	1,335	525
Tax benefit not recognized	803,432	961,054
Net tax expense	$ -	$ -

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilized. Accordingly, the Corporation has not recognized a total deferred income tax asset of $5,725,044 as at December 31, 2022.

The net deferred income tax asset is comprised of the following:

	2022	Provision (recovery) in income	2021
Property, equipment and exploration assets	$ -	$ 8,947	$ (8,947)
Decommissioning liabilities	-	(8,947)	8,947
Net deferred tax asset (liability)	$ -	$ -	$ -

The Corporation's unrecognized deductible temporary differences are as follows:

	2022	2021
Property, equipment and exploration assets	$ 4,561,165	$ -
Decommissioning liabilities	5,248,848	5,906,870
Non-capital losses	14,382,514	14,792,475
SR&ED expenditures and ITC's	698,970	698,970
Total unrecognized deductible temporary differences	$ 24,891,497	$ 21,398,315

As at December 31, 2022, the Corporation had approximately $28,177,269 (2021 – $28,021,497) in total tax pools, including non-capital losses of $14,382,514 (2021 - $14,792,475). The non-capital losses are available for immediate deduction against future taxable income and expire in the years 2025 through 2041. The Company also had $38,927 of Federal Scientific Research and Experimental Development (SR&ED) credits which expire in the year 2039.

(Expressed in Canadian Dollars)

10. Share capital

(a) Authorized

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value.

(b) Issued

Common shares	Number of shares	Amount
Balance, January 1, 2021	99,219,625	$ 24,382,431
Issuance of common shares for cash	40,000,000	6,000,000
Balance, December 31, 2021 and 2022	139,219,625	$ 30,382,431

11. Share-based compensation

Under the Corporation's share option plan, the Corporation may grant options to its directors, officers, employees and consultants up to a maximum of 10% of the issued common shares. The exercise price of each option is determined by the Board of Directors of the Corporation when such option is granted. The options vest at the rate of one-third each on the date of grant, second-year anniversary from the date of grant and third-year anniversary from the date of grant and are expensed on a graded vesting schedule. The option's maximum term is five years.

The following is a summary of changes to the Corporation's share option plan during the years:

	2022		2021	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of year	8,615,000	$0.15	9,415,000	$0.15
Granted	4,945,000	$0.15	-	-
Forfeited	(1,820,000)	($0.15)	(800,000)	($0.15)
Outstanding at end of year	11,740,000	$0.15	8,615,000	$0.15
Exercisable at end of year	8,726,667	$0.15	7,485,000	$0.15

On March 1, 2022, 4,945,000 share options were granted to various directors, officers, and consultants of the Corporation at an exercise price of $0.15 per Common Share for 5 years pursuant to the terms of the Corporation's Stock Option Plan. The Corporation utilized the Black-Scholes Option Pricing model to determine the fair value of these options.

The Corporation recorded share-based compensation of $302,968 for the year ended December 31, 2022 (2021 - $123,416).

During the year ended December 31, 2022, 1,820,000 (2021 – 800,000) share options at $0.15/share (2021 - $0.15/share) were forfeited.

(Expressed in Canadian Dollars)

12. Revenue from petroleum and natural gas sales

The Corporation sells its products 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.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The amount of each significant category of revenue recognized for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Crude oil	$ 1,130,624	$ 1,429,466
Natural gas	3,929,706	3,048,746
Natural gas liquids	3,710,090	2,667,659
	$ 8,770,420	$ 7,145,871

13. Net finance expenses

	2022	2021
Finance income		
Interest income on cash	$ 51,301	23,195
Finance expenses		
Accretion of decommissioning liabilities (note 8)	(84,092)	(33,618)
Net finance income (expense)	$ (32,791)	(10,423)

(Expressed in Canadian Dollars)

14. Related party transactions

General and administrative expenses for the year ended December 31, 2022 includes $535,000 incurred for services provided by various officers and directors for management services (2021 - $525,000).

During the year ended December 31, 2022, the Corporation paid a relative of a director of the Corporation for engineering support in the amount of $nil (2021 - $29,300). All amounts are included in general and administrative expenses.

The related party transactions are in the normal course of operations and have been initially measured at fair value, which is the amount of consideration established and agreed to by the related party and is similar to amounts negotiated independently with third parties.

Executive compensation

Key management personnel include executive officers and directors. Executive officers receive consulting fees by virtue of their consulting agreements with the Corporation, and also participate in the Corporation's share option program.

Key management personnel cash compensation is as follows:

	2022	2021
Consulting fees	$ 535,000	$ 525,000

CERTIFICATE OF THE AGENTS

Dated: July ●, 2023

To the best of our knowledge, information and belief, the short form prospectus, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this supplement as required by the securities legislation of the Provinces of Alberta, British Columbia, Saskatchewan, New Brunswick, Manitoba and Ontario.

RBC DOMINION SECURITIES INC.	RAYMOND JAMES LTD.	ECHELON WEALTH PARTNERS INC.
(signed) "●"	(signed) "●"	(signed) "●"
●	●	●
(signed) "●"	(signed) "●"	(signed) "●"