



HIGHWOOD

ASSET MANAGEMENT LTD.

(formerly Highwood Oil Company Ltd.)

**HIGHWOOD ASSET MANAGEMENT LTD.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021
(unaudited)**

The accompanying condensed interim consolidated financial statements for Highwood Asset Management Ltd. have been prepared by management in accordance with International Financial Reporting Standards. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Highwood Asset Management Ltd.

(formerly Highwood Oil Company Ltd.)

Condensed Interim Consolidated Statement of Financial Position

(all tabular amounts expressed in thousands in Canadian dollars) (unaudited)	Note	As at September 30 2021	As at December 31 2020
Assets			
Current assets			
Cash		\$ -	\$ 5,675
Accounts receivable	4, 14(a)	1,841	5,256
Deposits and prepaid expenses		421	1,294
Reclamation deposits		123	123
Assets held for sale	5	-	38,520
Total current assets		2,385	50,868
Reclamation deposits		18	18
Exploration and evaluation assets	6	1,321	1,236
Property, plant and equipment	7	12,596	13,386
Right-of-use assets		69	142
Total assets		\$ 16,389	\$ 65,650
Liabilities			
Current liabilities			
Bank overdraft		\$ 205	\$ -
Bank debt	8	-	7,000
Accounts payable and accrued liabilities		3,693	8,360
Commodity contracts	14(b)	475	109
Current portion of lease liabilities		75	100
Liabilities associated with assets held for sale	5	-	36,540
Total current liabilities		4,448	52,109
Lease liabilities		-	49
Decommissioning liabilities	9	2,950	3,261
Deferred tax liability		155	468
Total liabilities		7,553	55,887
Shareholders' Equity			
Share capital	11	16,310	16,310
Contributed surplus	12	2,584	2,141
Deficit		(10,058)	(8,688)
Total equity		8,836	9,763
Total liabilities and shareholders' equity		\$ 16,389	\$ 65,650

Subsequent events (note 8)

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Approved by the Board:

"signed", Stephen J Holyoake, Director

"signed", Ryan Mooney, Director

Highwood Asset Management Ltd.

(formerly Highwood Oil Company Ltd.)

Condensed Interim Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)

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

(unaudited)

	Note	Three Months Ended,		Nine Months Ended,	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue					
Oil sales	3	\$ 721	\$ 5,752	\$ 6,423	\$ 14,034
Royalties		(222)	(475)	(745)	(1,309)
Transportation pipeline revenues		905	790	2,805	2,719
Processing and road use revenues	3	-	229	191	901
		1,404	6,296	8,674	16,345
Realized gain (loss) on commodity contracts	14(b)	(413)	254	(2,066)	2,307
Unrealized gain (loss) on commodity contracts	14(b)	334	(569)	(366)	4,645
Total revenue, net of royalties and commodity contracts		1,325	5,981	6,242	23,297
Expenses					
Operating and transportation		509	4,522	4,276	12,794
General and administrative		510	1,212	2,390	4,158
Bad debt expense (recovery)		-	282	(64)	283
Exploration and evaluation expenditures	6	-	-	127	-
Depletion and depreciation	7, 9	128	2,108	535	5,746
Impairment loss	7	-	17,617	352	28,741
Impairment loss reversal	7	-	-	(306)	-
Stock-based compensation (recovery)	12	(72)	237	443	661
Total expenses		1,075	25,978	7,753	52,383
Operating income (loss)		250	(19,997)	(1,511)	(29,086)
Other income (expenses)					
Gain (loss) on disposal of assets	5	-	-	(2)	586
Listing expense and transaction costs		-	300	-	184
Finance income and expenses, net	10	(51)	(957)	(170)	(2,224)
Total other income (expenses)		(51)	(657)	(172)	(1,454)
Income (Loss) before taxes		199	(20,654)	(1,683)	(30,540)
Deferred tax recovery (expense)		(49)	580	313	2,905
Income (Loss) and comprehensive income (loss) for the period		\$ 150	\$ (20,074)	\$ (1,370)	\$ (27,635)
Income (Loss) per share:					
Basic and Diluted	11(c)	\$ 0.02	\$ (3.34)	\$ (0.23)	\$ (4.59)

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Highwood Asset Management Ltd.*(formerly Highwood Oil Company Ltd.)***Condensed Interim Consolidated Statement of Changes in Shareholders' Equity**

(all tabular amounts expressed in thousands in Canadian dollars)

(unaudited)

	Note	Share capital	Contributed surplus	Retained earnings (Deficit)	Total equity
Balance, January 1, 2021		\$ 16,310	\$ 2,141	\$ (8,688)	\$ 9,763
Stock-based compensation	12	-	443	-	443
Loss and comprehensive loss for the period		-	-	(1,370)	(1,370)
Balance, September 30, 2021		\$ 16,310	\$ 2,584	\$ (10,058)	\$ 8,836
Balance, January 1, 2020		\$ 16,310	\$ 1,091	\$ 596	\$ 17,997
Stock-based compensation	12	-	661	-	661
Loss and comprehensive loss for the period		-	-	(27,635)	(27,635)
Balance, September 30, 2020		\$ 16,310	\$ 1,752	\$ (27,039)	\$ (8,977)

See the accompanying notes to the Condensed Interim Consolidated Financial Statements

Highwood Asset Management Ltd.

(formerly Highwood Oil Company Ltd.)

Condensed Interim Consolidated Statement of Cash Flows

(all tabular amounts expressed in thousands of Canadian dollars) (unaudited)	Note	Three Months Ended,		Nine Months Ended,	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Cash provided by (and used in)					
Operating activities					
Income (loss) for the period		\$ 150	\$ (20,074)	\$ (1,370)	\$ (27,635)
Items not involving cash:					
Unrealized (gain) loss on commodity contracts	14(b)	(334)	569	366	(4,645)
Exploration and evaluation expenditures	6	-	-	127	-
Depletion and depreciation expense	7, 9	128	2,108	535	5,746
Impairment loss	7	-	17,617	352	28,741
Impairment reversal	7	-	-	(306)	-
Finance expense	10	8	85	33	437
Deferred tax recovery		49	(580)	(313)	(2,905)
Stock-based compensation (recovery)	12	(72)	237	443	661
(Gain) loss on disposal of assets	5	-	-	2	(586)
Non-cash operating and transportation expense		-	929	-	929
Cash abandonment expenditures	9	(2)	-	(3)	-
Proceeds on future abandonment expenditures			2,553	-	2,553
Change in non-cash working capital	13	268	(1,521)	(1,064)	4,580
<i>Net cash from (used in) operating activities</i>		195	1,923	(1,198)	7,876
Financing activities					
Payments of lease obligations		(26)	(31)	(78)	(99)
Bank debt, net of repayments	8	-	(300)	(7,000)	(300)
<i>Net cash used in financing activities</i>		(26)	(331)	(7,078)	(399)
Investing activities					
Additions to property, plant and equipment	7	(33)	(52)	(55)	(4,368)
Additions to exploration and evaluation assets	6	(46)	(15)	(212)	(114)
Additions to assets held for sale	5	-	-	(3)	-
Proceeds on disposition of exploration and evaluation assets	6	-	-	-	648
Proceeds on disposition of assets held for sale	5	-	-	1,981	-
Change in non-cash working capital	13	1	(1,419)	685	(3,497)
<i>Net cash from (used in) investing activities</i>		(78)	(1,486)	2,396	(7,331)
Change in cash		\$ 91	\$ 106	\$ (5,880)	\$ 146
Cash (bank overdraft), beginning of period		(296)	(143)	5,675	(183)
Cash (bank overdraft), end of period		\$ (205)	\$ (37)	\$ (205)	\$ (37)

Supplemental cash flow information 13

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Highwood Asset Management Ltd.

(formerly Highwood Oil Company Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

Three and nine months ended September 30, 2021

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

(unaudited)

1. REPORTING ENTITY

Highwood Asset Management Ltd. (the “Company”) is a public company engaged in the ownership & oversight of various operations including industrial metals and minerals (prospective Lithium, Iron, Rare Earth Elements, Vanadium, Silica, Alumina, etc), oil production & midstream energy operations. The Company incorporated in Alberta, Canada on August 24, 2012. The Company conducts its operations in Western Canada, primarily in the province of Alberta. The Company’s principal place of business is located at Suite 900, 222 – 3rd Avenue SW, Calgary, Alberta, T2P 0B4.

The Company’s common shares trade on the TSX Venture Exchange under the symbol “HAM”.

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries at September 30, 2021, Cataract Creek Environmental Ltd, Renewable EV Battery Cleantech Corp. and 2339364 Alberta Ltd..

These Condensed Interim Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors on November 26, 2021.

Name Change:

Effective July 20, 2021, the Company obtained shareholder and regulatory approval to change its name from Highwood Oil Company Ltd. to Highwood Asset Management Ltd.

2. BASIS OF PREPARATION

(a) Statement of compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (IAS) 34, “Interim Financial Reporting”, using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Certain information and disclosures normally included in the annual financial statements prepared in accordance with IFRS have been condensed or omitted.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements as at and for the year ended December 31, 2020 and the notes thereto.

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in note 3 of the Company’s audited consolidated financial statements for the year ended December 31, 2020. All accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those of the previous financial year.

(b) Use of estimates and judgments

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of income and expenses during the reporting period. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Highwood Asset Management Ltd.

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Notes to the Condensed Interim Consolidated Financial Statements

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

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In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus (“COVID-19”). The pandemic and subsequent measures intended to limit its spread, contributed to significant volatility in global financial markets. The pandemic has adversely impacted global commercial activity. The full extent of the impact of COVID-19 on the Company’s operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on financial markets on a macro-scale and any new information that may emerge concerning the effectiveness of available vaccines and the severity and spread of the virus. The pandemic presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results. The Company’s financial performance, operations and business are particularly sensitive to a reduction in the demand for prices of crude oil and natural gas. The potential direct and indirect impact of COVID-19 has been considered in management’s estimates and assumptions at period end and have been reflected in the Company’s results with any significant changes described in the relevant financial statements notes.

More specifically, assumptions may change that are involved in the estimates of valuation of exploration and evaluation assets and property and equipment cash generating units, the timing of decommissioning obligations, the fair value of commodity contracts, the expected credit loss provisions related to accounts receivable as well as liquidity and going concern assessments.

A full list of significant estimates and judgments can be found in note 2(d) of the Company’s annual financial statements for the year ended December 31, 2020. COVID-19 and current market conditions have increased the complexity of estimates and assumptions used to prepare the condensed interim consolidated financial statements.

3. REVENUE

Oil sales:

The Company sells its production pursuant to variable-price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis. Revenue is recognized when a unit of production is delivered to the customer and control of the product transferred.

Revenues are typically collected on the 25th day of the month following production.

The following table summarizes the Company’s product sales.

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Total Oil Sales	\$ 721	\$ 5,752	\$ 6,423	\$ 14,034

Processing and other income:

The following table summarizes the Company’s processing and road use revenues.

	Three Months Ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Processing	\$ -	\$ 116	\$ 190	\$ 534
Road Use	-	113	1	367
Total	\$ -	\$ 229	\$ 191	\$ 901

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Notes to the Condensed Interim Consolidated Financial Statements

Three and nine months ended September 30, 2021

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

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4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	September 30, 2021	December 31, 2020
Oil marketers	\$ 517	\$ 2,709
Joint interest partners	813	1,885
Road use receivable	476	557
Other	35	105
Balance, end of period	\$ 1,841	\$ 5,256

5. DISPOSITIONS

On March 25, 2021, the Company closed the disposition of the Company's Red Earth CGUs to an arm's-length company for gross proceeds of \$2.0 million cash, prior to customary closing adjustments. The transaction was effective on the date of closing. The disposed properties had a net book value in assets held for sale of \$38.52 million and liabilities associated with assets held for sale of \$35.95 million. As a result of the disposition, the Company recognized a gain on disposal of asset of \$4 thousand during the six month period ended September 30, 2021. Transaction costs totalling \$14 thousand have reduced the gain recorded.

6. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets are comprised of the following:

	September 30, 2021	December 31, 2020
Balance, beginning of period	\$ 1,236	\$ 7,569
Additions	212	123
Dispositions	-	(5,187)
Land lease expiries	(127)	(15)
Impairment	-	(1,254)
Balance, end of period	\$ 1,321	\$ 1,236

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

Additions in the three and nine month periods ended September 30, 2021 mainly related to industrial metals and mineral permits that the Company has acquired.

At September 30, 2021, there were no indicators of impairment.

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Notes to the Condensed Interim Consolidated Financial Statements

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7. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2021	December 31, 2020
Oil and natural gas properties		
COSTS		
Balance, beginning of period	\$ 19,675	\$ 128,555
Change in decommissioning liabilities (note 9)	(176)	4,741
Additions	55	4,588
Transfers to assets held for sale	-	(99,501)
Dispositions	-	(18,708)
Balance, end of period	\$ 19,554	\$ 19,675
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT		
Balance, beginning of period	\$ (6,289)	\$ (37,662)
Transfers to assets held for sale	-	60,981
Depletion and depreciation	(623)	(5,811)
Impairment loss	(352)	(27,486)
Impairment reversal	306	-
Dispositions	-	3,689
Balance, end of period	\$ (6,958)	\$ (6,289)
Net book value, end of period	\$ 12,596	\$ 13,386

Impairment and Impairment Reversal

The Company assesses many factors when determining if an impairment test should be performed. For the period ended September 30, 2021, the Company conducted an assessment of impairment indicators for the Company's CGU's. The Company determined there were no indicators of impairment or impairment reversal.

As at June 30, 2021, the Company determined that its non-core CGU, Alliance, no longer had any value absent any throughput and recorded an impairment loss in the three month period ended June 30, 2021 of \$352 thousand, representing the full carrying value of the non-core CGU.

As at June 30, 2021, management determined that the significant improvement in commodity pricing and the impact this has on the economic performance of the Saskatchewan CGU justified calculation of the recoverable amount for this CGU. During the three month period ended March 31, 2020, the Saskatchewan CGU incurred an impairment charge of \$332 thousand. The recoverable amounts were estimated at the value in use based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by external engineers at December 31, 2020 and internally updated by Company engineers at June 30, 2021. The future net cash flows were discounted at a before tax rate of 15% (December 31, 2020 – 15%). As a result of the impairment test, the Company has recorded a reversal of prior impairment loss in the three month period ended June 30, 2021 of \$306 thousand, representing the increased carrying amount factoring in the depletion of the historical cost if the impairment had not previously been recognized. Neither a 1% change in the assumed discount rate over the life of the reserves or a 5% change in cash flows would impact the reversal amount.

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The forecasted commodity prices used in the impairment test at June 30, 2021 were as follows:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
WTI Crude Oil (US\$/bbl)	65.31	66.30	62.42	63.67	64.95	66.25	67.57	68.92	70.30	71.71	+2%/yr

For purposes of the impairment test, the benchmark commodity prices forecast above are adjusted to reflect varied delivery points and quality differentials in the products delivered.

8. BANK DEBT

At September 30, 2021, the Company had a \$2.0 million operating facility. This operating facility bore interest at the Bank's prime rate of bankers acceptance discount rates plus an applicable margin of 300bps to 550bps on prime rate loans and 400bps to 650bps on stamping fees related to bankers acceptances, determined by reference to the Company's net debt to cash flow ratio (as defined in the bank facility agreement). Interest on the bank facility is due monthly. This bank facility is secured by a \$100.0 million debenture with a fixed and floating charge over all the assets of the Company.

The Company is required to maintain an adjusted working capital ratio of not less than 1.0:1.0, and such ratio is to be tested at the end of each fiscal quarter. Current ratio is defined as the ratio of (i) current assets, excluding financial derivatives to (ii) current liabilities, excluding financial derivatives, any amounts drawn under the bank facility and any current liabilities related to lease contracts. At September 30, 2021, the Company's current ratio was 1.13:1.0 (December 31, 2020 – 1.13:1.00). The Company is required to maintain a net debt to cash flow ratio no greater than 2.0:1.0 for each quarter beginning with the fiscal quarter ended March 31, 2021. As September 30, 2021 the Company's net debt to cash flow ratio is 0.59:1.0 (December 31, 2020 – 0.87:1.0). For the purposes of the covenant, net debt is defined by the agreement as working capital deficit (excluding financial derivatives) plus bank debt and cash flow is defined as cash flow from operating activities before changes in non-cash working capital normalized for extraordinary and nonrecurring earnings, gains, and losses. For the fiscal quarters ending June 30, 2021, September 30, 2021, and December 31, 2021, the impact of realized gains or losses on commodity contracts is excluded from the calculation of net income for the purposes of the net debt to cash flow covenant. Cashflows are determined as i) the most recent quarter annualized for the quarter ended March 31, 2021, ii) the most recent six months annualized for the quarter ended June 30, 2021, iii) the most recent nine months annualized for the quarter ended September 30, 2021 and iv) the trailing four quarters for the quarter ended December 31, 2021 and all quarters thereafter. The Company is also required to meet certain reporting requirements on a quarterly and annual basis. The Company is also restricted into entering notional commodity contracts exceeding the Operating Facility maturity date of April 30, 2022.

Subsequent to September 30, 2021, the maturity date of the Company's \$2.0 million operating facility was extended to December 31, 2022. In addition the Company is allowed to enter into notional commodity contracts whose terms do not extend more than one month past the operating facility maturity date and cannot exceed 60% of gross production volumes (by commodity) for the three month trailing period, at the time the contracts are entered into.

9. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas properties including well sites and facilities. The Company has estimated the net present value of the decommissioning liabilities to be \$2.95 million as at September 30, 2021 (December 31, 2020 - \$3.26 million) based on an undiscounted total future liability of \$3.69 million (December 31, 2020 - \$3.53 million) and discounted using a long-term risk-free rate of 1.98% (December 31, 2020 – 1.21%) and an inflation rate of 1.73% (December 31, 2020 – 1.49%). The expected timing of decommissioning expenditures extends to 2071.

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Notes to the Condensed Interim Consolidated Financial Statements

Three and nine months ended September 30, 2021

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

(unaudited)

The following table summarizes changes in the decommissioning liabilities:

	September 30, 2021	December 31, 2020
Balance, beginning of period	\$ 3,261	\$ 31,099
Change in discount rate	(308)	3,073
Change in cash flow estimates	(29)	5,861
Abandonment expenditures	(3)	(18)
Additions	-	404
Liabilities disposed in asset dispositions	-	(1,642)
Liabilities transferred to held for sale	-	(35,945)
Accretion expense (note 10)	29	429
Balance, end of period	\$ 2,950	\$ 3,261

The carrying value of certain oil and natural gas properties of the Company is \$nil. Accordingly, the change in discount rate and cash flow estimates related to these properties was recorded as a reduction to depletion and depreciation expense for the three and nine month periods ended September 30, 2021 of \$106 thousand and \$161 thousand, respectively (three and nine month periods ended September 30, 2020 of \$12 thousand and \$48 thousand, respectively).

10. FINANCE INCOME AND EXPENSES, NET

Finance income and expenses, net is comprised of:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Interest on bank debt	\$ 21	\$ 462	\$ 75	\$ 759
Stamping fees on bank debt	22	410	59	1,057
Financing fees	-	-	3	131
Accretion of decommissioning liabilities (note 9)	7	83	29	323
Accretion of lease liabilities	1	2	4	8
Other interest expense (income)	-	-	-	(54)
Total	\$ 51	\$ 957	\$ 170	\$ 2,224

11. SHARE CAPITAL

a) Authorized

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

b) Issued and outstanding common shares

	Number of Shares (000's)	Stated Value
Balance, December 31, 2020 and September 30, 2021	6,014	\$16,310

Highwood Asset Management Ltd.

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Notes to the Condensed Interim Consolidated Financial Statements

Three and nine months ended September 30, 2021

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

(unaudited)

c) Income (loss) per share

	Three months ended September 30, 2021			Three months ended September 30, 2020		
	Net income	Common shares	Income per share	Net Loss	Common shares	Loss per share
Income - basic	\$ 150	6,014	\$ 0.02	\$ (20,074)	6,014	\$ (3.34)
Dilutive effect of options	-	28	-	-	-	-
Income - diluted	\$ 150	6,042	\$ 0.02	\$ (20,074)	6,014	\$ (3.34)

	Nine months ended September 30, 2021			Nine months ended September 30, 2020		
	Net loss	Common shares	Loss per share	Net Loss	Common shares	Loss per share
Loss - basic	\$ (1,370)	6,014	\$ (0.23)	\$ (27,635)	6,014	\$ (4.59)
Dilutive effect of options	-	-	-	-	-	-
Loss - diluted	\$ (1,370)	6,014	\$ (0.23)	\$ (27,635)	6,014	\$ (4.59)

For the nine month period ended September 30, 2021 and for the three and nine month periods ended September 30, 2020 all options and RSU's were excluded as they were anti dilutive.

12. SHARE-BASED PAYMENTS

Options

A summary of the stock options issued and outstanding as at September 30, 2021 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2020	173	\$ 11.95
Forfeited	(24)	12.48
Outstanding, September 30, 2021	149	\$ 11.69
Exercisable, September 30, 2021	86	\$ 7.65

The weighted average contractual term of all outstanding options at September 30, 2021 is 2.72 years.

During the three month and nine months ended September 30, 2021, the Company recorded stock-based compensation expense (recovery) relating to options of \$(21) thousand and \$157 thousand, respectively (three and nine months ended September 30, 2020 - \$98 thousand and \$236 thousand, respectively) with a corresponding increase to contributed surplus.

Restricted Share Units ("RSUs")

A summary of the RSUs issued and outstanding as at September 30, 2021 are as follows:

	Number of RSUs
Outstanding, December 31, 2020	155
Forfeited	(22)
Outstanding, September 30, 2021	133
Exercisable, September 30, 2021	76

The weighted average contractual term of all outstanding RSUs at September 30, 2021 is 1.53 years.

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Notes to the Condensed Interim Consolidated Financial Statements

Three and nine months ended September 30, 2021

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

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During the three and nine months ended September 30, 2021, the Company recorded stock-based compensation expense (recovery) relating to RSU's of \$(51) thousand and \$286 thousand, respectively (three and nine months ended September 30, 2020 - \$139 thousand and \$425 thousand, respectively) with a corresponding increase to contributed surplus.

13. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

Source/(use) of cash	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Accounts receivable	\$ 1,654	\$ (2,273)	\$ 3,415	\$ 741
Deposits and prepaid expenses	25	30	873	1,796
Accounts payable and accrued liabilities	(1,410)	(697)	(4,667)	(1,454)
Changes in non-cash working capital	\$ 269	\$ (2,940)	\$ (379)	\$ 1,083

The above figure relates to:	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Operating activities	\$ 268	\$ (1,521)	\$ (1,064)	\$ 4,580
Investing activities	1	(1,419)	685	(3,497)
Changes in non-cash working capital	\$ 269	\$ (2,940)	\$ (379)	\$ 1,083

Interest paid	\$ 43	\$ 872	\$ 134	\$ 1,816
Taxes paid (recovered)	\$ -	\$ -	\$ -	\$ -

14. FINANCIAL RISK MANAGEMENT

The Board of Directors has the overall responsibility for the establishment and oversight and execution of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor those risks.

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- market risk; and
- liquidity risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. There were no changes to the Company's risk management policies or processes since the year ended December 31, 2020.

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(a) Credit risk

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

	September 30, 2021	December 31, 2020
Cash	\$ -	\$ 5,675
Accounts receivable	1,841	5,256
Deposits	135	136
Reclamation deposits	141	141
Total	\$ 2,117	\$ 11,208

Cash:

Cash consist of amounts on deposit with Canadian chartered banks and undeposited funds. The Company manages credit exposure of cash, if any, by selecting financial institutions with high credit ratings.

Accounts receivable:

Substantially all of the Company's oil and natural gas production is marketed under standard industry terms. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit worthy purchasers. Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs.

The Company's accounts receivable are aged as follows:

	September 30, 2021	December 31, 2020
Current (less than 90 days)	\$ 559	\$ 3,269
Past due (more than 90 days)	1,282	1,987
Total	\$ 1,841	\$ 5,256

As at September 30, 2021, management believes all receivables net of provision for expected credit losses will be collected.

(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates, will affect the Company's cash flow, income or the value of its financial instruments. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return. There have been no changes to the Company's policies for managing foreign currency risk, interest rate risk and commodity price risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rates between the Canadian and United States dollar.

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Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is subject to interest rate risk related to its exposure to interest rate fluctuations on its bank facility, which bears a floating rate of interest. At September 30, 2021 the total amount drawn on the bank facility under a bankers' acceptance ("BA") was \$nil, therefore a 1% interest rate increase or decrease would have no impact on net income for the three and nine month periods ended September 30, 2021.

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also North American and global economic events that dictate the levels of supply and demand. The nature of the Company's operations results in exposure to fluctuations in commodity prices. The Company's production is sold using "spot" pricing with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company currently has the following commodity contracts outstanding at September 30, 2021.

CAD Sell Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	250 bbls/day	July 1, 2021 to December 31, 2021	\$ 65.40	WTI - NYMEX

CAD Buy Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	125 bbls/day	July 1, 2021 to December 31, 2021	\$ 77.85	WTI - NYMEX

The commodity contracts had a total fair value at September 30, 2021 of a liability of \$475 thousand (December 31, 2020 – liability of \$109 thousand). The corresponding unrealized gain (loss) for the three and nine month periods ended September 30, 2021 were \$334 thousand and \$(366) thousand, respectively (three and nine month periods ended September 30, 2020 – \$(569) thousand and \$4.6 million, respectively) and is included in the statement of Income (Loss) and Comprehensive Income (Loss). Total realized losses for the three and nine month periods ended September 30, 2021 were \$413 thousand and \$2.07 million, respectively (three and nine month periods ended September 30, 2020 – gains of \$254 thousand and 2.3 million respectively) and are also included in the statement of Income (Loss) and Comprehensive Income (Loss).

For the three and nine month periods ended September 30, 2021, a \$0.10/bbl increase/decrease in oil prices would have a negative/positive impact on net income of approximately \$1 thousand.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities as they become due. The Company's financial liabilities consist of accounts payable and accrued liabilities and bank debt, all of which are due within a year, lease liabilities which are due within a year, and commodity contract liabilities which will all be settled within one year. The Company also maintains and monitors a certain level of cash flow which is used to partially finance all operating and capital expenditures. The Company also attempts to match its payment cycle with collection of oil sales on the 25th of each month.

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At September 30, 2021, the Company had negative working capital of \$2.06 million. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows and through deleveraging transactions. The Company is encouraged by the increase in commodity prices and activity in the energy industry which will have positive impact on operating cash flows. The Company also has a bank facility (note 8) to facilitate the management of liquidity risk and is in compliance with all associated financial covenants at September 30, 2021. At September 30, 2021, \$2.0 million was available under the bank facility. Subsequent to September 30, 2021, the maturity date of the operating facility was extended to December 31, 2022.

The Company may need to conduct equity issues, asset sales or issue debt if liquidity risk increases in a given period. Liquidity risk may increase as a result of a change in the amounts settled monthly from the commodity contract (note 14(b)), along with potential revisions to the Company's borrowing base (note 8) or unforeseen circumstances related to the continued impacts of COVID-19 on the economy. The Company believes it has sufficient funds to meet foreseeable obligations by actively monitoring its credit facilities through use of the revolving debt and coordinating payment and revenue cycles each month.

15. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities; and
- To maximize shareholder return through enhancing share value.

The Company considers its capital employed to be bank debt and shareholders' equity:

	September 30, 2021	December 31, 2020
Bank debt	\$ -	\$ 7,000
Shareholder's equity	8,836	9,763
Capital employed	\$ 8,836	\$ 16,763

The Company monitors capital based on adjusted working capital, defined as current assets less current liabilities (excluding bank debt and commodity contracts).

Adjusted working capital

	September 30, 2021	December 31, 2020
Adjusted current assets	\$ 2,385	\$ 50,868
Adjusted current liabilities	(3,973)	(45,000)
Adjusted working capital surplus (deficit)	\$ (1,588)	\$ 5,868

The Company makes adjustments to capital employed by monitoring economic conditions and investment opportunities. The Corporation generally relies on credit facilities and cash flows from operations in excess of dividends to fund capital requirements. To maintain or modify its capital structure, the Company may issue new common or preferred shares, conduct asset sales, issue new subordinated debt, renegotiate existing debt terms, or repay existing debt. The Company is not currently subject to any externally imposed capital requirements, other than covenants on its bank debt (note 8).

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The Company also monitors capital structure based on net debt to cash flow. The definition of net debt to cash flow for capital management purposes is the same measure used in the calculation of the Company's financial covenants on its bank facility (note 8). The Company's strategy is to monitor the ratio and the ratio can, and will, fluctuate based on the timing of commodity prices and the mix of exploratory and development drilling.

16. RELATED PARTY TRANSACTIONS

(a) Transactions

Except as discussed elsewhere, the Company had the following transactions with related parties:

During the three and nine month periods ended September 30, 2021, the Company incurred charges of \$69 thousand and \$178 thousand, respectively (three and nine month periods ended September 30, 2020 – \$59 thousand and \$205 thousand, respectively) from a company with common officers and directors for management fees, office space, subscriptions and supplies of which \$29 thousand and \$88 thousand, respectively (three and nine month periods ended September 30, 2020 – \$29 thousand and \$114 thousand, respectively) was recorded as an increase in general and administrative expense and \$30 thousand and \$90 thousand, respectively (three and nine month periods ended September 30, 2020 – \$30 thousand and \$90 thousand, respectively) was recorded as a reduction to lease liabilities. During the three and nine month periods ended September 30, 2021, the Company was also charged \$nil and \$nil, respectively (three and nine month periods ended September 30, 2020 - \$nil and \$573 thousand, respectively) for propane purchases and distribution from this company which is included in operating and transportation expenses on the statement of Income (Loss) and Comprehensive Income (Loss). As at September 30, 2021, \$nil (December 31, 2020 - \$4 thousand) is included within accounts receivable and \$33 thousand (December 31, 2020 - \$249 thousand) is included within accounts payable with respect to these charges.

17. SEGMENT INFORMATION

The Company has the following four reportable operating segments based on the nature of its business activities:

Upstream

The upstream segment includes oil production and associated processing and other income associated with the upstream assets located in the Western Canada Sedimentary Basin. The operations primarily involve the production of oil, processing facilities and other third-party charges for operating upstream assets.

Midstream

The midstream segment consists of the Company's oil sales transportation pipeline, the Wabasca River Sales Pipeline.

Mining and Minerals

The mining and minerals segment includes industrial metal and mineral assets. During 2021, the Company has amassed industrial metallic and mineral permits in Alberta and British Columbia with the current focus on Ironstone and Lithium.

Corporate and Other

The corporate and other segment includes corporate functions of the company.

The Company has organized its segments based on the nature of different products and services that are provided by the segments.

All segments are located geographically within Canada, more specifically Alberta, Saskatchewan and British Columbia.

There are no inter-segment or intra-segment transactions.

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Major Customers

The Company derives a majority of its midstream segment revenues from two major customers. These customers are reputable multi-national entities with no credit risk. For the three and nine month periods ended September 30, 2021, the two major customers accounted for \$604 thousand and \$2.09 million, respectively, of transportation pipeline revenues (three and nine month periods ended September 30, 2020 - \$762 thousand and \$2.28 million, respectively). All revenues from these major customers are collected on or about the 25th of the following month after services are provided.

The following tables shows the income (loss) and comprehensive income (loss) for each of the segments.

Three months ended September 30, 2021	Upstream	Midstream	Mining and Minerals	Corporate and Other	Total
Revenue					
Oil Sales	\$ 721	\$ -	\$ -	\$ -	\$ 721
Royalties	(222)	-	-	-	(222)
Transportation pipeline revenues	-	905	-	-	905
Processing and other income	-	-	-	-	-
	499	905	-	-	1,404
Realized loss on commodity contracts	(413)	-	-	-	(413)
Unrealized gain on commodity contracts	334	-	-	-	334
Total revenue, net of royalties and commodity contracts	420	905	-	-	1,325
Expenses					
Expenses excluding items listed separately below	236	206	67	489	998
Depletion and depreciation	52	76	-	-	128
Total expenses	288	282	67	489	1,126
Income (loss) before taxes	132	623	(67)	(489)	199

Nine months ended September 30, 2021	Upstream	Midstream	Mining and Minerals	Corporate and Other	Total
Revenue					
Oil Sales	\$ 6,423	\$ -	\$ -	\$ -	\$ 6,423
Royalties	(745)	-	-	-	(745)
Transportation pipeline revenues	-	2,805	-	-	2,805
Processing and other income	191	-	-	-	191
	5,869	2,805	-	-	8,674
Realized loss on commodity contracts	(2,066)	-	-	-	(2,066)
Unrealized loss on commodity contracts	(366)	-	-	-	(366)
Total revenue, net of royalties and commodity contracts	3,437	2,805	-	-	6,242
Expenses					
Expenses excluding items listed separately below	3,714	576	116	2,938	7,344
Depletion and depreciation	307	228	-	-	535
Impairment loss (net)	46	-	-	-	46
Total expenses	4,067	804	116	2,938	7,925
Income (loss) before taxes	(630)	2,001	(116)	(2,938)	(1,683)

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Three months ended September 30, 2020	Upstream	Midstream	Mining and Minerals	Corporate and Other	Total
Revenue					
Oil Sales	\$ 5,752	\$ -	\$ -	\$ -	\$ 5,752
Royalties	(475)	-	-	-	(475)
Transportation pipeline revenues	-	790	-	-	790
Processing and other income	229	-	-	-	229
	5,506	790	-	-	6,296
Realized gain on commodity contracts	254	-	-	-	254
Unrealized loss on commodity contracts	(569)	-	-	-	(569)
Total revenue, net of royalties and commodity contracts	5,191	790	-	-	5,981
Expenses					
Expenses excluding items listed separately below	4,032	190	-	2,688	6,910
Depletion and depreciation	2,030	78	-	-	2,108
Impairment loss	17,617	-	-	-	17,617
Total expenses	23,679	268	-	2,688	26,635
Income (loss) before taxes	(18,488)	522	-	(2,688)	(20,654)

Nine months ended September 30, 2020	Upstream	Midstream	Mining and Minerals	Corporate and Other	Total
Revenue					
Oil Sales	\$ 14,034	\$ -	\$ -	\$ -	\$ 14,034
Royalties	(1,309)	-	-	-	(1,309)
Transportation pipeline revenues	-	2,719	-	-	2,719
Processing and other income	901	-	-	-	901
	13,626	2,719	-	-	16,345
Realized gain on commodity contracts	2,307	-	-	-	2,307
Unrealized gain on commodity contracts	4,645	-	-	-	4,645
Total revenue, net of royalties and commodity contracts	20,578	2,719	-	-	23,297
Expenses					
Expenses excluding items listed separately below	11,340	684	-	7,326	19,350
Depletion and depreciation	5,510	236	-	-	5,746
Impairment loss	28,741	-	-	-	28,741
Total expenses	45,591	920	-	7,326	53,837
Income (loss) before taxes	(25,013)	1,799	-	(7,326)	(30,540)

The following tables shows assets and liabilities for each of the segments.

As at September 30, 2021	Upstream	Midstream	Mining and Minerals	Corporate and Other	Total
Current assets	\$ 1,881	\$ 395	\$ -	\$ 109	\$ 2,385
Non-current assets	6,295	7,446	194	69	14,004
Current liabilities	3,925	245	85	193	4,448

As at December 31, 2020	Upstream	Midstream	Mining and Minerals	Corporate and Other	Total
Current assets	\$ 44,741	\$ 400	\$ -	\$ 5,727	\$ 50,868
Non-current assets	6,986	7,654	-	142	14,782
Current liabilities	43,191	100	-	8,818	52,109