

MATERIAL CHANGE REPORT 51-102F3

Item 1 Name and Address of Company

Highwood Asset Management Ltd. (the “**Company**” or “**Highwood**”)
#202 221 10 Avenue SE
Calgary, AB
T2G 0V9

Item 2 Date of Material Change

August 3, 2023

Item 3 News Release

A news release reporting the material change was issued by the Company on August 3, 2023 through newswire services of Cision, a copy of which was subsequently filed under the Company’s profile on SEDAR at www.sedar.com.

Item 4 Summary of Material Change

On August 3, 2023, the Company announced the closings of the previously announced acquisitions of each of Castlegate Energy Ltd. (“**Castlegate**”), Boulder Energy Ltd. (“**Boulder**”) and Shale Petroleum Ltd. (“**Shale**”) (collectively, the “**Acquisitions**”).

Concurrently with the completion of the Acquisitions, in accordance with their terms, each subscription receipt of the Company issued pursuant to the previously announced \$35 million equity financing (the “**Offering**”) was exchanged effective August 3, 2023, for one common share of the Company (a “**Common Share**”) and one-half of one Common Share purchase warrant (each full warrant, a “**Warrant**”) with each Warrant exercisable into one Common Share (each a “**Warrant Share**”) at an exercise price of \$7.50 per Warrant Share until August 3, 2026.

Item 5 Full Description of Material Change

5.1 Full Description of Material Change

On August 3, 2023, the Company announced that, further to the Company’s press releases dated July 5, 2023, July 10, 2023, and July 27, 2023 it has completed the Acquisitions. The cash portion of the purchase price was funded through the net proceeds of the Offering, which included at \$10 million participation by HR Exploration & Energy GmbH (“**HR Exploration**”), the Private Placement (as defined below) by 1080766 Alberta Ltd., a company controlled by Joel MacLeod (“**1080766**”) as discussed below, and proceeds from a credit facility with Royal Bank of Canada and ATB Financial. The Offering was conducted pursuant to an agency agreement with a syndicate of agents led by RBC Capital Markets, Echelon Wealth Partners Inc. and Raymond James Ltd. (the “**Agents**”).

Concurrently with the completion of the Acquisitions, in accordance with their terms, each subscription receipt of the Company issued pursuant to the Offering was exchanged effective August 3, 2023, for one Common Share and one-half of one Warrant, with each Warrant exercisable into one Warrant Share at an exercise price of \$7.50 per Warrant Share until August 3, 2026. The net proceeds of approximately \$32.7 million were released from escrow to fund a portion of the purchase price of the Acquisitions. Holders of subscription receipts were not required to take any action in order to receive the underlying Common Shares and Warrants, and the subscription receipts

were halted and subsequently de-listed from trading on the TSX Venture Exchange on August 3, 2023.

Acquisitions

The final consideration for the acquisition of Shale was comprised of 1,277,025 Common Shares. The final consideration for the acquisition of Castlegate was comprised of \$37.6 million in cash. The final consideration for the acquisition of Boulder was comprised of \$75.1 million in cash, the issuance of 1,500,000 Common Shares and a \$14 million note payable to the Boulder shareholder (the "**Boulder Note**"). The Boulder Note matures on July 1, 2025 and provides for payments, equal to \$3,500,000, 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 subject to certain terms and conditions under the New Credit Facilities discussed below. All obligations under the Boulder Note are fully and unconditionally personally guaranteed by Joel MacLeod, the Executive Chairman of the Company, in an amount limited to \$3 million, plus costs and expenses of enforcement plus interest (the "**Guarantee**").

New Credit Facilities

In connection with the Acquisitions, the Company entered into a new senior secured extendible revolving credit facilities in the aggregate principal amount of up to \$100 million (the "**New Credit Facilities**"). The New Credit Facilities are 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 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 \$100 million, and to be subject to semi-annual redeterminations, based upon the Company's annual report of the Company's independent qualified reserves evaluator or updates thereto. The New Credit Facilities are secured by a first fixed and floating charge over all the Company's assets. The New Credit Facilities include operating restrictions on the Company, including (among other things), limitations on acquisitions, distributions, dividends and hedging arrangements.

Board Updates

In connection with the completion of the Acquisitions, the Company has added David Gardner and Garrett Ulmer to the Board of Directors.

Mr. Gardner has over 30 years of experience in the global oil and gas industry, initially as a geologist with Exxon; and after completing an MBA, progressed his commercial career to the corporate executive level with a growing focus on general management, strategy, business development and M&A. He spent nearly 17 years with BP, including in BP's corporate center and M&A group, and leading Exploration new access globally and Upstream business development across Europe and Africa. From 2014, Mr. Gardner was SVP of Business Development for Husky Energy in Calgary culminating in Husky's combination with Cenovus Energy in January 2021. Mr. Gardner, also, was a Special Adviser with Kirk Lovegrove & Company Ltd in London in 2021. Since December 2021, Mr Gardner has been the CEO of Shale Petroleum Ltd. Mr. Gardner has a BS degree in Geology from the College of William and Mary in Virginia, an MS degree in Geology from the University of Wisconsin-Madison and an MBA degree from the University of California, Los Angeles.

Mr. Ulmer is currently serving as Chief Executive Officer of private oil and gas company West Lake Energy following approximately 2 years as Chief Operating Officer. Prior thereto, he worked in roles of increasing responsibility at Bellatrix Exploration from 2009 up to the role of Chief Operating Officer from 2017 to 2020. He has over 30 years experience in the upstream oil and gas industry including extensive service with Imperial Oil (Exxon Mobil) and ConocoPhillips in various roles.

The Board now consists of: Joel Macleod (Executive Chairman), Greg Macdonald, Stephen Holyoake, Ryan Mooney, David Gardner and Garrett Ulmer. The officers consist of: Joel Macleod (Executive Chairman), Greg Macdonald (Chief Executive Officer), Chris Allchorne (Chief Financial Officer), Kelly McDonald (Vice President, Exploration) and Trevor Wong-Chor (Corporate Secretary).

Mr. Gardner is the nominee pursuant to a board nomination agreement (“**HR Board Nomination Agreement**”) between the Company and HR Exploration 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 of directors of the Company (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 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.

Mr. Ulmer is the nominee pursuant to a board nomination agreement between the Company and West Lake (“**WL Board Nomination Agreement**”) whereby West Lake shall, for so long as it shall own or control, 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 to the Board.

Private Placement

In connection with the closing of the Acquisitions, 1080766 has purchased an aggregate amount of \$2.8 million in units of the Company (the “**Private Placement Units**”) comprised of one Common Share and one-half of one Warrant (the “**Private Placement**”). Each Private Placement Warrant is exercisable into one Warrant Share at an exercise price of \$7.50 per Warrant Share until August 3, 2026.

The Private Placement Units were purchased pursuant to the Private Placement (including the Common Shares and Warrants comprising such Private Placement Units, and the Warrant Shares issuable upon the exercise of such Warrants) are subject to a statutory hold period until December 4, 2023.

1080766 (and Joel MacLeod) also participated in the Offering for an additional \$2.2 million, bringing the aggregate equity commitment from 1080766 (and Joel MacLeod) to \$5 million.

Early Warning Requirements

Following completion of the Acquisitions, conversion of Subscription Receipts and the Private Placement, Highwood now has 15,114,323 Common Shares outstanding.

1080766 Alberta Ltd. (“**1080766**”) (a company controlled by Joel MacLeod, a Director and Executive Chairman of the Company) acquired 309,416 Subscription Receipts pursuant to the Offering. Further, Joel MacLeod directly acquired 57,250 Subscription Receipts pursuant to the Offering. All of these Subscription Receipts will be converted to Common Shares and Warrants effective August 3, 2023 in connection with closing of the Acquisitions. For the purposes of this press release, all securities acquired or to be acquired directly by Joel MacLeod are included in the amount of securities that 1080766 owns and exercises control and direction over.

1080766 completed the Private Placement for \$2.8 million and received 466,666 Common Shares and 233,333 Warrants in connection with the Private Placement.

Following completion of the Private Placement and Conversion of the Subscription Receipts, 1080766 and Joel MacLeod will own and exercise control or direction over 4,879,193 Common Shares and 416,666 Warrants, representing approximately 32% of the issued and outstanding Common Shares on a non-diluted basis and approximately 34% of the issued and outstanding Common Shares on a partially-diluted basis (assuming the exercise of all Warrants held by 1080766 and Joel MacLeod). Joel MacLeod is the sole control person of the 1080766. Joel MacLeod and 1080766 participated in the Offering for investment purposes.

HR Exploration acquired 1,666,666 Subscription Receipts pursuant to the Offering at an aggregate purchase price of \$10,000,000 (\$6.00 per Subscription Receipt). All of these Subscription Receipts will be converted into an aggregate of 1,666,666 Common Shares and 833,333 Warrants effective August 3, 2023 in connection with closing of the Acquisitions. On August 3, 2023, HR Exploration also received 943,741 Common Shares in connection with the closing of the Shale Acquisition. HR Exploration will own and exercise control or direction over 2,610,407 Common Shares and 833,333 Warrants, representing approximately 17% of the issued and outstanding Common Shares on a non-diluted basis and approximately 21% of the issued and outstanding Common Shares on a partially-diluted basis (assuming the exercise of all Warrants held by HR Exploration). HR Exploration may acquire or dispose of additional securities of the Company in the future through the market, privately, or otherwise, as circumstances or market conditions warrant.

The involvement of 1080766 in the Private Placement and Guarantee are “related party transactions” within the meaning of Multilateral Instrument 61-101 — Protection of Minority Security Holders in Special Transactions (“MI 61-101”) and the Company is relying on the exemptions in sections 5.5(a) and 5.7(a) [Fair Market Value Not More Than 25% of Market Capitalization] of MI 61-101 in order to be exempt from the formal valuation and minority shareholder approval requirements therein, as the aggregate fair market value of such transactions does not exceed 25% of the Company’s current market capitalization, as determined in accordance with MI 61-101.

Common Share and Warrant Listing on TSX Venture Exchange

The Warrants underlying the Subscription Receipts are listed for trading on the TSX Venture Exchange under the symbol “HAM.WT” effective as of the opening of markets on August 4, 2023. The Common Shares underlying the Subscription Receipts are listed for trading on the TSX Venture Exchange effective as of the opening of markets on August 4, 2023.

Item 5.2 Disclosure for Restructuring Transactions

Not applicable

Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable

Item 7 Omitted Information

Not applicable

Item 8 Executive Officer

Chris Allchorne, Chief Financial Officer

Phone: 587 393-6592

Item 9 Date of Report

August 9, 2023

Cautionary Note Regarding Forward-Looking Statements

This material change report contains certain statements and information, including forward-looking statements within the meaning of the “safe harbor” provisions of applicable securities laws, and which are collectively referred to herein as “forward-looking statements”. The forward-looking statements contained in this material change report are based on Highwood’s current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. When used in this material change report, the words “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions, as they relate to Highwood or the proposed Acquisitions, are intended to identify forward-looking statements. 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:

- *expectations regarding future share ownership of Highwood by insiders;*
- *anticipated benefits of each of the Acquisitions;*
- *the listing of the Warrants on the TSX-V;*
- *the Company’s expectations with respect to Highwood’s financial and operational results following completion of the Acquisitions;*
- *the Company’s expectations regarding capacity of infrastructure associated with its business and the businesses of Shale, Boulder and Castlegate;*
- *the performance characteristics of the Company and the oil and natural gas properties subject to the Acquisitions;*
- *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;*
- *the Company's expectation regarding its ability to return of capital to shareholders;*
- *treatment under governmental regulatory regimes and tax laws; and*
- *Highwood's business and acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom.*

These forward-looking statements are not guarantees of future performance and are subject to a number of known and unknown risks and uncertainties that could cause actual events or results to differ materially, including, but not limited to:

- *failure to realize the anticipated benefits of acquisitions, including results and/or synergies of 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;*
- *commodity price volatility and adverse general economic, political 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; and*
- *changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry.*

All dollar figures included herein are presented in Canadian dollars, unless otherwise noted.