Highwood
VALUE PARTNERS

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

April 15th, 2022

Dear Investors,

During the first quarter of 2022, our portfolio was down 8.7% in Canadian dollars net of fees. Our cash balance was 13.6% at quarter end. The broad European equity index was down 8.4% and the Canadian index was +3.6%[1] in the quarter. From inception to March 31, 2022, our portfolio is up 21.5%, which is an 8.8% average annual return net of fees with 27.2% of the portfolio in cash on average over that time.

The table below gives you a summary of our performance and exposure by strategy bucket for the quarter and the relevant periods since inception.

		Exposures by Strategy Bucket			
Time Period	**Performance, Net of Fees**	**Total Equity**	**Core Value Equity**	**Special Situations Equity**	**Cash**
FY 2019 [1]	1.9%	41.0%	36.0%	5.0%	59.0%
FY 2020	24.2%	78.1%	70.6%	7.5%	21.9%
FY 2021	5.1%	84.1%	80.8%	3.3%	15.9%
Q1 2022	**-8.7%**	**86.4%**	**77.0%**	**9.4%**	**13.6%**
Average, Since Inception [1]	8.8%	72.8%	66.0%	6.8%	27.2%
Total Return, Since Inception [1]	21.5%				

1. Inception on December 9, 2019

The quarter was characterized by substantial volatility in equity markets driven by the expectation of rising interest rates and the tragic invasion of Ukraine by Russia on February 24th. Price volatility is the friend of a disciplined value-oriented public equities investor as it creates opportunities to acquire ownership interests at prices which embed both safety of capital and attractive returns over the medium term. I found opportunities to do just that both within the portfolio, by re-allocating capital into the highest returning assets in the portfolio, and by searching out new opportunities.

In this letter, I intend to take you through these developments. First, I will discuss the results of my efforts to search out new value. This yielded a new investment in Borr Drilling, which is a Norwegian listed oil and gas services business. Second, I will spend some time discussing the portfolio management decisions I made in the quarter, the upshot of which is that I have improved the weighted average price / estimated intrinsic value[2] in the portfolio from 63% to 48%. Following that, I will touch on how the portfolio is constructed in light of the macro-economic and geo-political developments in the quarter. I will then give

[1] MSCI Europe (in CAD) and TSX respectively.

[2] Average price / estimated intrinsic value, weighted by position size.

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

the position-by-position update on the portfolio. Finally, I will finish with a business update which comes with the good news of a new hire here at Highwood, which I am particularly excited about.

Borr Drilling – Special Situation

Borr Drilling (Borr) is a Norwegian listed owner-operator of shallow water jack up rigs, and is a special situation investment for Highwood. From our purchase price, we own the equity at 1x Free Cash Flow in the scenario that jack up rig rates return to the long run average day rate, with our downside well protected given our purchase price at a substantial discount to the replacement cost of the company's assets. I estimate we own our equity in Borr at c.30 cents on the dollar of a conservative estimate of its intrinsic value.

The thesis is that jack up rig rates will normalize toward the long run average driven by increased capex in low-cost oil and gas production and limited supply of new rigs, and the value creation in that scenario will accrue to us as the equity holders. The equity is undervalued because Borr has a leveraged capital structure, it is not well followed, and most of all, it is in a bombed-out industry where returns since 2014 have been horrible. Investor interest in this space has, until very recently, been at all time lows. We are partnered with a strong owner-operator in Tor Olav Troim, who is Borr's chairman and third largest shareholder. Against the substantial upside, the equity comes with some risk: Borr is cyclical and both operationally and financially geared, which means there is both a wider range of outcomes with this investment and a greater number of variables outside management's control that can alter that estimated range. This means that I have sized the position appropriately in the portfolio. Please see the appendix for a more detailed write up on this investment.

Portfolio Management

I used the volatility in equity markets to substantially improve the weighted average price to intrinsic value of our portfolio in the quarter. That statistic stood at 65% on December 31st and would have been 63% at March 31 had I made no changes to the portfolio. The portfolio management decisions I did make in the quarter, resulted in a weighted average price / intrinsic value for our portfolio of 48% as at March 31. This means we own a portfolio of securities that I believe are worth a little more than double what they are trading at today. This was achieved primarily by the re-allocation of capital from cash and shares in Berkshire Hathaway into our holdings in Naked Wines, Burford Capital and GetBusy and secondly by the addition of Borr Drilling. The net result is that we have a higher margin of safety in the portfolio.

The corollary of improving the price / intrinsic value is a higher estimated embedded return in the portfolio. This is not a forecast, but I estimate that these actions have increased the expected return in the portfolio by 49 percentage points should our securities all trade at my estimate of intrinsic value in the medium term.

This was not achieved for free. Had I done nothing in the quarter, our portfolio would have shown a mark to market loss of 3.0% rather than the 8.7% in the history books, a difference of 5.7%. This is simply because the securities I sold continued to go up and the securities I bought with the proceeds continued to go down in price during the quarter. So much for timing! However, a 5.7% loss to improve the margin of safety and expected returns by the magnitude noted above is, to me, a good deal.

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

One last point and I will move on. This re-allocation of capital in response to price volatility is something that is possible because we are dealing with liquid, public securities. It is, I believe, a strength of our strategy which takes an opportunistic and long-term approach to investing in public equities. Using price volatility in this way is a powerful tool in the toolbox we have at our disposal for achieving our mission, which as you know is to turn every dollar of invested capital into five dollars over ten years without taking undue risk. I find it hard to imagine a private equity manager having the flexibility and liquidity to re-allocate capital to take advantage of lower prices on the same scale as what was possible in public markets in Q1 2022.

Interest Rates and Russia / Ukraine

The price volatility that resulted in this opportunity was due primarily to two factors – higher interest rates and Russia's invasion of Ukraine – and given their significance (and the questions I have received from investors) – it is right that I take a moment to address them.

Firstly, short term interest rates are on their way up – likely toward 3% in the US from the current target rate of 0.5%. This will mean tighter financial conditions for companies that need to borrow to grow, which is relevant for companies that either have significant debt financing or are not self financing. Higher expected interest rates disproportionately affects the prices of securities with a lower current income yield, and our portfolio was not immune to this dynamic. The best example of this is the price of our shares in Naked Wines, which was down 45% in the quarter on no significant new information. I am not going to argue the case here, but suffice to say, I think Naked Wines is neither dependent on external financing to fund its growth, nor is it unprofitable. While the accounting P/L does, in aggregate, show a marginally loss-making business, this is the first layer of analysis and is misleading as to the underlying economic reality. The same story goes for our holdings in GetBusy and to a lesser degree, Burford Capital. In all three cases the reported P/L vastly understates the unit economics of the businesses.

Regarding the tragic invasion of Ukraine by Russia, our portfolio has total revenue exposure to both countries combined of less than 1%. The indirect exposure is greater, as Russia's invasion and the economic sanctions western governments have imposed as a result are having material effects on all the markets in which Russia is either a major importer or exporter, with oil and gas near the top of the list. Russia's oil exports are c.10% of the global oil market and Europe relies on Russia for 40% of its gas consumption. These are big numbers and are prompting a re-evaluation by many states of how to achieve energy independence, especially in Europe.

Three of our eleven positions are likely to see their fundamentals accelerate because of this changing geo-political situation. Our holdings in Vestas, which is the global market leader in the manufacture, sale and service of wind turbines is a clear beneficiary as Europe seeks to both gain greater energy independence and invest in a lower emission future. Our holding in Sto also facilitates greater energy independence in Europe because its products improve the energy efficiency of the stock of commercial and residential buildings in Europe. Likewise, Borr Drilling is a direct beneficiary of higher oil prices and the likely increase in investment into producing fields as a result. On the other hand, Ryanair, while well hedged on jet fuel, is our holding most negatively affected, and is seeing a slower path to recovery post pandemic than it otherwise would have as a result of the situation in Ukraine. In the next section, I provide an update on

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

each position individually including some dialogue on how each business is exposed to the Russia/Ukraine situation.

Portfolio Updates

The portfolio continues to be dominated by high-quality, conservatively financed businesses at attractive prices in our core value bucket with a smaller allocation of special situation investments. The table below summarizes some of the key portfolio statistics and how they have changed over time. In short, we are the most invested we ever have been and have the highest estimated margin of safety since our inception.

Highwood Value Partners Portfolio						
As of Date	% Invested	Median Price / Est. Intrinsic Value	Median Market Cap, in Mns of USD	Median Net Debt (Cash) / EBITDA	Median EV / Sales	Median P/E
31-Dec-19	41%	0.54x	550	-0.8x	1.6x	15.1x
31-Dec-20	78%	0.69x	713	-0.3x	2.2x	13.1x
31-Dec-21	84%	0.52x	1387	-0.5x	2.0x	13.3x
31-Mar-22	**86%**	**0.50x**	**1144**	**0.1x**	**1.4x**	**11.0x**

Below are the updates on our portfolio holdings in the quarter in alphabetical order, excluding Borr Drilling.

Alimak – Core Value

Alimak is our mid-cap, Swedish industrial business which operates an attractive installed base business model. The company has less than 1% of revenue to Russia and Ukraine and stopped selling into Russia shortly after February 24th. During the quarter, Alimak reported another strong set of quarterly results. The business is seeing good fundamentals in the three out of four divisions that collectively make up 86% of revenue. These three businesses units achieved revenue growth of 19% year over year and margins have now exceeded where they were prior to the pandemic. As a result, profits in these three divisions are now above where they were prior to the pandemic. The group as a whole has also reduced debt from 1.5x EBITDA to 0.5x EBITDA in the last year. The fourth and weaker business unit within the group is the Wind division, which is 14% of revenue. This business manufactures and sells a range of tower internals and lift systems to wind turbine manufacturers, with related contracts to service this equipment in the aftermarket. While it is a similar business model to the rest of the Alimak group, the management and board announced a strategic review of this business unit which may entail its sale.

I welcome this development, dependent on the sale price for the unit (if sold), as it would result in a more focused, profitable and higher growth group with a net cash balance sheet, which would put the company on the front foot with its capital allocation strategy. The share price was largely unchanged in the quarter and remains well below where it was prior to the pandemic. We own this business at a 10% free cash flow yield, which provides a strong margin of safety and attractive returns from current prices in my view.

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

Burford Capital – Core Value

Burford Capital is our UK listed global market leader in litigation finance. The company has no direct exposure to the Russia/Ukraine conflict. I detailed the investment thesis in my last letter to investors, which is available here. The company makes money from investing in mis-priced litigation claims by funding the legal costs of the claimant in exchange for a share of the ultimate award. As such, it's fundamentals have a low correlation with the broader business cycle or what is happening in Ukraine for that matter. There are many attractive aspects of this business, but what matters most is whether the company can continue to allocate large quantities of shareholder capital into litigation assets at attractive returns. Quite simply, this is the most important variable for long-term equity value creation, and what I am focused on when it comes to tracking the progress of our investment.

Burford reported full year results in the quarter which gave us useful data points in that regard. Burford was able to deploy $447mn into litigation claims in 2021, which for context is 21% of the company's market cap, and more than any year in its history. Historically, for every dollar deployed, Burford has returned c.2x that amount in less than 3 years. On the other hand, the number of litigation matters (ie cases) resolved in the year was lower in 2021, and hence the cash realisations received by Burford were down 22% year over year. This reflects the effect of the pandemic on court schedules. This does not mean the returns on these cases were any less attractive.. Indeed, the returns on the matters that were concluded in 2021 was 1.98x the money invested, which is consistent with the longer-term history and our underwriting assumptions. The other major point from the results was an update on the YPF matters, which as you will remember, have the potential to return somewhere between zero and 2x the market cap of the company. The YPF claims have moved through discovery and are now in summary judgement phase, which means we are likely to see material public updates on this case through the summer of 2022. In summary, the data points from the FY results on the core business are tracking in line with my thesis and the YPF case is slowly moving toward resolution.

GetBusy PLC – Core Value

GetBusy is our small-cap, UK productivity software business. The company has no exposure to the Russia/Ukraine conflict. The company also reported full year results in the quarter, which were very strong and ahead of my own expectations. The business grew Average Recurring Revenue (ARR) by 16% year over year, with the rate of growth picking up through the year driven by both growth in the number of users and growing revenue per user. 2021 was a big year for GetBusy: they made three acquisitions which have broadened their offer, they increased prices with limited impact on churn, and uncovered attractive new growth opportunities in new verticals (namely asset finance and insolvency). The strategy remains unchanged, and it is attractive in my view. Management have a highly cash generative asset in Virtual Cabinet, which is 50% of revenue generating 51% operating margins and growing low single digits. They are using the cash flow from this asset to invest in the growth of the company's second largest asset, SmartVault, which is 45% of revenue, has 85% gross margins and is growing at 35% per annum. Every dollar deployed into the growth of SmartVault delivers a 4x return over the life of the customer. Following the results, I had a call with the CFO, and in his words, 'the business has never been in better shape'.

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

Despite this, the shares were down 15% in the quarter and are now down 41% from our initial purchase price about one year ago. There are two main reasons for this sell-off. Firstly, on a reported basis, the company is slightly loss-making (as management have elected to aggressively re-invest cash flow into SmartVault) which makes the share price more vulnerable to higher rates in the short-term. Secondly, 8% of the shares are in the hands of funds that are winding up or have changed mandates, resulting in material selling pressure. In both cases, we have just what we wish for: holders selling for non-fundamental reasons. We have used this volatility to our advantage by increasing our position and estimate our holding in GetBusy shares is priced at c.30cents on the dollar of my estimate of intrinsic value, which embeds a return well in excess of our hurdle rate.

JZ Capital Partners – Special Situation

JZ Capital is our small cap, UK listed closed-end private equity fund in liquidation. JZ continued to make progress towards liquidation in the quarter by re-financing one of its loan facilities, which has extended the maturity and achieved a lower cost of funding. This gives the company more time to execute its plan without being a forced seller of assets and ensures more of the upside accrues to shareholders. There remains work to do, but with the equity at 33cents on the dollar of appraised value and a conservative loan to value on the portfolio of private equity assets of c.30%, I believe we have a strong margin of safety and the potential to make attractive returns over time.

Naked Wines – Core Value

Naked wines is our UK listed online direct-to-consumer subscription wine business. The company has zero direct exposure to Russia/Ukraine. The shares, which were down 45% in the quarter as noted earlier, are in the penalty box for a couple of reasons in my view. The first concern is that the unit economics on incremental capital deployments (to acquire new customers) are lower now than they were during the pandemic. Quite simply, it was easier to attract customers with an offer of wine delivered to your door during lock-downs than it is now. The second concern is as noted earlier: the company appears to be un-profitable and therefore, like a zero coupon bond, it has a higher effective duration. This means that higher expected interest rates have a stronger downward pressure on the current valuation.

Meanwhile, the valuation of the company has compressed to 0.5x revenue, which is where it was prior to the pandemic. The company has a very strong balance sheet, with 20% of the market cap in cash. Despite the understandably more difficult environment for attracting new customers, the consumer offer continues to improve which is ultimately what will drive attractive returns on total capital over time. In my view, it is a better business now than prior to the pandemic for customers, winemakers and shareholders. The slightly stronger headwinds to new customer acquisition present an attractive opportunity in my view, and we increased our position in this name during the quarter. For a more in-depth view of the thesis on this investment, please listen to the presentation I did to the CFA society of Toronto in June 2021. The password is HIGHWOOD.

Protector Forsikring – Core Value

Protector is our mid-cap, Norwegian P&C insurer with a cost advantage in underwriting which feeds a large and growing float. The company has no direct exposure to Russia/Ukraine, and is a beneficiary of rising

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

interest rates. Every 1% increase in short term interest rates increases earnings per share by 10-15% all else equal. The company reported another set of strong results in the quarter. On the insurance side of the business, the company continued to grow its book at double digit rates at attractive margins. Gross written premiums grew 14% in local currencies and the combined ratio was 92%. Like Berkshire Hathaway, the growth of the insurance business grows the capital available to deploy on the investment side of the business, which has contributed 75% of the profits of the group over the past 10 years. This is a powerful cocktail for long-term equity value creation provided the investment side of the business continues to execute well. By any measure, Dag Marius Nereng has done a fantastic job as the Chief Investment Officer and head of the investing side of the business. The equity portfolio at Protector has compounded at 19.2% per annum since inception in 2014 through the disciplined application of a fundamental value-oriented strategy with a long-term approach. One way of thinking about this, is that provided the insurance side of the business is profitable, which it has been, we are getting paid to have a portion of our capital managed by Dag Marius.

Ryanair – Core Value

Ryanair is Europe's largest short-haul airline and a fine example of the discount business model I so like. Ryanair has no exposure to Russia but had 1-2% of its capacity that was flying to and from Ukraine prior to the conflict. This capacity has since been re-deployed elsewhere in Europe. However, the major impact for Ryanair is indirect, through higher prices for jet fuel which is 36% of costs, and potentially lower demand than anticipated. In the shorter term, Ryanair is well protected against rising fuel prices, with 80% of its fuel needs over the next year hedged at prices well below spot. Over the longer term, prices across the industry will need to rise to offset higher costs. Ryanair is the kind of business that benefits from challenging industry conditions given its competitively advantaged cost structure and ability to invest counter-cyclically. It has consistently gained market share and the pace of those market share gains accelerate in difficult times.

The company reported Q3 results in the quarter, which show the continued recovery in demand as intra-European travel restrictions are relaxed. Based on the current orderbook for new aircraft and available fleet capacity, the group is on track to deliver traffic of 225mn passengers per annum by 2025, which would put the shares on c.7x my estimated earnings from current levels.

Sto SE – Core Value

Sto is our German listed, family run international manufacturer of building coatings with a dominant market position in external wall insulation in Europe. The company was a new addition to the portfolio in Q3 2021 and was discussed in that letter. The company's direct exposure to Russia/Ukraine is less than 1% of revenue. Demand for its products is driven by the cost to heat buildings and increased regulation intended to drive energy efficient renovation across the stock of residential and commercial buildings in Europe. While it is too early to see it in the numbers, logic certainly suggests the situation in Ukraine will accelerate the fundamentals of Sto's business. As an indication, the IEA produced a report in the quarter which suggested ten measures that would reduce Europe's reliance on Russian gas imports. Measure number eight was to accelerate energy efficiency improvements in buildings by deploying modern

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

insulation[3]. As Europe seeks to reduce its reliance on Russian gas over the coming years, Sto is well positioned to benefit.

Sto has strong static pricing power evidenced by its 56% gross margin, which means it is in a good position to pass on higher input prices and has a net cash balance sheet (16% of market cap). It is a wonderful business, and we own the equity today at an 11% free cash flow yield. It is growing at 10% per annum, suggesting a constant multiple IRR of 21%. We added to our position in Sto during the quarter.

Vestas – Core Value

Vestas is the Danish listed, global market leader in wind turbine manufacture and service. The company has an attractive installed base business model with a highly profitable and competitively advantaged service business and a net cash balance sheet. Vestas has 1GW worth of installed turbines in Russia out of a total installed base of 151 GW (0.7%). The direct exposure is very small. As I have noted before, the attractions of wind energy are not just its lower costs and emissions, but also that it provides energy independence for sovereign nations. This point has come into sharp relief in the past two months and provides another argument for increased wind power generation in Europe.

Vestas also reported Q4 results during the quarter. The company continues to struggle with strong demand on the one hand and a challenging supply chain with inflationary pressures on the other. Revenues were +7% in the quarter with lower gross and operating margins year over year. Management is responding to these challenges with a number of actions: increasing prices, taking cost out of the business and developing partnerships with suppliers and cost sharing agreements with customers. Vestas raised the average selling price per megawatt hour by 21% in the quarter for example. Despite the deterioration in profitability, Vestas remains the most profitable wind turbine manufacturer in the industry and continued to gain market share in the year.

Business Update

Highwood is in its third year and I am pleased with its progress. During the quarter, we made some significant steps forward. First and foremost, I am pleased to report that I have hired Anna Caldicott to sit alongside me in an operational role. Anna is a trained accountant and a wonderful calm presence in the office. She has hit the ground running and is already making a difference to the smooth running of the firm. I am truly delighted to have her. Secondly, Highwood completed a trial of Interactive Brokers as a second custodian. Interactive Brokers is now my preferred custodian: it provides lower trading costs and tighter foreign exchange spreads for you and reduces operational complexity for me as the manager. It is a win-win. Finally, the firm continued to grow and take on new mandates in the quarter from like minded investors.

I will be travelling to Omaha for the Berkshire Hathaway AGM later this month via Toronto. If you are in either place, I would be delighted to meet in person.

As always, I value your support and welcome your questions and comments.

---

[3] https://www.iea.org/reports/a-10-point-plan-to-reduce-the-european-unions-reliance-on-russian-natural-gas

Highwood
VALUE PARTNERS

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

Sincerely,

Desmond Kingsford

Appendix 1: Borr Drilling Summary Investment Thesis

Borr Drilling was founded and equity funded by Tor Olav Troim, who is one of the most capable oil and gas investors of the past few decades. Mr. Troim started the company in 2016 with the purpose of acquiring a fleet of modern drilling assets purchased from distressed sellers at a significant discount to the new build price. Over the next 3 years, Borr Drilling did just that – it acquired 23 high quality jack up rigs at a cost of $2.8bn, or $120mn per rig. The new build price for these very same rigs when they were ordered 4 years prior was $240-250mn per rig, which amounts to a current, depreciated value for these assets of c.$4.6bn which is a good estimate for the replacement value of the Borr Drilling fleet[4]. Moreover, the assets Borr acquired are high quality. The portfolio is unusually modern – the rigs are on average 4yrs old – which means they are more efficient and have a lower cash break-even than the industry average.

However, to quote Robert Burns, the best laid plans of mice and men often go awry, and that certainly was the case for Borr Drilling. In 2019, the global pandemic hit, the price of front month contracts on Brent Crude went negative and Borr found itself with a great portfolio of assets but a dearth of contracts to put them to work. The business was therefore over-levered based on the then current income. The share price went from c.$50 in 2018 to $1 in 2020. Borr was not alone in this: the market cap of the entire industry is down 85-90% since 2013.

Business Model

Borr Drilling makes money by contracting the company's individual rigs and crew for drilling services to oil and gas producers. Contracts can vary in duration from weeks to several years and specify a day-rate price equivalent at which Borr is providing these services. Costs of operating and maintaining the rig are largely fixed at c.$50,000/day and the profit Borr makes is the difference between these costs and the day rate agreed with the customer, which has historically varied between $50,000/day when the market is over-supplied and $250,000/day when the market is under-supplied. It is also worth noting that these rigs are used primarily for in-fill drilling rather than exploration. That is, more often than not, they are put to work to extend the life of existing fields rather than find new fields, which is important in the context of an uncertain longer-term future for new oil development vs renewable energy.

The Supply Demand Balance

[4] The difference between the $2.8bn at which the assets were acquired and their replacement value of $4.6bn is likewise a good estimate for the value Troim and the management team have created since founding Borr.

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

The supply-demand balance for offshore drilling rigs is what ultimately determines the utilisation and day rate these assets are contracted at. The thesis behind our investment in Borr has two components. First, is that this supply-demand balance will soon normalize driven by increased investment to bring on new production. Second, Borr has a leveraged capital structure, and is negotiating with the senior debt and convertible bond holders to extend the maturities. I believe they will be successful in this, and that any equity dilution required to extend these maturities will be small relative to the potential upside from rig rates improving.

Demand for Borr's rigs is driven by oil and gas capex, specifically for shallow water developments. These developments are low on the cost curve with lifting costs of $20-$30/bbl, which means they are some of the most attractive marginal barrels to be produced, both in terms of the profitability of these barrels and the short-cycle nature of the capital investment required. The oil and gas industry has endured substantial under-investment since 2014. Offshore oil and gas capex, which is the key driver for rig rates as noted, has more than halved since 2014. This is changing quickly, driven by increased cash flow available for re-investment and the attractive returns available to developers on these low-cost barrels at $80 oil, let alone the higher prices we are seeing today. A review of public filings and guidance for a sample of nine large international oil companies (IOCs) shows that they are budgeting to increase capex by 19% in 2022, and planned drilling of shallow water wells is expected to increase by a similar amount[5].

On the supply side, the size of the global shallow water drilling fleet available to absorb this demand can be thought of as a leaky bathtub. New rigs built are added to the tub and older rigs leave because they are obsolete, or otherwise at the end of their useful life. Since 2014, investment in new rig builds has slowed to a trickle, so much so that some of the yards that build these rigs have pivoted their business to other ships and are in fact, no longer capable of building jack up rigs. Meanwhile, 37% of the rigs that were in use, or available for use in 2014 have since been scrapped. The result is a smaller and older pool of jack up rigs available.

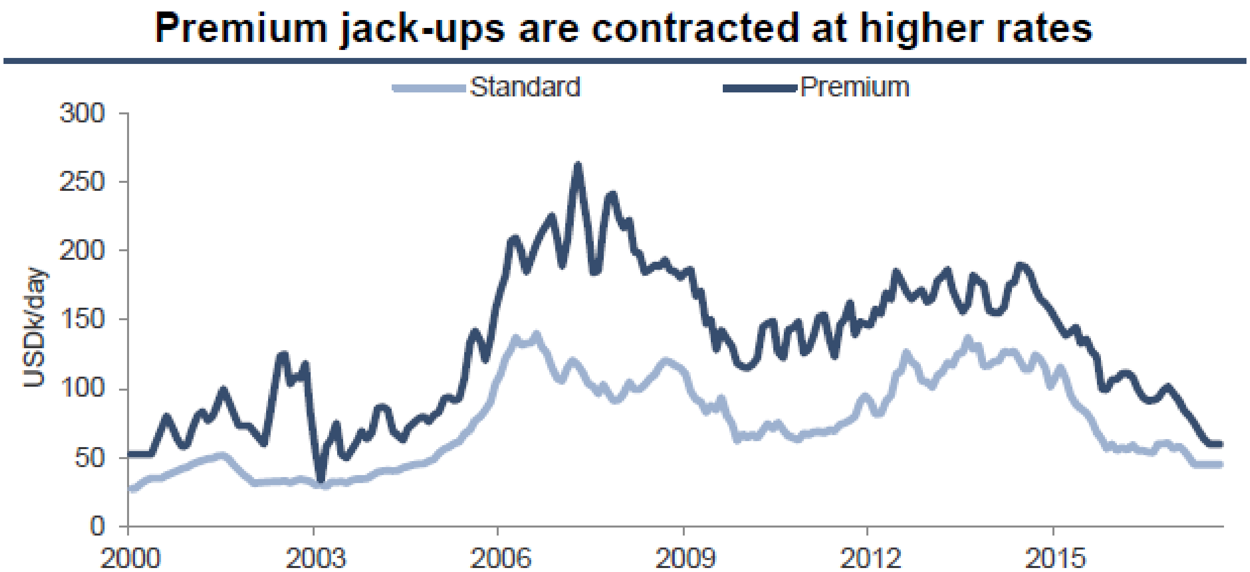
There are a number of deeper fundamental drivers for where jack up rig rates are likely to normalize as supply and demand come back into balance, but history is likewise a reasonable guide. The chart below gives a sense of rig rates over the past 20 years. Current rates are c.$80,000/day, which is marginally above the cash break even for the industry, the 10yr average is c.$145,000/day and rates have averaged $220,000/day when the market is under-supplied. At $145,000/day, Borr will generate c.$600mn in equity Free Cash Flow per annum, which is slightly more than the entire market cap. In other words, a free cash flow yield of over 100%.

[5] BP, Chevron, ConocoPhilips, Exxon, Hess, PTTEP, Shell, Total and Equinor.

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com



The second piece of the thesis is that this value creation is likely to accrue to equity holders, not creditors. The company has $1.9bn in debt on the balance sheet and on the basis of the current income, the company is over-levered. However, it is important to note that the company is not over-levered in a normalised operating environment. The company has a combination of debt owed to the shipbuilding yards for the newer rigs, senior secured loans and convertible bonds, which are freely traded and mature in 2023, currently trading at 90cents. The company was able to get the shipbuilding yards to extend the maturity on their loans to 2025 and is currently in negotiation with holders of the senior debt and convertible bond holders to do the same. My thesis here is that there is likely to be some equity dilution to get the remaining debt holders to extend which I feel confident will be supported by existing owners, but that ultimately a deal to extend is highly likely. Few equity investors are willing to do the credit analysis to assess this aspect of the case and would rather wait until the deal is done before buying the shares, which is part of why the shares are where they are.

As noted we are partnered with a very capable investor in this space, Tor Olav Troim, who is also chairman of the board and who's family office, Magni Partners, is the third largest shareholder with c.$40mn in equity. The CEO, Patrick Schorn, joined Borr after a 29yr career at Schlumberger, where he was the head of the Wells division and part of the executive management team. I feel we have strong alignment with a first-rate management and board in Borr Drilling.

The thesis is of course that rig rates will normalise and that the restructuring will pan out in an advantageous way for equity holders which will result in a value for this company several multiples greater than its price today. The downside from our purchase price is also well covered – at 0.3x book the equity is priced at a further discount to where Borr acquired these rigs in what was a more distressed environment. Consistent with my underwriting discipline, I believe we own the equity in Borr at below 50cents on the dollar of replacement cost. However, it remains the case that this is a cyclical business dependent on a

Highwood
VALUE PARTNERS

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

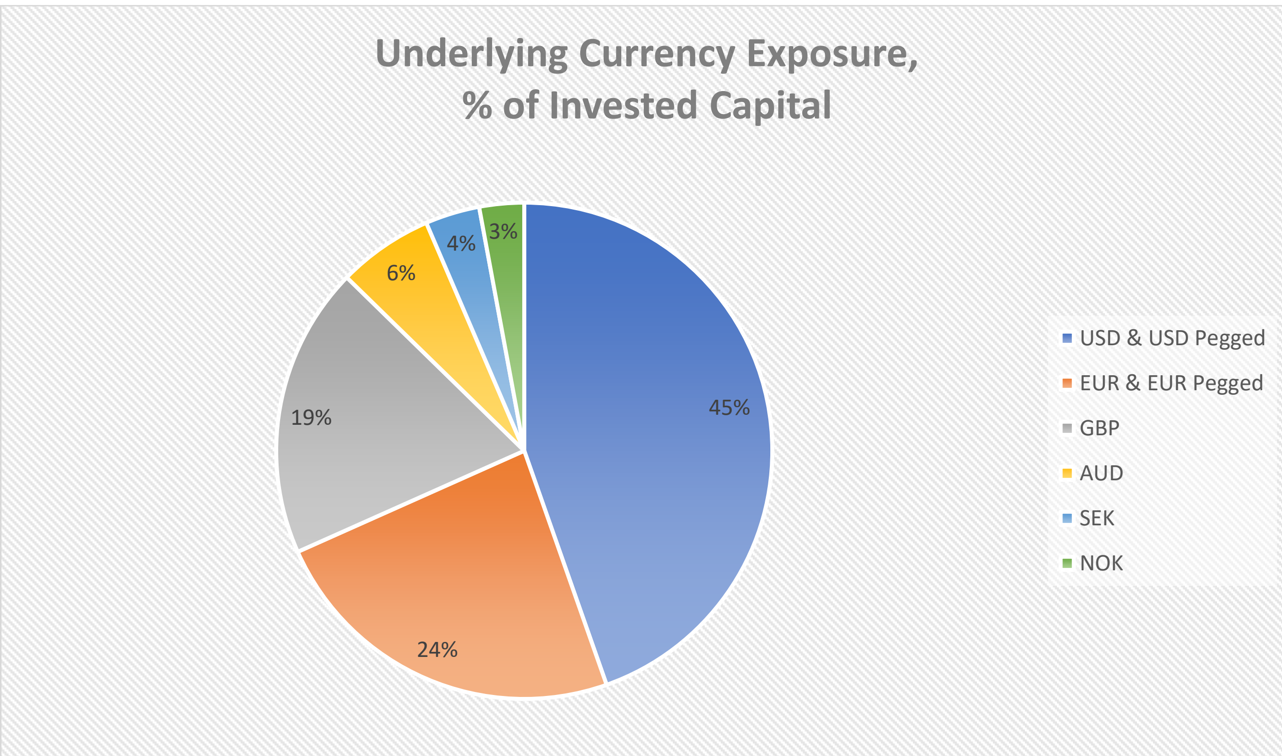
T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

number of macro variables out of our control (oil prices, shallow water capex to name two) and it is both operationally and financially geared. As such, I have sized the position to account for these risks.

Appendix 2: Underlying Currency Exposure Split

This is not a breakdown of the listing currency of our holdings. It is the split of the currencies our portfolio companies earn their revenues in. As such, it is the underlying exposure to currencies you have through your partial ownership of these businesses. As investors can choose whether to have their account in USD or CAD and hence their cash balance may be in either USD or CAD, I have expressed the currency exposure as a percent of invested capital.



Disclaimer:

This letter ("Letter") provides a general description of Highwood Value Partners, Inc. (the "Firm"). The Firm is registered with the British Columbia Securities Commission, the Alberta Securities Commission and the Ontario Securities Commission (the "Commissions") as a portfolio manager under National instrument 31-103 - *Registration Requirements, Exemptions and Ongoing Registration Obligations* ("NI 31-103"). Desmond Kingsford, the principal of the Firm, is registered as the advising representative of the Firm under NI 31-103 with the Commissions.

The information presented in this Letter is not investment advice, should not be relied on as such, and should not be viewed as an investment recommendation by the Firm or Mr. Kingsford generally, or an offer or a solicitation of an offer for the purchase of any

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

securities. Recipients should not make any investment decisions based on the information contained in this Letter. Only (i) an "accredited investor" as defined under section 1.1 of National Instrument 45-106 - *Prospectus Exemptions*; and (ii) a "permitted client" as defined under section 1.1 of NI 31-103 may invest with the Firm. This Letter is presented solely to illustrate the Firm's investment process and strategies as of the date indicated on the cover page of this Letter and is based on information provided by management of the Firm as of such date and on beliefs, assumptions, expectations and/or opinions of management as of such date. Certain information contained in this Letter may have been obtained by management of the Firm from third parties and, although believed to be reliable, has not been independently verified and its accuracy, timeliness or completeness cannot be guaranteed.

While the Firm's investment mandate is designed to reduce risk the program will inherently entail substantial risks. There can be no assurance that the investment objective of the Firm will be achieved. In fact, the investment techniques that the Firm may employ from time to time may, in certain circumstances, substantially increase the adverse impact on the Firm's investment portfolio. Accordingly, the Firm's activities could result in substantial losses under certain circumstances. A separately managed account managed by the Firm is highly speculative and there can be no assurance that the investment objectives of the Firm will be achieved. Nothing herein is intended to imply that the Firm's investment methodologies may be considered "conservative", "safe", "risk free" or "risk averse". Investors must be prepared to bear the risk of a total loss of their invested capital. Past performance of Mr. Kingsford and his affiliates is not necessarily indicative of the future results and any prospective clients of the Firm will need to be prepared to lose all or substantially all of their investment. The Firm will give no warranty as to the performance or profitability of any client account or that the investment objectives of a client's account will be successfully accomplished.

Certain statements contained in this Letter may be considered "forward-looking information" and "forward-looking statements" (collectively "forward-looking statements") within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact included herein, without limitation, statements relating to the Firm's future financial performance and investment returns, are forward-looking statements.

Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible", and similar expressions, or statements that events, conditions, or results "will", "may", "could", or "should" occur or be achieved. Forward-looking statements in this Letter include, among other things, statements relating to: the desire to generate outstanding investment results with low risk; the proposed timeline for the Firm's investment horizon and Mr. Kingsford's career; the benefits of operating the Firm out of Whistler, British Columbia as opposed to a more traditional investment market; Mr. Kingsford's beliefs regarding the necessary components to investment success; the future operating or financial performance of the Firm and the assets managed by the Firm; the intention to prioritize long-term investment return over short-term results; the intention to take on more capital only where the Firm believes it will not dilute investor returns; the intention to maintain a fee structure that incentivizes manager performance over asset gathering; the intention to maintain the Firm's current strategy and vision as it grows; the potential to provide a fund structure in addition to the SMA approach in the future; the Firm's mission to compound each dollar of invested capital into five dollars over a ten-year period without taking undue risk; the belief that a short term quarterly or annual results focus is harmful to long-term returns; the Firm's beliefs with respect to how risk is properly defined and mitigated; the Firm's beliefs as to how returns may actualize; the beliefs of the Firm and Mr. Kingsford regarding the prospective results of specific investments of the Firm; the theories and beliefs disclosed regarding what makes an investment strategy successful; and the expectation and plans for growth . Actual future results may differ materially. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements reflect the beliefs, opinions and projections on the date of this Letter and are based upon a number of assumptions and estimates that, while considered reasonable by the Firm and Mr. Kingsford, are inherently subject to significant business, economic, competitive, political and social uncertainties, many of which are beyond the control of management. Many factors, both known and unknown, could cause actual results, performance or achievements to be materially different from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements and management of the Firm have made assumptions and estimates based on or related to many of these factors. Readers should not place undue reliance on the forward-looking statements and information contained in this Letter concerning these assumptions.

None of the Firm or Mr. Kingsford or their respective affiliates, associates, shareholders, directors, officers, employees, agents or representatives (collectively, the "Representatives"), as applicable, makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein or any other information (whether communicated in written or oral form) transmitted or made available to recipients, and the Representatives expressly disclaim any and all liability relating to or

Highwood
VALUE PARTNERS

Suite 338B, 4370 Lorimer Road
Whistler BC Canada V8E 1A6

T. UK +447760137089
T. North America +1 (604) 388-9933

E. dk@highwoodvaluepartners.com
highwoodvaluepartners.com

resulting from the use of this Letter or such other information by a recipient or any of its affiliates, associates or representatives. The Representatives will not be liable for any errors (as a result of negligence or otherwise, to the fullest extent permitted by law in the absence of fraud) in the information, beliefs, assumptions, expectations and/or opinions included in this Letter, or, as noted above, for the consequences of relying on such information, beliefs, assumptions, expectations and/or opinions and further the Representatives disclaim any obligation or undertaking to provide any updates or revisions to any information contained herein to reflect any change in beliefs, opinions, expectations, assumptions or estimates with respect thereto or any change in events, conditions or circumstances on which any statement in this Letter is based.