HIGH ARCTIC OVERSEAS HOLDINGS CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS

Years ended December 31, 2024 and 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Management's Discussion and Analysis ("MD&A") is a summary review of risks, the results of operations, liquidity, and capital resources of High Arctic Overseas Holdings Corp. and its subsidiaries ("High Arctic", "HOH", or the "Corporation") as at and for the three months and year ended December 31, 2024 and 2023. The information in this MD&A is current to [Month Day, 2025], and should be read in conjunction with the audited consolidated financial statements and notes thereto as at and for the years ended December 31, 2024 and 2023 (the "Financial Statements"). Additional information regarding High Arctic is available on SEDAR+ at www.sedarplus.ca.

The Financial Statements of High Arctic were prepared by and are the responsibility of High Arctic's management. The Financial Statements as at and for the years ended December 31, 2024 and 2023 were prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board.

This MD&A includes financial information, including the results of operations, liquidity and capital resources as if the Corporation was a standalone entity in existence for the reporting periods covered in this MD&A. For a full understanding of the financial position and results of operations of the business, this MD&A, as a result of a corporate reorganization completed during 2024 which is further described below, should be read in conjunction with the Financial Statements of the Corporation and the historical audited consolidated financial statements and notes thereto of High Arctic Energy Services Cyprus Limited ("HAES-Cyprus") for the years ended December 31, 2023, 2022 and 2021, and interim consolidated financial statements, and annual information forms of its previous parent company High Arctic Energy Services Inc. for the years ended December 31, 2023, 2022 and 2021. High Arctic Energy Services Inc.'s historical annual and interim consolidated financial statements are available on High Arctic Energy Services Inc.'s profile on SEDAR+ at www.sedarplus.ca. The audited annual financial statements of HAES-Cyprus for the years ended December 31, 2023, 2022 and 2021 are attached to the Corporation's Listing Application dated August 12, 2024, which is available on the Corporation's profile on SEDAR+ at www.sedarplus.ca.

Incorporated in Calgary, Alberta, Canada, High Arctic Overseas Holding Corp. provides services, inclusive of drilling, workover services, equipment rental and manpower provision in Papua New Guinea ("PNG") through its wholly owned subsidiaries to the extractive industries with particular focus on exploration and production companies operating in the upstream energy sector.

The Corporation was founded to enable a Plan of Arrangement (the "Arrangement") that separated the legacy North American and PNG businesses of High Arctic Energy Services Inc. ("HWO"), with the North American business continuing to be operated by HWO, and the PNG business being operated by the Corporation. The Plan of Arrangement was approved by a vote of shareholders of HWO on June 17, 2024, and was completed on August 12, 2024.

On August 12, 2024, in conjunction with the completion of the Arrangement:

- HWO transferred all of the outstanding ordinary shares of HAES-Cyprus, the subsidiary that owned and operated HWO's Papua New Guinea energy services business, to the Corporation;
- Each shareholder of HWO received as consideration, one quarter of one (1/4) common share of the Corporation and one quarter of one (1/4) post-Arrangement common share of HWO, for each pre-Arrangement common share of HWO held;
- The Corporation became a reporting issuer in Alberta, British Columbia, Manitoba, Ontario, and Saskatchewan and was listed on the TSX Venture Exchange ("TSXV"), and
- HWO retained its interest in the existing North American energy services business and remained listed on the Toronto Stock exchange and continued trading under the trading symbol HWO.

The common shares of the Corporation began trading on the TSXV on August 16, 2024, under the trading symbol HOH.

Since the Corporation and HAES-Cyprus were both wholly-owned by HWO, the transfer of all of the outstanding ordinary shares of HAES-Cyprus to the Corporation was deemed a common control transaction. The Corporation's Financial Statements are presented under the continuity of interests basis. Financial and operational results contained within this MD&A present the historical financial position, results of operations and cash flows of HAES-Cyprus for all prior periods up to August 12, 2024, under HWO's control. The financial position, results of operations and cash flows from April 1, 2024 (the date of incorporation of the Corporation) to August 12, 2024, include both HAES-Cyprus and the Corporation on a combined basis and from August 12, 2024 forward include the results of the Corporation on a consolidated basis upon completion of the Arrangement.

For reporting purposes, it is assumed that the Corporation held the PNG business prior to August 12, 2024, and as such, information provided includes the financial and operating results for the year ended December 31, 2024, including all comparative periods.

Readers are cautioned that this MD&A contains certain forward-looking information. Please refer to the "Forward-Looking Statements" section of this MD&A for the Corporation's discussion on forward looking information including risk factors that could cause actual results to differ materially from such forward-looking information and certain assumptions used to underlie the forward-looking information.

Definitions of certain non-IFRS financial measures are included under the "Non-IFRS Measures" section of this MD&A. Please refer to abbreviations listed on the last page of this MD&A.

In the following discussion, the three months ended December 31, 2024, may be referred to as the "quarter" or "Q4 2024" and the comparative three months ended December 31, 2023, may be referred to as "Q4 2023". References to other quarters may be presented as "QX 20XX" with X/XX being the quarter/year to which the commentary relates. Additionally, the year ended December 31, 2024, may be referred to as "year ended 2024", "YTD" or "YTD-2024". References to other periods ended December 31 may be presented as "year ended 20XX", "YTD-20XX" with XX being the year to which the year ended December 31 commentary relates.

All amounts are expressed in thousands of US Dollars ("USD") unless otherwise noted. USD is the reporting currency of the Corporation.

DISCUSSION OF OPERATIONS

2024 FOURTH QUARTER SUMMARY

- Drilling rig 103 remained suspended and drilling rigs 115 and 116 remained cold-stacked. Manpower services and rental services continued with other customers. Operating margins decreased from 32.2% in Q4 2023 to 28.6% in Q4 2024. The net result was a substantial reduction to revenue and the generation of a significantly lower EBITDA in the quarter:
    - Revenue for the quarter of $2,421, a decrease of $10,112 or 81% compared to Q4 2023 at $12,533, and
    - Adjusted negative EBITDA of $482, decrease of $3,418 or 116% compared to Q4 2023 at $2,936.
- The reduced revenue generating activities in Q4 2024 were offset by the significant adjustments to inventory and reported obligations that were the result of renegotiated terms of contracts related to spares inventory supplied by a customer, this resulted in:
    - Net income of $1,806 in Q4 2024 compared to net income of $1,907 realized in Q4 2023.

2024 YEAR TO DATE SUMMARY

- Drilling Rig 103 operated through into Q2 2024 when drilling was suspended at which point it was cold stacked. Manpower services and rentals with other customers continued at similar run rates through the remainder of 2024. Operating margins improved from 2023 of 33.2% to 37.7% in 2024 as a result of reduced material and supply costs and higher proportional contribution from higher margin rentals.
    - Revenue for 2024 was $24,075, a reduction of $19,305 or 45% compared to 2023,
    - Adjusted EBITDA for 2024 was $4,290, a 60% reduction compared to 2023 as a result of general and administrative costs not reducing proportionally to revenue, and
    - General and administrative costs were impacted by additional expenses related to the Arrangement .
- The reduced operating activities combined with the Q4 2024 significant adjustments to customer inventory and reported obligations drove the following results for the Corporation:
    - Net income of $2,857 for 2024 compared to a net loss of $8,623 for the same period of 2023 which included an impairment charge of $15,200.
- Improved liquidity with a working capital balance of $20.6 million, which includes a cash balance of $14.9 million.

Outlook

Consistent with the outlook provided by the Corporation in the third quarter of 2024, the outlook for the Corporation's core business in PNG for 2025 remains subdued. The Corporation's 2024 fourth quarter and annual results were impacted by the completion of customer drilling activity during the second quarter of 2024, with Rig 103 being relocated to the customer's forward base location and cold-stacked. With no near-term drilling activity currently anticipated, the Corporation expects equipment rental and manpower to be the primary revenue generating activity for 2025. Quarterly revenues for 2025 are anticipated to be consistent with third and fourth quarters of 2024.

The Corporation remains engaged with its principal customer on planning for future drilling activity and continues to focus on enhancing and optimizing its existing rental fleet deployment and manpower solutions offerings.

The Corporation also continues to pursue business expansion opportunities in PNG, actively engaging with potential customers for its services in PNG and the wider region while also taking actions to protect its capability to realize the future potential of the business.

Our rationale for a business strategy focussed on PNG is unchanged. Papua New Guinea possesses substantial deposits of natural resources including significant reserves of oil and natural gas and has emerged as a reliable low-cost energy exporter to Asian markets, particularly for liquefied natural gas ("LNG"). A significant investment in the country's oil and gas industry was evidenced by the successful construction of the PNG-LNG project in 2014, with the primary partners in the venture being customers of the Corporation. In the period following, the Corporation's predecessor company committed to the purchase and upgrade of drilling rigs 115 and 116 and expansion of the Corporation's fleet of rentable equipment including camps, material handling equipment and worksite matting. These investments contributed to a substantive lift in revenues and earnings as PNG enjoyed its highest period of exploration and development activity.

Since the onset of COVID-19 in early 2020, there has been a substantive reduction in drilling services in PNG. This follows some consolidation among the active exploration and production companies and evolving political and economic influences. In the longer term, High Arctic believes PNG is on the precipice of a new round of large-scale projects in the natural resources sector. The next significant LNG project currently being planned is Papua-LNG a project lead by the French oil and gas super-major TotalEnergies, with a final investment decision anticipated in late 2025. There is an expectation for increased drilling activity through the latter half of this decade, not only to develop wells for the supply of gas to the Papua-LNG export facility, but also to explore for and appraise other discoveries. The signing of a fiscal stability agreement between the P'nyang gas field joint venture and the government of PNG is another positive signal for that expansionary project to follow Papua-LNG.

The Corporation is strategically positioned to support these developments, given its dominant position for drilling and associated services in PNG, existing work relationships with the operating companies, and proximity to the proposed sites of operation. The Corporation's drilling rigs 115 and 116 are portable by helicopter and have been maintained and preserved for future use.

There are a number of other petroleum projects and substantive nation-building projects including infrastructure, electrification, telecommunications and defense projects planned for the development of PNG. These projects will require access to transport and material handling machinery, quality worksite and temporary road mats and a substantive amount of labour including skilled equipment operators, qualified tradespeople and engineers, geoscientists and other professionals. High Arctic's business continues to position itself to be a meaningful supplier of services, equipment and manpower for this market.

Select Comparative Financial Information

The following is a summary of select financial information of the Corporation:

	Three months ended Dec 31,		Year ended Dec 31,	
(thousands of USD except per share amounts)	2024	2023	2024	2023
Operating results				
Revenue	**2,421**	12,533	**24,075**	43,380
Net income (loss)	**1,806**	1,907	**2,857**	(8,623)
Per share (basic and diluted) (1)	**$0.14**	$0.16	**$0.23**	($0.69)
Operating margin (2)	**693**	4,037	**9,069**	14,416
Operating margin as a % of revenue (2)	***28.6%***	*32.2%*	***37.7%***	*33.2%*
EBITDA (2)	**2,887**	2,975	**7,733**	11,211
Adjusted EBITDA (2)	**(482)**	2,936	**4,290**	10,797
Adjusted EBITDA as a % of revenue (2)	***(19.9%)***	*23.4%*	***17.8%***	*24.9%*
Operating income (loss) (2)	**(1,264)**	2,240	**455**	4,575
Per share (basic and diluted) (1)	**($0.10)**	$0.18	**$0.04**	$0.37
Cash flow from operations:				
Cash flow from operating activities	**248**	6,131	**10,112**	8,906
Per share (basic & diluted) (1)	**$0.02**	$0.49	**$0.81**	$0.71
Funds flow from operating activities (2)	**2,667**	2,929	**6,770**	10,273
Per share (basic & diluted) (1)	**$0.21**	$0.24	**$0.54**	$0.83
Capital expenditures	**62**	93	**652**	1,080

(thousands of USD)	As at Dec 31, 2024	As at Dec 31, 2023
Financial position:		
Working capital (2)	**20,602**	20,335
Cash and cash equivalents	**14,930**	10,958
Total assets	**35,287**	43,374
Shareholder's equity	**30,953**	33,112
Per share (basic) (1)	**$2.48**	$2.66
Per share (fully diluted) (1)	**$2.47**	$2.66
Weighted average common shares outstanding (000's) (1)	**12,448**	12,448
Weighted average diluted shares outstanding (000's) (1)	**12,539**	12,448

(1) For the purposes of computing per share amounts, the number of common shares outstanding for the periods prior to the Arrangement is deemed to be the number of shares issued by the Corporation to the shareholders of HWO upon completion of the Arrangement. For the period after the Arrangement, the number of shares outstanding in the computation of per share amounts is the total issued shares of the Corporation on August 12, 2024, and any common shares issued subsequent to August 12, 2024. See the "Overview" section of this MD&A and the Corporation's Financial Statements as at and for the years ended December 31, 2024 and 2023 for additional details.

(2) Operating margin, EBITDA (Earnings before interest, tax, depreciation, and amortization), Adjusted EBITDA, Operating income (loss), Funds flow from operating activities and Working capital do not have a standardized meanings prescribed by IFRS. See "Non IFRS Measures" in this MD&A for calculations of these measures.

Operating Results

(thousands of USD, unless otherwise noted)	Three months ended Dec 31, 2024	2023	Year ended Dec 31, 2024	2023
Revenue	**2,421**	12,533	**24,075**	43,380
Operating expense	**(1,728)**	(8,496)	**(15,006)**	(28,964)
Operating margin[1]	**693**	4,037	**9,069**	14,416
Operating margin (%)	***28.6%***	*32.2%*	***37.7%***	*33.2%*

(1) See "Non-IFRS Measures"

Revenues totaled $2,421 and $24,075 for the three months and year ended December 31, 2024, respectively, compared to $12,533 and $43,880 for the comparative periods in 2023. Revenues for the year ended 2024 and Q4 2024, as compared to the prior year comparative periods, were negatively impacted as a result of reduced overall utilization of Rig 103. Customer-owned Rig 103 was utilized for 8 months during 2023 versus the first 5.5 months in 2024. Despite reduced drilling activity in 2024 compared to 2023, the Corporation was able to maintain a consistent level of activity related to the provision of skilled personnel for key customers in PNG. Operating margin as a percentage of revenues increased from 2023 to 2024, largely as a result of reduced material and supply costs associated with the recommencement of Rig 103 during fiscal 2023 and a higher proportional contribution by higher margin rentals in 2024.

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) which remain preserved and maintained ready for deployment.

General and Administrative ("G&A")

(thousands of USD, unless otherwise noted)	Three months ended Dec 31, 2024	2023	Year ended Dec 31, 2024	2023
G&A	**1,175**	1,101	**4,779**	3,619
Percent of revenue (%)	***48.5%***	*8.8%*	***19.9%***	*8.3%*

G&A expenses were $1,175 and $4,779 for the three months and year ended December 31, 2024, respectively, compared to $1,101 and $3,619 for the comparative periods in 2023. G&A expenses for the year ended 2024 and Q4 2024 were higher than the prior year comparative periods as a result of professional fees and other costs associated with the Arrangement, costs associated with being a listed public company and other aspects of the corporate reorganization that was completed during 2024. The Corporation continues to focus on minimizing G&A expenses where possible in light of current customer activity trends.

The Corporation will continue to leverage certain corporate/public company related management functions from HWO under a transition service agreement until the Corporation has finalized its own administrative infrastructure related to being a public company which is anticipated to occur during the first half of 2025.

Interest income

Interest income earned for Q4 2024 was $38 (2023 - $Nil) and year ended 2024 was $175 (2023 - $Nil). Interest income resulted from investing excess cash balances.

Finance expense

Finance expense for the fourth quarter of 2024 totaled $11 (2023 Q4 - $35) and year ended December 31, 2024, totaled $182 (2023 - $243). The decrease in these expenses is due to lower lease finance interest due to the normal course maturity of historical lease agreements.

Management fee income (expense)

Management fee expense for the fourth quarter of 2024 was Nil (2023 Q4 – income of $137) and the for the year ended December 31, 2024, was $90 (2023 - $557). The changes in management fee income (expense) is the result of certain management and oversight costs associated with the completion of the Arrangement during the third quarter. Historically, these fees were comprised of recoveries from HWO of certain general and administrative costs incurred by the Corporation and its subsidiaries in the respective period.

Impairment
As at December 31, 2024, indicators of impairment were identified within the PNG Operations CGU. Indicators included the Corporation's primary customers deferred restart of drilling activities along with general deferral of drilling activities within PNG including the deferral of the final investment decision on the large-scale Papua LNG project. The Corporation performed an impairment test, and it was determined that the recoverable amount of the PNG Operations CGU was above its carrying value, resulting in no impairment at December 31, 2024.

During 2023, indicators of potential impairment were identified within the PNG Operations CGU. Indicators included the Corporation's primary customer planning to conclude drilling after completing its minimum commitment on their drilling schedule under a long-term contract and the lack of outstanding customer contract tenders or open bid submissions for the Corporation's rigs 115 and 116. The Corporation performed an impairment test, and it was determined that the recoverable amount was below the carrying value of $38,500, resulting in an impairment of $15,200 as at September 30, 2023.

Depreciation and amortization
Q4 2024 depreciation and amortization expense was $769 (Q4 2023 - $696). For the year ended December 31, 2024, depreciation and amortization expense was $3,822 (2023 - $6,222).

Liquidity and Capital Resources

	Three months ended Dec 31,		Year ended Dec 31,	
(thousands of USD)	2024	2023	2024	2023
Cash provided by (used in) operations:				
Operating activities	**248**	6,131	**10,112**	8,906
Investing activities	**(62)**	(93)	**(652)**	(1,080)
Financing activities	**(113)**	(179)	**(5,487)**	(714)
Effect of exchange rate changes	**(1)**	-	**(1)**	-
Increase (decrease) in cash	**72**	5,859	**3,972**	7,112

(thousands of USD, unless otherwise noted)	As at Dec 31, 2024	As at Dec 31, 2023
Current assets	**24,706**	30,090
Working capital(1)	**20,602**	20,335
Working capital ratio(1)	**6.0:1**	3.1:1
Cash and cash equivalents	**14,930**	10,958

(1) See "Non-IFRS Measures"

The Bank of PNG ("BPNG") continues to encourage the use of the local market currency, Kina, or PGK. Due to the Corporation's requirement to transact with international suppliers and customers, it has received approval from the BPNG to maintain its onshore PNG USD account within the conditions of the BPNG currency regulations. The Corporation continues to use PGK for local transactions when practical. Included in the BPNG's conditions is for PNG drilling contracts to be settled in PGK, unless otherwise approved by the BPNG for the contracts to be settled in USD. The Corporation has historically received such approval for its contracts with its key customers in PNG. The Corporation will continue to seek BPNG approval for contracts to be settled in USD on a contract-by-contract basis, however, there is no assurance the BPNG will grant these approvals.

If such approvals are not received, the Corporation's PNG drilling contracts will be settled in PGK which would significantly increase the Corporation's exposure to exchange rate fluctuations related to the PGK. In addition, this may delay the Corporation's ability to receive USD which may impact the Corporation's ability to settle USD denominated liabilities and repatriate funds from PNG on a timely basis. The Corporation also requires the approval from the PNG Internal Revenue Commission ("IRC") to repatriate funds from PNG and make payments to non-resident PNG suppliers and service providers. While delays can be experienced for the IRC approvals, all such approvals have historically been received.

Operating Activities
For the three months and year ended December 31, 2024, cash generated from operating activities was $248 (Q4 2023 - $6,131) and $10,112 (2023 - $8,906), respectively. The change in operating cash flow was largely driven by changes in working capital related to the timing of drilling activity in the respective years with a cash drawdown in 2023 as operations ramped up and a cash harvesting in 2024 as operations were ceased.

Investing Activities

For the three months and year ended December 31, 2024, the Corporation's cash used in investing activities was $62 (Q4 2023 - $93) and $652 (2023 - $1,080), respectively. Cash outflows associated with investing activities were directed towards capital expenditures on rental assets. The reduction in capital expenditures in 2024 is due to reduced customer activity. The Corporation will continue to seek opportunities to invest in additional capital assets, in particular where it can do so under take-or-pay agreements.

Financing Activities

For the three months and year ended December 31, 2024, the Corporation's cash used in financing activities was $113 (Q4 2023 - $179) and $5,487 (2023 - $714) respectively. Excluding the impact of a $5,000 dividend paid by HAES-Cyprus to HWO prior to the completion of the Arrangement transaction, cash outflows associated with finance activities were directed towards lease obligation payments.

Commitments, Contractual Obligations and Contingencies

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied with equipment and an inventory of spare parts with a total value of $2,151 as at December 31, 2024, (December 31, 2023 - $6,135) by a customer for the Corporation's operations in PNG. The capital equipment and inventory are owned by this party. At December 31, 2024, the Corporation recorded $2,151 as customer inventory with a provision of the same amount. As such, the customer inventory is not included in the Financial Statements. Written notice is required to terminate the contracts. Upon notice to terminate the contracts, the Corporation is required to return the balance of the capital equipment and inventory and make a payment to the customer for items that have been previously consumed, based on prevailing market rates or historical contract values if no readily available market data exists.

During the year ended December 31, 2024, the Corporation amended a number of its contracts with the customer related to the supply and management of certain equipment and spare parts inventory. As a result of the amendment, a reduction of $2,573 of previously reported obligations and an adjustment of $817 to the provision of the customer inventory are recorded.

In accordance with the updated and amended terms of the agreement, and as a result of consuming certain capital equipment and inventory, the Corporation has recognized a current obligation of $358 as at December 31, 2024, (December 31, 2023 - $2,589).

Long-term Debt

As at December 31, 2024 and for the years ended December 31, 2024 and 2023, the Corporation had no long-term debt or similar obligations.

Off-Balance Sheet Arrangements

As at December 31, 2024 and for the years ended December 31, 2024 and 2023, the Corporation had no off-balance sheet arrangements.

Related Party Transactions

Management fee income (expense) consists of recoveries or the reimbursement of certain general and administrative expenses from the Corporation's predecessor parent company, HWO, prior to the reorganization of the Corporation on August 12, 2024. Subsequent to the reorganization, the Corporation was billed for certain expenses originally incurred by HWO as part of a formal management and administrative transition agreement. The agreement is in place to facilitate the orderly transition of certain management and administrative functions from HWO to the Corporation.

As at December 31, 2024, $135 is owed by the Corporation to HWO (December 31, 2023, $210 was due to the Corporation from HWO).

As at December 31, 2024, no amounts are owing or due to the Corporation's predecessor parent company HWO for management fees incurred by HWO prior to the reorganization of the Corporation on August 12, 2024.

HWO and the Corporation are deemed to be related parties given the common senior management in Chief Executive Officer and Chief Financial Officer positions.

The table below summarizes related party income and expenses incurred by the Corporation which are included as a component of general and administrative expenses, in addition to management fee income (expense) of the Corporation for the years ended December 31, 2024 and 2023:

	Three months ended Dec 31,		Year ended Dec 31,	
(thousands of USD)	2024	2023	2024	2023
Related party expenses included as a component of G&A	135	-	135	-
Management fee income (expense)	-	137	90	557
	135	137	225	557

In addition to management fees paid to HWO during the third quarter of 2024, HAES-Cyprus paid a dividend of $5,000 to HWO prior to the completion of the Arrangement.

Outstanding Share Data

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares.

	As at April 29, 2025	As at Dec 31, 2024
Common shares outstanding	**12,448,166**	**12,448,166**

The Corporation has an equity incentive plan (the "Plan") which provides for the issuance of stock options, restricted share units, performance share units and deferred share units. Under the Plan, the Corporation can issue up to 1,244,817 common shares (being 10% of all outstanding common shares) as at December 31, 2024. As at December 31, 2024, 675,000 stock options, with an average exercise price of CAD 1.60, have been issued and are outstanding under the plan (2023 – Nil).

With the exception of the 675,000 stock options outstanding as at December 31, 2024, as noted above, there are no other financial instruments that are currently outstanding that could result in dilution to any per common share financial metrics.

Summary of Quarterly Results

The following table provides a summary of the Corporation's quarterly results for each of the last eight quarters:

	Three months ended							
	Dec 31, 2024	Sept 30, 2024	Jun 30, 2024	Mar 31, 2024	Dec 31, 2023	Sept 30, 2023	Jun 30, 2023	Mar 31, 2023
Revenue	**2,421**	2,897	7,629	11,134	12,533	12,520	12,347	5,980
Net income (loss)	**1,806**	(1,404)	(29)	2,501	1,907	(11,946)	1,765	(349)
Per share basic and diluted	**$0.14**	($0.11)	$0.00	$0.20	$0.15	($0.96)	$0.14	($0.03)

As illustrated above, the Corporation's results are subject to quarterly variations. The primary driver of the variation in quarterly results is attributable to underlying customer drilling activity due to the nature of the Company's operations in PNG. During the last eight quarters higher revenue performance was achieved during the period Q3 2023 to Q2 2024 as a result of Rig 103 being in service on a continuous basis. The net income reported in Q4 2024 was due to the significant adjustments to customer inventory and reported obligations. The net loss incurred in Q3 2023 was due to a $15,200 impairment charge recognized in the respective quarter.

Industry Indicators and Market Trends

The provision of drilling services in PNG has the most impact on the Corporation's financial and operational results. The following table provides information for the last eight quarters to assist with the understanding of the PNG drilling services industry and the effect that commodity prices have on industry activity levels.

	Three months ended							
	Dec 31, 2024	Sept 30, 2024	Jun 30, 2024	Mar 31, 2024	Dec 31, 2023	Sept 30, 2023	Jun 30, 2023	Mar 31, 2023
Oil and LNG prices – Average for each period:								
Brent crude oil (US$/bbl)[(1)]	**75**	80	85	82	83	86	78	82
Japan LNG (US$/mmbtu)[(2)]	**12.71**	12.93	12.06	13.72	13.26	12.58	13.49	18.21

(1) Source: Sproule and/or Macrotrends

(2) Source: YCharts

Pricing for oil and natural gas production in PNG is generally tied to world prices such as Brent crude oil and Japan LNG, both of which rebounded strongly from lows experienced in 2020 and early 2021 when global demand for crude oil and liquified natural gas were negatively impacted by COVID-19. Recent commodity price levels have provided a sustainable environment in which to invest in exploring for and developing new oil and gas reserves. During the fourth quarter of 2024, Brent crude prices traded within a range of mid USD 70/bbl to low USD 80/bbl and the average was USD 75/bbl. Crude oil pricing experienced volatility throughout Q4 2024, and oil prices retreated as a result of concern over global demand fundamentals, combined with the impact of potential US government energy policy changes that may result from the new US administration set to assume power in January 2025.

In addition to the impact of the United States energy policy changes, global crude oil and gas pricing has been impacted by tariffs imposed on a variety of commodities from a large number of countries by the US and the resulting counter tariffs implemented by many of these countries as a counter measure. The ultimate impact of this significant shift in global trade policy on the global economy and the demand for energy is yet to be determined, however commodity pricing and the investment in public energy companies has retreated through the period subsequent to December 31, 2024. Oil and gas commodity trading volatility continues to be impacted by uncertainty and changes in short-term global demand forecasts influenced by ongoing conflicts in the Middle East and Ukraine. The conflict in the Middle East, which began early in Q4 2023 and continues to date, has created significant volatility in oil pricing since October 2023 but a significant risk premium has not yet been witnessed in Brent crude oil pricing to date. In addition to the impact of various geopolitical events, OPEC announced intentions to increase production from 8 member states, but advising the market that increases may be paused or reversed subject to evolving market conditions to provide price support for the commodity.

Japanese LNG prices for the fourth quarter of 2024 were consistent with the third quarter of 2024, as demand in this LNG market has remained sustained in recent quarters. However, LNG pricing in Asia has dropped in the period subsequent to December 31, 2024 with Japan pricing breaching 12-month lows due to the impact of the global events, Japan's shift to broaden sources of supply and the arrival of warmer weather.

The Corporation's PNG activity has historically been based on longer term, USD denominated contracts and therefore have been less affected over the short-term volatility in oil and gas prices. Activity levels for the Corporation's major customers are less dependent on short-term fluctuations in oil and gas prices and instead have historically been based on medium and long-term investment decisions, due largely to their significant interest in large scale LNG projects both on-stream and in-development.

Financial Risk Management

Financial and other risks
The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes pandemic and/or endemic disease risk or the risk that operations and/or administration are forced to run at less than full capacity due to an absence or reduction of members of the workforce, either through forced closures by government both within countries and across national borders, by internally imposed rotational schedules and/or quarantine or illness of the workforce. This risk was significant in 2021 in relation to COVID-19. Further, geopolitical risks are the potential risks that a business may face due to changes in global events, policies, or regulations. These could impact the Corporation's workforce and operations by limiting market access and increasing costs. Also, cybersecurity risks increase as the Corporation outsources its IT servers to cloud providers and employees work remotely. Such restrictions could significantly impact the ability of the Corporation to operate, and therefore impact financial results. See also, "*Business Risks and Uncertainties.*"

Market and other related risk
Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates:

a) Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation currently has no financing arrangements outside of normal course lease obligations. The Corporation is therefore only exposed to interest rate risk on any future borrowing as rates fluctuate in response to changes in monetary policy and the applicable interest rates. The Corporation had no interest rate related risk management contracts or similar financial derivative contracts that would be affected by interest rates in place at December 31, 2024 or December 31, 2023.

b) Commodity price risk
Commodity price risk is the risk that the Corporation's future cash flows will fluctuate due to changes in demand for the Corporation's services, where almost all the Corporation's customers are oil and gas producers. The Corporation's customer's activity and strategic decisions may be impacted by the fluctuations of crude oil and natural gas pricing.

Prices for crude oil and natural gas are sensitive to local, regional and world economic and geopolitical events. This includes implications from changing crude oil demand and supply, policy direction taken by OPEC including the role taken by Russia, climate change driven transitions to lower emission energy sources, the implications of changes to government and government policy and ongoing investment decisions in PNG to increase existing LNG exporting capabilities.

While the Corporation recognizes it will be impacted by these risks, the Corporation also strongly believes that there is a significant role for the energy services industry in the current, transitionary, and future phases of the energy industry in PNG.

The Corporation had no commodity related risk management contracts that would be affected by commodity prices in place at December 31, 2024 or December 31, 2023.

Foreign currency risk and PNG foreign currency restrictions
Foreign currency risk is the risk that a variation in the exchange rate between the USD and foreign currencies will affect the Corporation's results. The Corporation has exposure to PNG Kina ("PGK") fluctuations and other currencies such as the Australian dollar ("AUD") and the

Canadian dollar ("CAD") through its international operations. As a result, the Corporation is exposed to foreign exchange gains and losses through the settlement of foreign currency denominated transactions, which is recorded in net earnings (loss), as well as the conversion of the Corporation's subsidiaries with functional currencies other than USD, into USD for financial reporting presentation purposes, which is recorded as part of other comprehensive income (loss) within shareholder's equity.

The Corporation mitigates its exposure to the PGK, in part, by denominating its major service contracts in USD regardless of whether they are settled in USD or in PGK. The Corporation does have some exposure as a result of minor service contracts denominated and settled in PGK, local supplier and payroll expenses incurred in PGK, and through bank balances carried in PGK.

The Corporation has a subsidiary domiciled in Australia with a functional currency that is not USD. Accordingly, the Corporation is also exposed to costs in AUD related to the provision of management and administrative services. For the three months and years ended December 31, 2024 and 2023, a $0.10 change in the exchange rate of the USD relative to the AUD would have resulted in an immaterial change to the net income or loss of the Corporation as the Australia subsidiary, being a management company recovers its costs from the PNG and Singapore operational subsidiaries, meaning the total AUD exposure is limited.

The Corporation's public trading holding company is domiciled in Canada with a functional current of CAD. Accordingly, the Corporation is also exposed to costs in CAD related to public company and general administrative costs. For the year ended December 31, 2024, a $0.10 change in the exchange rate of the USD relative to the CAD would have resulted in an immaterial change to the net income of the Corporation due to the quantum of costs incurred by the Corporation in Canadian dollars. As the Canadian company was established during fiscal 2024 there is no potential impact related to fiscal 2023.

The impact of changes in foreign currency exchange rates for the three months ended December 31, 2024, resulted in $41 in foreign currency exchange losses (Q4 2023 - $23 gain) and for 12 months ended December 31, 2024, resulted in $29 in foreign currency exchange losses (YTD-2023 - $1 gain).

The Corporation's ability to repatriate funds from PNG is controlled by the PNG government through their central bank. There are currently several monetary and currency exchange control measures in PNG that can impact the ability to repatriate funds, in addition to established requirements to transact in the PGK.

As at December 31, 2024, $7,741 (December 31, 2023 - $5,635) was on deposit with a large international bank in PNG. BPNG has provided approval for the Corporation to maintain a USD bank account in accordance with the BPNG currency regulations.

Historically, the Corporation has received approval from BPNG for most of its drilling services contracts with its key customers in PNG to be denominated and settled in USD. However, if such approval is withdrawn in the future, or new contracts do not receive BPNG approval, funds may be converted into PGK and the Corporation would be required to access the foreign currency market in PNG to meet its foreign currency obligations, thus exposing the Corporation to greater foreign exchange exposure for the PGK.

The BPNG currency regulations also limit the amount of foreign currency that companies can maintain in order to meet their forecasted three-month cash flow requirements, with excess funds required to be held in PGK. While no significant issues have been experienced to date, there is no guarantee such restrictions will not exist or will not impact the Corporation's ability to transact or repatriate funds in the future.

The Corporation's financial instruments have the following foreign exchange exposure as at December 31, 2024:

(in thousands)	PGK[(1)]	AUD[(2)]	CAD[(3)]
Cash	1,227	1,171	69
Accounts receivable	3,593	-	-
Accounts payable and accrued liabilities	(1,440)	(923)	(51)
Total	3,380	248	18

(1) As at December 31, 2024, one PGK was equivalent to 0.2500 USD.
(2) As at December 31, 2024, one AUD was equivalent to 0.6425 USD.
(3) As at December 31, 2024, one CAD was equivalent to 0.7091 USD.

PNG restrictions on distributions

As at December 31, 2024, the Corporation's total cash balances (including USD and PGK) in PNG totaled $8,047 (Dec 31, 2023 - $6,563). Dividends paid out of PNG are subject to a dividend withholding tax of 15% and are held at source. As a result of this PNG tax legislation, a restriction therefore exists on the total amount of funds the Corporation could repatriate if a dividend were declared and paid. Assuming the Corporation declared a dividend for the full amount of its cash balances held at December 31, 2024, the dividend would attract a withholding tax in PNG of approximately $1,207 (Dec 31, 2023 - $985) and the funds repatriated from PNG would be reduced accordingly.

Credit risk, customers, and economic dependence

Credit risk is the risk of a financial loss occurring as a result of a default by a counter party on its obligation to the Corporation. The Corporation's financial instruments that are exposed to credit risk consist primarily of accounts receivable and cash balances held in banks. The Corporation mitigates credit risk by regularly monitoring its accounts receivable position and depositing cash in properly capitalized banks. The Corporation also institutes credit reviews prior to commencement of contractual arrangements.

The Corporation's accounts receivable are predominantly with customers who explore for and develop petroleum reserves and are subject to industry credit risk consistent with the industry. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding.

In providing for expected credit losses ("ECL"), the Corporation uses the historical default rates within the industry between investment grade and non-investment grade customers as well as forward looking information to determine the appropriate loss allowance provision.

The net carrying amount of accounts receivable represents the estimated maximum credit exposure on the accounts receivable balance. The Corporation has a range of customers comprised of predominantly large multinational customers in PNG.

The Corporation provided services to two large multinational customers who individually accounted for greater than 10% of its consolidated revenues during the three and twelve months ended December 31, 2024, with total sales of $2,211 and $23,612, respectively, (2023 – two large multinational customers with total sales of $16,585 and $42,799, respectively).

As at December 31, 2024, two customers represented a total of $1,677 or 93% all of the outstanding accounts receivable (December 31, 2023 – two customers representing $10,791 or 98% of outstanding accounts receivable).

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

Liquidity risk is currently being impacted by uncertainty within capital markets given the increase in inflation across global economies, economic recession possibilities, contraction of available capital and monetary tightening policies implemented by governments around the world.

The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, working capital management, coordinating, and authorizing project expenditures, authorization of contractual agreements and remaining attentive to the relationship with the Corporation's bankers and other creditors. The Corporation seeks to manage its financing based on the results of these processes.

Critical Accounting and other Significant Judgements and Estimates

Information on the Corporation's critical accounting judgements and estimates can be found in Note 2 of the Financial Statements. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Disclosure Controls and Procedures ("DC&P") and Internal Controls over Financial Reporting ("ICFR")

ICFR is a process designed by or under the supervision of management and effected by the Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate ICFR, which no matter how well designed, has inherent limitations and can provide only reasonable assurance with respect to the preparation and fair presentation of published financial statements. There have been no changes to High Arctic's internal controls over financial reporting during the year ended December 31, 2024, that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

ICFR is a process designed by or under the supervision of management and effected by the Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate ICFR, which no matter how well designed, has inherent limitations and can provide only reasonable assurance with respect to the preparation and fair presentation of published financial statements. There have been no changes to High Arctic's internal controls over financial reporting during the year ended December 31, 2024, that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. As at December 31, 2024, an evaluation of the effectiveness of High Arctic's DC&P as defined under the rules adopted by the Canadian securities regulatory authorities was carried out by the CEO and the CFO. Based on this evaluation, the CEO and

CFO have concluded that as at December 31, 2024, the design and operation of the Corporation's DC&P was effective. The Internal Control – Integrated Framework (2013) as issued by the Committee of Sponsoring Organizations of the Treadway Commission was utilized for this purpose.

For information regarding the corporate governance policies and practices of High Arctic, the reader should refer to High Arctic's Listing Application dated August 12, 2024, which is available on the Corporation's profile on SEDAR+ at www.sedarplus.ca

Business Risks and Uncertainties

In addition to the financial risks discussed above under "Financial Risk Management", below under "Forward Looking Statements" and elsewhere in this MD&A, the Corporation is exposed to a number of business risks and uncertainties that could have a material impact on the Corporation.

A significant portion of the Corporation's activities are conducted in PNG, which displays characteristics of an emerging market. The PNG Business's operations are subject to special risks inherent in doing business outside Canada. These risks can involve matters arising out of the policies of foreign governments, imposition of special taxes or similar charges by government bodies, restrictions on carrying on business or the revocation or non-issuance of licenses to carry on business by a foreign government, foreign exchange fluctuations and controls, civil disturbances, including landowner disputes, and deprivation or unenforceability of contract rights or the taking of property without fair compensation. Foreign properties, operations and investments may be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuation, taxation and new laws or policies as well as by laws and policies of Canada affecting foreign trade, investment, and taxation.

Furthermore, it is important for the Corporation to maintain good relationships with the governments in the countries in which it operates, particularly PNG. High Arctic may not be able to maintain such relationships if the governments of these countries change. Democracies, by their very nature, involve government change from time to time and changes to governing parties and the policies of governing parties can impact the PNG Business at an industry, resource development and business level. PNG has been subject to political and economic instability. Government terms are for fixed five-year periods and they enjoy an 18-month grace period when a vote of no-confidence is not permitted. It is common in PNG politics for governments to change by vote of no-confidence during a term.

The PNG Business operations are subject to government legislation, policies and controls relating to environmental protection, taxes, and labour standards. To attempt to mitigate these risks, High Arctic employs personnel with extensive experience in the international marketplace, supplemented with qualified local staff. Management is unable to predict the extent or duration of these risks or quantify their potential impact.

Since High Arctic derives its revenues from its subsidiaries incorporated outside Canada, the payment of dividends or the making of other cash payments or advances by these subsidiaries to High Arctic may be subject to restrictions or controls on the transfer of funds in or out of these countries or result in the imposition of taxes on such payments or advances. In addition, since the Corporation's international activities are governed by foreign laws, in the event of a dispute, the Corporation may be subject to the exclusive jurisdiction of foreign courts and the application of foreign laws or may not be successful in subjecting foreign persons to the jurisdiction of Canadian courts.

In PNG, the Bank of PNG policy continues to encourage the use of the local market currency in PNG, the Kina. Due to the PNG Business's requirement to transact with international suppliers and customers, High Arctic will need approval from the Bank of PNG to continue to maintain its USD bank account within the conditions imposed by the Bank of PNG. The PNG Business will continue to use the Kina to settle local transactions in PNG when practical. Included in the Bank of PNG's conditions is for future contracts to be settled in Kina, unless otherwise approved by the Bank of PNG for the contracts to be settled in USD. The PNG Business has historically received such approval for its drilling services contracts with its key customers in PNG. The PNG Business will need to seek Bank of PNG approval for future customer drilling contracts to be settled in USD on a contract-by-contract basis, however there is no assurance the Bank of PNG will continue to grant these approvals. If such approvals are not received, the PNG Business's drilling contracts will be settled in Kina which would expose the Corporation to exchange rate fluctuations related to the Kina. In addition, this may delay the PNG Business's ability to receive USD which may impact its ability to settle USD denominated liabilities and repatriate funds from PNG on a timely basis.

In addition to the approval from the Bank of PNG to maintain a USD account in PNG and maintain contracts in USD, the PNG Business is also required to receive a tax clearance certificate from the PNG Internal Revenue Commission in order to make payments to non-resident suppliers and disbursements such as intercompany dividends out of PNG. Other than the processing time to receive these certificates, High Arctic has received approval of all certificates in the past. The Corporation intends to repatriate excess funds from PNG consistent with past practices as approval is received from the Bank of PNG and the Internal Revenue Commission.

Risks Applicable to the Oil and Gas Industry in General

The success of the Corporation will be dependent to a great extent on the health of the energy industry in PNG which, in turn, is driven in large part by commodity prices and economic policy. As a service provider to this industry, the Corporation is exposed to various risks, including:

- volatility in global supply and demand and market prices for oil and natural gas and the effect of these volatilities on the demand for oilfield services generally;
- the timing and implementation of new trade policies or tariffs is uncertain and any new tariffs, taxes, other trade barriers or governmental regulation between PNG and other countries (including the US) may adversely affect the Corporation's business;
- the Russia-Ukraine conflict has had a significant impact on many aspects of the global economy. It has affected geopolitical relations between Russia and other countries, disrupted oil and gas supply chains, led to an increased focus on energy security and increased demand for energy services from other regions. This conflict could continue to cause disruption in the long term due to political tensions, policy changes and economic factors;
- election risks can bring about significant and sudden change for a country with wide reaching implications including, global allegiances, economic trade arrangements, military and national security cooperation, and internal governance and regulation setting;
- the emergence and persistence of conflict in the Middle East has increased risk to safe transportation and shipping via the Suez Canal and threatens to impact global commodities trade including oil and LNG;
- macroeconomic events can have a wide-ranging effect on the global economy. This includes increasing prices of commodities, impacts of government fiscal policy, increased costs of doing business and higher borrowing costs due to rising interest rates;
- lingering affects of the Covid-19 pandemic which has caused widespread economic volatility, with effects ranging from restrictions on freedom of movement and disruptions to deployment of labour force, international trade, and tourism;
- suppliers and third-party vendors experiencing workforce disruption or being ordered to cease operations;
- the implications of changes to government and government policy in North America;
- government and regulatory approval of our customers' projects;
- changes in legislation and the regulatory environment, including uncertainties with respect to royalty regimes, environmental guidelines, climate change policy, and provincial production caps;
- alternatives to and changing demands for petroleum products;
- the worldwide demand for oilfield services in connection with the drilling and completion of oil and natural gas wells;
- liabilities and risks inherent in oil and natural gas operations, including environmental liabilities and risks arising below ground surface; and
- credit risks associated with customers in the oil and natural gas industry, including the inability of a significant customer to pay for goods and services that have been provided.

These factors may have an impact upon the Corporation's customer base which, in turn, would impact the Corporation's business prospects. The following provides a further description of the risks associated with the Corporation's business and the oilfield services business in general. This list should not be taken as an exhaustive list, nor should it be taken as a complete summary or description of all the risks associated with the Corporation's business.

Volatility of Industry Conditions

The demand, pricing and terms for the Corporation's services depend significantly upon the level of expenditures made by oil and gas companies on exploration, development and production activities. Expenditures by oil and gas companies are typically directly related to the demand for, and price of, oil and gas. Generally, when commodity prices and demand are predicted to be, or are relatively high, demand for High Arctic's services is high. The converse is also true. Historically, oilfield services companies are more sensitive to crude oil price volatility compared to companies doing exploration and production.

Over the past few years, crude oil and natural gas prices have experienced significant fluctuations and are expected to remain volatile in the future, influenced by various factors beyond High Arctic's control. These factors include global energy supply, production, and policies, such as OPEC's ability to set and maintain production levels to influence or control oil prices, non-OPEC countries' oil and gas production, consumer demand, political conditions (including the risk of war involving producer countries, hostilities in the Middle East, and global terrorism), global and domestic economic conditions (including currency fluctuations), export, production, and delivery costs, technological advancements affecting energy consumption, weather conditions, and the impact of worldwide energy conservation and greenhouse gas reduction measures, as well as the price and availability of alternative energy sources, and government policies and regulations. Ongoing fluctuations in demand due to global events, such as prospects for a global recession, geopolitical conflicts, and high global cost inflation, have further contributed to the volatility in oil and gas prices.

Another factor that continues to influence global oil prices is the return of energy demand following the relaxation of government controls associated with the Covid-19 pandemic.

Based on OPEC's responses to changing market conditions in recent years, it is evident that the organization will continue to try to ensure healthy oil prices globally. However, perceived limits of the spare capacity of OPEC members and their ability to increase production to meet increasing demand creates additional uncertainty regarding oil prices going forward. This uncertainty makes it difficult for corporations and investors to plan for the future, as they must consider the potential impact of changing market conditions on the oil and gas industry and global economies.

In addition to the volatility of oil and gas prices, the level of expenditures made by oil and gas companies are influenced by numerous factors in the industry over which the Corporation has no control, including but not limited to: general economic conditions; the cost of exploring for, producing and delivering oil and gas; the discovery rates of new oil and gas reserves; cost and availability of drilling equipment; availability and expected availability of pipeline and other oil and gas transportation capacity; North American natural gas storage levels; increasing number and capacity of North American gas liquefaction export facilities; demand for heating and cooling; availability and pricing of alternate energy sources; taxation and royalty changes; government regulation; environmental regulation; ability of oil and gas companies to obtain credit, equity capital and/or debt financing; and currency fluctuations in the jurisdiction where we operate.

A further decline in expenditures by oil and gas companies caused by the fluctuations in and uncertainly regarding crude oil pricing and low natural gas prices or otherwise, could have a material adverse effect on High Arctic's business, financial condition, results of operations and cash flows. Conversely, a sustained recovery and increase in oil and gas prices could drive a material improvement in demand for and pricing of High Arctic's services.

Trade Relations and Tariffs
The timing and implementation of any new trade policy or tariffs is uncertain. To the extent implemented, any new trade policy or tariffs may have an adverse effect on the Corporation's business. Changes in trade policy or governmental regulation between PNG and other countries (including the US), including tariffs, taxes and other trade barriers, may adversely affect the Corporation's business, results of operations and financial condition.

In particular, there is uncertainty regarding US tariffs and support for existing treaty and trade relationships, including with Canada and other large energy producers in the industry. Implementation by the US government of new legislative or regulatory policies could impose additional costs on the Corporation, decrease US demand for the products of the Corporation's customers, or otherwise negatively impact the Corporation, which may have a material adverse effect on the Corporation's business, financial condition, and operations. Furthermore, there is a risk that the tariffs imposed by the US on other countries may escalate a broader global trade war. This uncertainty may adversely impact: (i) the ability of companies to transact business with companies such as the Corporation; (ii) the Corporation's profitability; (iii) regulation affecting the PNG oil and gas industry; (iv) global financial markets (including the TSX); and (v) general global economic conditions. All of these factors are outside of the Corporation's control but may nonetheless have a material adverse effect on our business, financial condition results of operations and cash flow.

Reliance on Key Personnel
The success of the Corporation is dependent upon its key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of the Corporation. The Corporation's ability to provide reliable and quality services is dependent on its ability to hire and retain a dedicated and quality pool of employees. The Corporation strives to retain employees by providing a safe working environment, competitive wages and benefits, and an atmosphere in which all employees are treated equally regarding opportunities for advancement. The unexpected loss of key personnel or the inability to retain or recruit skilled personnel could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Excess Equipment Levels in the Industry
Due to the long-life nature of oilfield service equipment and the long delivery time for equipment being manufactured, the quality of equipment available does not always correspond with the demand for its use. Periods of high demand often lead to increases in capital expenditures, which in turn lead to increased supply. Such increases in supply often lead to downward pricing pressures across the industry which could materially impact the Corporation's profitability if there is a subsequent reduction in demand. Additionally, the

Corporation could fail to secure sufficient work in which to employ its equipment, which could have a material adverse effect on the Corporation's business, results of operations, financial conditions and cash flows.

Competition

The energy services industry is highly competitive and the Corporation competes with a number of companies which may have more equipment and personnel as well as greater financial resources. The Corporation's ability to generate revenue and earnings depends primarily upon its ability to win bids in competitive bidding processes and to perform awarded projects within estimated times and costs. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Corporation or that new or existing competitors will not enter the various markets in which the Corporation is active. In certain aspects of its business, the Corporation also competes with several small and medium-sized companies, which, like the Corporation, have certain competitive advantages such as low overhead costs and regional strengths. In addition, reduced levels of activity in the oil and natural gas industry can intensify competition and may result in lower revenue for the Corporation.

Safety Performance

Standards for the prevention of incidents in the energy industry are governed by service company safety polices and procedures, accepted industry safety practices, customer specific safety requirements and health and safety legislation. Safety is captured in our Health and Safety Policy, which states that we value human life above all, and will not prioritize profit over safety. No job is so urgent or important that the necessary steps for safety cannot be undertaken. Many customers consider safety performance a key factor in selecting oilfield service providers. Deterioration of the Corporation's safety performance could result in a decline in the demand for the Corporation's services and could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Operational Risk and Insurance

The Corporation's operations are subject to operational risks inherent in the energy industry. These risks include equipment defects, malfunction and failures, human error, natural disasters, vehicle accidents, explosions, and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to the source formations, damage to facilities, business interruptions and damage to or destruction of property, equipment and the environment. These risks could expose the Corporation to substantial liability for personal injury, wrongful death, property damage, loss of oil and natural gas production, pollution, and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees, and regulators.

Although the Corporation contractually limits and excludes certain potential liabilities and maintains insurance coverage that it believes is adequate and customary for a contractor in the oilfield services industry, there can be no assurance that such insurance will be adequate to cover the Corporation's future liabilities. In addition, there can be no assurance that the Corporation will be able to maintain adequate insurance at rates it considers reasonable and commercially justifiable.

The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by the Corporation, or a claim at a time when the Corporation is not able to obtain adequate insurance, could have a material adverse effect on the Corporation's ability to conduct normal business operations and on its financial condition, results of operations and cash flows.

Government Regulation and Anti-Bribery Laws

The operations of the Corporation are subject to a variety of federal, provincial and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. Such laws or regulations are subject to change and may have a material impact to the Corporation's operations or costs to comply with changes to such laws or regulations in the future. Accordingly, it is impossible to predict the cost or impact that such laws and regulations may have on the Corporation or its future operations.

The Corporation's obligation to comply with laws and regulations also includes those involving bribery and anti-corruption. In the course of the Corporation's operations, High Arctic personnel may be required to interact with certain government and officials from time to time. The Corporation has controls, policies, and procedures that mandate the compliance with these laws and regulations, however there can be no assurance that employees or consultants will not violate these controls, policies, and procedures. Any alleged violation of these laws and regulations could disrupt the business and cause High Arctic to incur significant costs to investigate any alleged breach. If High

Arctic was found to be in contravention of these laws and regulations, severe civil and criminal penalties and other sanctions could materially harm their reputation, business, result of operations, financial conditions, and liquidity.

Sources, Pricing and Availability of Equipment and Equipment Parts

The Corporation sources its equipment and equipment parts from a variety of suppliers which are located throughout the world. Failure of suppliers to deliver supplies and materials in a timely and efficient manner would be detrimental to the Corporation's ability to maintain levels of service to its customers. The Corporation is also dependent on the technical services of other parties for certain parts and services. High Arctic attempts to mitigate this risk by maintaining good relations with key suppliers. However, if the current suppliers are unable to provide the supplies and materials or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to our clients could have a material adverse effect on our results of operations and our financial condition.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and alternative energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Climate Change, Natural Disasters, Civil Unrest, and Environmental Regulations

The effects of climate change, including physical and regulatory impacts, could have a negative impact on our operations and the demand for oil and natural gas. Laws, regulations or treaties concerning climate change or greenhouse gas emissions, including incentives to conserve energy or use alternate sources of energy, can have an adverse impact on the demand for oil and natural gas, which could have a material adverse effect on High Arctic. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in the imposition of material fines and penalties. Natural disasters may result in delays or cancellation of some of our customer's operations or could increase our operating costs (such as insurance costs), which could have a material adverse affect on our business and operating results. In addition, civil unrest risks continue to intensify. These risks can be fueled by developments such as regional disputes, geopolitical conflicts, political polarization, and elections. Civil unrest can lead to business interruption, reputational harm, and costly measures to protect people and property.

The effect of this Paris Agreement and other climate-related legislation, as well as the adoption of additional measures at the federal, state, provincial or local levels across the globe, is currently unpredictable. The concerns about climate change have led to opposition from environmental activists and the public towards the continued exploitation and development of fossil fuels. As a result, many investors have become hesitant to invest in the oil and gas industry. Furthermore, there has been a movement to hold governments and oil and gas companies accountable for climate change through climate litigation. In November 2022, countries worldwide met in Egypt for the COP 27 global climate summit. During the summit, the governments committed to achieving net-zero emissions from national government operations no later than 2050 and discussed the impacts of climate change, reaffirming the goal to limit temperature rise to 1.5 degrees Celsius. Governments and non-governmental organizations continue to make efforts to reduce greenhouse gas emissions, which may ultimately reduce the growth in demand for oil and natural gas and, in time, reduce consumption. In addition, the implementation of policies by certain institutions that discourage investments in the industry could have adverse effects on financing costs, as well as the industry's access to liquidity and capital. COP 28 held in Dubai in 2023 saw an acknowledgment of the role petrochemicals play in the global economy through representation for the first time at a COP conference. The key takeaway from the conference was a commitment to transition away from fossil fuel energy, invest in carbon-reduction technologies and address methane leakage emissions.

Criticism of the oil and gas industry could harm our reputation and erode shareholder confidence and public support. While the Corporation is not a significant contributor to greenhouse gas emissions, mandatory emission reductions may increase operating costs and capital expenditures for oil and gas producers, which could decrease the demand for our services. As the dialogue regarding climate change and greenhouse gas control continues to evolve and new requirements emerge, we cannot predict the impact of current and impending emissions reduction legislation on the Corporation and its customers. Such impact could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Due to these foregoing climate change risks, we have been and continue to use our know-how to develop ways to assist our customers to reduce their greenhouse gas emissions through the provision of our services. The Corporation did not incur any material expenditure in the past year as a result of environmental protection requirements.

Environmental

All phases of the energy sector including the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Pandemic Risk

The outbreak of epidemics, pandemics, and other public health crises in geographic areas in which the Corporation has operations, suppliers, customers, or employees, may increase our exposure to, and magnitude of, each of the risks identified herein, resulting from a reduction in demand for crude oil and natural gas consumption and/or lower commodity prices. Our business, financial condition, results of operations, cash flows, reputation, access to capital, cost of borrowing, access to liquidity, ability to fund dividend payments and/or business plans may without limitation, be adversely impacted as a result of:

- the delay or suspension of work due to workforce disruption or labour shortages caused by workers becoming infected, or government or health authority shelter in place orders, quarantine orders, mandated restrictions on travel by workers or closure of facilities, workforce camps or worksites;
- suppliers and third-party vendors experiencing similar workforce disruption or being ordered to suspend operations;
- reduced cash flows resulting in less funds from operations being available to fund our capital expenditure;
- counterparties being unable to fulfill their contractual obligations to us on a timely basis or at all;
- the capabilities of our information technology systems and the potential heightened threat of a cybersecurity breach arising from the increased number of employees working remotely;
- our ability to obtain additional capital including, but not limited to, debt and equity financing being adversely impacted as a result of unpredictable financial markets, foreign currency exchange rates, commodity prices and/or a change in market fundamentals; and
- an overall slowdown in the global economy, political and economic instability, and civil unrest.

Given the dynamic nature of the events related to the Covid-19 pandemic, it is uncertain whether Covid-19 will resurge, and the full extent of the future impact that Covid-19 or other pandemics may have on our business, financial condition, results of operations or cash flows cannot be predicted.

Financing Risk

The Corporation is exposed to risk associated with access to equity capital and debt financing required for business needs and the risk that necessary capital cannot be acquired on a timely basis, on reasonable terms to the Corporation, or at all. The asset base, working capital, existing mortgage debt, profitability of existing operations, and future projected activities impact the ability of the Corporation to access debt and equity financing. Where additional financing is raised by the issuance of Common Shares or securities convertible into Common Shares, control of the Corporation may change, and shareholders may suffer dilution to their investment.

Global Financial Markets

Recent market events and conditions resulting from shifts in government policy have created a climate of greater volatility, less liquidity, and tighter credit conditions. These events negatively impact the broader capital markets, financial instruments, banks, investment banks, insurers and other financial institutions have negatively impacted credit markets and caused stock markets to experience significant volatility. These market conditions, should they persist, may result in the Corporation not being able to execute on certain acquisition opportunities that are part of the Corporation's current business strategy. Additionally, it may negatively impact the Corporation's ability to obtain equity and debt financing when needed on satisfactory terms, make capital investments and maintain existing assets may be impaired, and the Corporation's assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result.

Volatility in Market Price of High Arctic Common Shares

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Corporation's control, including the following: (i) actual or anticipated fluctuations in High Arctic's financial results; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other companies that investors deem comparable to High Arctic; (iv) the loss or resignation of members of Management or the Board and other key personnel of High Arctic; (v) sales or perceived sales of additional Common Shares; (vi) significant acquisitions, asset dispositions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving High Arctic or its competitors where High Arctic does not realize its anticipated benefits from such transaction; (vii) trends, concerns, technological or competitive developments, regulatory changes and other related issues in the oil and natural gas industry; and (viii) actual or anticipated fluctuations in interest rates.

Financial markets have experienced significant price and volume fluctuations in recent years that have particularly affected the market prices of equity securities of companies that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if High Arctic's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values which may result in impairment losses.

Tax Compliance

The taxation of corporations is complex. In the ordinary course of business, the Corporation is subject to ongoing audits by tax authorities. While the Corporation will endeavour to ensure that its tax filing positions are appropriate and supportable, it is possible that tax matters, including the calculation and determination of revenue, expenditures, deductions, credits and other tax attributes, the calculation of taxable income, taxes payable and related tax filings may be reviewed and challenged by the tax authorities. If such challenge were to succeed, it could have a material adverse effect on the Corporation's tax position. Further, the interpretation of and changes in tax laws, whether by legislative or judicial action or decision, and the administrative policies and assessing practices of taxation authorities, could materially adversely affect the Corporation's tax position. As a consequence, the Corporation is unable to predict with certainty the effect of the foregoing on the Corporation's effective tax rate and earnings.

The Corporation regularly reviews the adequacy of its tax provisions and believes that it has adequately provided for those matters. Should the ultimate outcomes materially differ from the provisions, the Corporation's effective tax rate and earnings may be affected positively or negatively in the period in which the matters are resolved. The Corporation mitigates this risk through ensuring that tax filing positions are carefully scrutinized by management and external consultants, as appropriate.

Income Tax Risk

The Corporation has risks for income tax matters, including the unanticipated tax and other expenses and liabilities of the Corporation due to changes in income tax laws. The tax laws and the prevailing assessment practices are subject to interpretation and the domestic and foreign authorities may disagree with the filing positions adopted by the Corporation. The impact of any challenges cannot be reliably estimated and may be significant to the financial position or overall operations of the Corporation.

Capital and Additional Funding Requirements

The Corporation's cash flow may not be sufficient to fund its ongoing activities at all times, and from time to time the Corporation may require additional financing in order to carry out its business activities. There is risk that if the economy and banking industry experienced unexpected and/or prolonged deterioration, the Corporation's access to additional financing may be affected. The inability of the Corporation to access sufficient capital for its operations could materially adversely affect the Corporation's financial condition.

The Corporation may, from time to time, have restricted access to capital and increased borrowing costs as a result of global economic volatility. Failure to obtain such financing on a timely basis could cause the Corporation to miss certain acquisition opportunities and reduce or terminate the Corporation's operations. The Corporation's ability to make capital investments and maintain existing assets may be impaired, and the Corporation's assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result.

The Corporation is currently under-leveraged and believes it has sufficient funds available to sustain the business and fund its projected capital expenditures. However, if funds generated from operations are lower than expected or capital costs for these projects exceed current estimates, or if the Corporation incurs major unanticipated expenses related to development or maintenance of its existing assets, it may be required to seek additional capital to maintain its capital expenditures at planned levels.

Dilution

High Arctic may make future acquisitions or enter into financings or other transactions involving the issuance of securities of High Arctic which may be dilutive to shareholders.

Issuance of Debt

From time to time, the Corporation may finance its activities, including potential future acquisitions, in whole or in part with debt, which may increase High Arctic's debt levels above industry standards for peers of similar size. Depending on future business plans, High Arctic may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither High Arctic's articles nor its by-laws limit the amount of indebtedness that High Arctic may incur. The level of High Arctic's indebtedness from time to time could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. If the Corporation chooses to finance its activities, including potential future acquisitions, in whole or in part with debt and the interest rate associated with any debt instrument increases significantly this additional interest expense could materially adversely affect the Corporation's financial condition.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Corporation considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation.

The integration of acquired businesses may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters.

Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, certain assets are periodically disposed of, so that the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market for such assets, certain identified assets of the Corporation, if disposed of, could realize less than their carrying value in the financial statements of the Corporation.

Technology Risks

The ability of the Corporation to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment. There can be no assurance that the Corporation will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Corporation to do so could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. No assurances can be given that competitors will not achieve technological advantages over the Corporation.

Furthermore, we rely on information technology systems and other digital systems to operate our business. Threats to information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow and are increased by the growing complexity of our information technology systems. Cybersecurity attacks could include, but are not limited to, malicious software, attempts to gain unauthorized access to data and the unauthorized release, corruption or loss of data and personal information, account takeovers, and other electronic security breaches that could lead to disruptions in our critical systems.

Other cyber incidents may occur as a result of natural disasters, telecommunication failure, utility outages, human error, design defects, and unexpected complications with technology upgrades. Risks associated with these attacks and other incidents include, among other things, loss of intellectual property, reputational harm, leaked information, improper use of our assets, disruption of our and our customers' business operations and safety procedures, loss or damage to our data systems, unauthorized disclosure of personal information which could result in administrative penalties and increased costs to prevent, respond to or mitigate cybersecurity events. Although we monitor our information technology systems for threats, cybersecurity attacks and other incidents are evolving and unpredictable. The occurrence of such an attack or incident could go unnoticed for a period of time. Any such attack or incident could have a material adverse effect on our business, financial condition results of operations and cash flow.

Significant Shareholders

The Corporation has one Shareholder that directly or indirectly has the ability to control the votes to approximately 44.0% of the issued and outstanding Common Shares at December 31, 2024 and, as such, may be in a position to significantly influence the outcome of actions requiring Shareholder approval.

Internal Control Deficiencies

Senior management personnel have conducted reviews and designed and developed processes to ensure that internal controls are established and adhered to. Based upon their evaluation of the internal controls, the Chief Executive Officer and Chief Financial Officer have satisfied themselves that the internal controls are effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, the Corporation's potential inability to successfully address potential material weaknesses in internal controls or other control deficiencies may affect its ability to report its financial results on a timely and accurate basis and to comply with disclosure and other requirements.

Dividends

The amount of future cash dividends paid by the Corporation will be subject to the discretion of the Board and may vary depending on a variety of factors and conditions existing from time to time, many of which will be beyond the control of the Corporation. These factors and conditions include fluctuations in capital expenditure requirements, debt service requirements, restrictions imposed on the Corporation by its lenders, operating costs, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. There can be no assurance that the Corporation will pay dividends in the future.

Foreign Exchange Rate Risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the corporation's results. The majority of the Corporation's international revenue and expenses are effectively transacted in USD (once requisite government approvals to convert local currency denominated transactions are obtained as applicable) and the Corporation does not actively engage in foreign currency hedging.

Dependence on Major Customers

The Corporation has historically had a stable relationship with its largest customers, however, there can be no assurance that the Corporation's relationships with its customers will continue. A significant reduction or total loss of the business from its customers, if not offset by sales to new or existing customers, may have a material adverse effect on the Corporation's

Forward-Looking Statements and Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on the Corporation's forward-looking statements and information. By its nature, forward-looking statements and information involve numerous assumptions, known and unknown risk and uncertainties, of both a general and specific nature, which could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties related to forward-looking statements and information are found under the heading "Forward-Looking Statements" in this MD&A.

Conflicts of Interest

Certain directors or officers of High Arctic may also, or may in the future be, directors or officers of other companies that may compete or be counterparties to agreements with High Arctic, and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with High Arctic disclose his or her interest and, in the case of directors, refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, High Arctic may disclose confidential information relating to the business, operations or affairs of the Corporation. Although confidentiality agreements are to be signed by third parties prior to the disclosure of any confidential information, a breach of such confidentiality agreement could put High Arctic at competitive risk and may cause significant damage to its business. The harm to High Arctic's business from a breach of confidentiality cannot presently be quantified but may be material and may not be compensable in damages. There can be no assurance that, in the event of a breach of confidentiality, High Arctic will be able to obtain equitable remedies, such as injunctive relief from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

International Conflict

International conflict and other geopolitical tensions and events, including war, military action, terrorism, trade disputes, and international responses thereto have historically led to, and may in the future lead to, uncertainty or volatility in global energy and financial markets, as well as increased cyber security risks. The Russia-Ukraine conflict, along with geopolitical tensions in the Middle East and Israel, underscores the heightened risks faced by the oil and natural gas industry on a global scale. These regions are pivotal to the world's energy markets, and disturbances can lead to significant disruptions and volatility in commodity prices. The conflict between Russia and Ukraine, for instance, has led to sanctions being imposed and has severely impacted energy supply chains, given Russia's role as a major oil and gas exporter. This situation has resulted in increased volatility in global oil prices and has forced companies to reassess their supply routes and dependency on Russian oil and gas. Similarly, tensions in the Middle East and Israel, a region central to global oil production, have been ongoing and may escalate quickly, affecting not only local production but also the security of key shipping routes such as the Strait of Hormuz through which a significant portion of the world's oil supply is transported. These tensions can cause spikes in oil prices, disrupt supply chains, and lead to a re-evaluation of energy security strategies by countries and companies alike. Volatility in oil and natural gas prices may adversely affect our business, financial condition and results of operations. Reductions in energy commodity prices may affect oil and natural gas activity levels in Canada and therefore adversely affect the demand for, or price of, our services.

The extent and duration of international conflicts cannot be accurately predicted at this time and the effects of such conflicts may magnify the impact of the other risks identified by the Corporation in this MD&A, including those relating to commodity price volatility and global financial and economic conditions. These events may have unforeseeable impacts, including on High Arctic, our stakeholders, and counterparties on which we rely and transact with, and may have an adverse effect on our business, results of operation and financial condition.

Other Governmental Risk

Shifts in government policy by existing administrations or following changes in government in jurisdictions in which we operate or elsewhere can impact our operations and ability to grow our business. Government imposed restrictions on fossil fuel-based energy use, cross-border economic activity, and development of new infrastructure can impact our opportunities for continued growth.

We are committed to working with all levels of government in the jurisdictions in which we operate to ensure our business benefits and risks are understood, and mitigation strategies are implemented; however, changes in government policy are largely out of the control of the Corporation and may adversely affect our business, results of operations, financial condition or reputation.

Non-IFRS Measures

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by IFRS and may not be comparable to the same or similar measures used by other companies. The Corporation uses these financial measures to assess performance and believes these measures provide useful supplemental information to shareholders and investors. These financial measures are computed on a consistent basis for each reporting period and include the following:

Earnings from operations before interest, taxes, depreciation, and amortization ("EBITDA")

EBITDA is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. EBITDA is defined as net loss adjusted for income taxes, interest, bank charges and finance expense, and depreciation. Management believes that, in addition to net loss reported in the consolidated statements of loss and comprehensive loss, EBITDA is a useful supplemental measure of the Corporation's performance prior to consideration of how operations are financed or how results are taxed or how depreciation and amortization affects results. EBITDA is not intended to represent or be construed as an alternative to net earnings (loss) calculated in accordance with IFRS. Refer to table in Adjusted EBITDA below that provides a reconciliation of net earnings (loss), as disclosed in the consolidated statements of loss and comprehensive loss, to EBITDA.

Adjusted EBITDA

Adjusted EBITDA is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Adjusted EBITDA is defined based on EBITDA (as defined above) prior to the effect of gains or losses on sales of property and equipment, impairment charges, customer inventory adjustments, excess of insurance proceeds over costs and foreign exchange gains or losses.

Management believes the addback for these items provides a more comparable measure of the Corporation's operational financial performance between periods. Adjusted EBITDA as presented is not intended to represent or be construed as an alternative to net loss in accordance with IFRS.

The following table provides a quantitative reconciliation of consolidated net loss, as disclosed in the consolidated statements of loss and comprehensive loss, to EBITDA and Adjusted EBITDA for the three months and year ended December 31, 2024 and 2023:

	Three months ended Dec 31,		Year ended Dec 31,	
(thousands of USD)	2024	2023	2024	2023
Net income (loss)	**1,806**	1,907	**2,857**	(8,623)
Adjustments to net income (loss):				
Interest income	**(38)**	-	**(175)**	-
Finance expense	**11**	35	**182**	243
Income tax expense (recovery)	**339**	319	**1,047**	(1,844)
Depreciation and amortization	**769**	696	**3,822**	6,222
Asset impairment loss	**-**	-	**-**	15,200
Loss on sale of property and equipment	**-**	-	**-**	13
EBITDA	**2,887**	2,975	**7,733**	11,211
Adjustments to EBITDA:				
Stock-based compensation	**13**	-	**13**	-
Adjustment to contractual obligations	**(2,573)**	-	**(2,573)**	-
Adjustment to third party inventory provision	**(817)**	-	**(817)**	-
Management fees	**-**	(137)	**(90)**	(557)
Foreign exchange loss	**8**	98	**24**	143
Adjusted EBITDA	**(482)**	2,936	**4,290**	10,797

Operating margin

Operating margin is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Operating margin is used by management to analyze overall operating performance. Management believes this non-IFRS financial measure provides useful information to investors and others in understanding the Corporation's operating performance. Operating margin is not intended to represent revenue, net earnings (loss), or other measures of financial performance calculated in accordance with IFRS. Operating margin is calculated as revenue less operating expenses. Operating margin as presented is not intended to represent or be construed as an alternative to revenue or net earnings (loss) in accordance with IFRS. The table disclosed under "Operating margin %" below provides a quantitative reconciliation of revenue, as disclosed in the consolidated statements of loss and comprehensive loss, to operating margin and operating margin % for the three months and year ended December 30, 2024 and 2023.

Operating margin %

Operating margin % is a non-IFRS measure in line with operating margin discussed above. Operating margin % is used by management to analyze overall operating performance. Operating margin % is calculated as operating margin divided by revenue.

The following table provides a quantitative calculation of operating margin and %:

	Three months ended Dec 31,		Year ended Dec 31,	
(thousands of USD, unless otherwise noted)	2024	2023	2024	2023
Revenue	**2,421**	12,533	**24,075**	43,380
Operating expenses	**(1,728)**	(8,496)	**(15,006)**	(28,964)
Operating margin	**693**	4,037	**9,069**	14,416
Operating margin %	**28.6%**	32.2%	**37.7%**	33.2%

Operating income (loss)

Operating income (loss) is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Operating income (loss) is used by management to analyze overall operating performance. Management believes this non-IFRS financial measure provides useful information to investors and others in understating the Corporation's operating performance. Operating income (loss) is not intended to represent revenue, net earnings (loss), or other measures of financial performance calculated in accordance with IFRS. Operating income (loss) is calculated as revenue less operating expenses, general and administrative expense and depreciation. Operating income (loss) as presented is not intended to represent or be construed as an alternative to revenue or net earnings (loss) or other measures of financial performance calculated in accordance with IFRS.

The table disclosed below provides a quantitative reconciliation of revenue, as disclosed in the consolidated statements of comprehensive income (loss) to operating income (loss):

	Three months ended Dec 31,		Year ended Dec 31,	
(thousands of USD)	2024	2023	2024	2023
Revenue	**2,421**	12,533	**24,075**	43,380
Operating expenses	**(1,728)**	(8,496)	**(15,006)**	(28,964)
G&A expenses	**(1,175)**	(1,101)	**(4,779)**	(3,619)
Share based compensation	**(13)**	-	**(13)**	-
Depreciation	**(769)**	(696)	**(3,822)**	(6,222)
Operating income (loss)	**(1,264)**	2,240	**455**	4.575

Percentage of revenue

Certain figures are stated as a percentage of revenue and are used by management to analyze individual components of expenses to evaluate the Corporation's performance from prior periods and to compare its performance to other companies.

Funds flow from operations

Funds flow from operations is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Funds flow from operations is defined as net cash generated (used in) from operating activities adjusted for changes in non-cash working capital. Management believes that, in addition to net cash generated from operating activities as reported in the consolidated statements of cash flows, cash generated from operating activities before changes in non-cash working capital adjustments is a useful supplemental measure as it provides an indication of the funds generated by the Corporation's principal business activities prior to consideration of changes in items of working capital.

This measure is not intended to represent or be construed as an alternative to net cash generated from operating activities as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of net cash generated from operating activities, as disclosed in the consolidated statements of cash flows to funds flow from operations:

	Three months ended Dec 31,		Year ended Dec 31,	
(thousands of USD)	2024	2023	2024	2023
Net cash generated from operating activities	**248**	6,131	**10,112**	8,906
Adjusted for:				
Changes in non-cash working capital balances - operating	**2,419**	(3,202)	**(3,342)**	1,367
Funds flow from operations	**2,667**	2,929	**6,770**	10,273

Working capital

Working capital is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Working capital is used by management as another measure to analyze the operating liquidity available to the Corporation. It is defined as current assets less current liabilities. Working capital ratio is defined as current assets dividend by current liabilities. This measure is not intended to represent or be construed as an alternative to current assets as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of current assets, as disclosed in the consolidated statements of financial position, to working capital as at December 31, 2024 and December 31, 2023:

(thousands of USD)	As at Dec 31, 2024	As at Dec 31, 2023
Current assets	**24,706**	30,090
Current liabilities	**(4,104)**	(9,755)
Working capital	**20,602**	20,335
Working capital ratio	**6.0:1**	3.1:1

Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions are intended to identify forward-looking statements. Such statements reflect the Corporation's current views with respect to future events and are subject to certain risks, uncertainties, and assumptions. Many factors could cause the Corporation's actual results, performance, or achievements to vary from those described in this MD&A.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will include, among other things: the role of the energy services industry in future phases of the energy industry; the outlook for energy services both globally and within PNG; the impact of conflict in the Middle East and Ukraine; the impact of U.S. tariffs, and retaliatory tariffs, on the global economy; the timing and impact on the Corporation's business related to potential new large-scale natural resources projects and increased drilling activity in PNG; the impact, if any, related to existing or future changes to government regulations by the government of PNG; the impact, if any, on the Corporation's future financial and operational results related to non-resource development opportunities in PNG; market fluctuations in commodity prices, and foreign currency exchange rates; restrictions on repatriation of funds held in PNG; expectations regarding the Corporation's ability to manage its liquidity risk; raise capital and manage its debt finance agreements; projections of market prices and costs; factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion; the Corporation's ongoing relationship with its major customers; customers' drilling intentions; the Corporation's ability to position itself to be a significant supplier of services, equipment and manpower for other resource and non-resources based projects in PNG; the Corporation's expectations related to financial and operational results in 2025, including the expectation that the equipment rental and manpower services portion of the Corporation's business will be the primary revenue generating activity for fiscal 2025; the timing and ability of the Corporation to put its own administrative infrastructure in place; the Corporation's ability to invest in additional capital assets, including the impact on the Corporation's future financial and operational results; the impact, if any, of geo-political events, changes in government, changes to tariff's or related trade policies and the potential impact on the Corporation's ability to execute on its 2025 business plan and strategic objectives; the ability of the Corporation to expand its geographic customer base outside of PNG, and the deploying idle heli-portable drilling rigs 115 and 116 and securing future work with other exploration companies in PNG. Actual results are also subject to a number of other risks, as described in this MD&A, including the following:

- risks relating to evolving trade relations and tariffs
- reliance upon key personnel
- competition
- operational risks and insurance
- sources, pricing and availability of equipment
- climate change, natural disasters, civil unrest and environmental regulations
- global financial markets
- dilution risk
- interest rate risks
- technology risks
- risks relating to internal control deficiencies
- foreign exchange rate risks
- conflicts of interest
- international conflicts
- excess equipment levels in the industry
- safety performance
- government regulation and anti-bribery laws
- changing demand for petroleum products
- environmental risks
- volatility in High Arctic share price
- third party credit risk
- tax compliance and income tax risk
- issuance of debt
- failure to realize benefits of acquisitions and divestitures
- risks related to significant shareholders
- risks related to dividends
- dependence on major customers
- breach of confidentiality
- other governmental risks

With respect to forward-looking statements contained in this MD&A, the Corporation has made assumptions regarding, among other things, its ability to: maintain its ongoing relationship with major customers; successfully market its services to current and new customers; devise methods for, and achieve its primary objectives; source and obtain equipment from suppliers; successfully manage, operate, and thrive in an environment which is facing much uncertainty; remain competitive in all its operations; attract and retain skilled employees; and obtain equity and debt financing on satisfactory terms and manage liquidity related risks.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth in this MD&A and in the Corporation's Listing Application dated August 12, 2024, which is available on SEDAR+.

The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. These statements are given only as of the date of this MD&A. The Corporation does not assume any obligation to update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.

Abbreviations

The following is a summary of abbreviations used in this Management Discussion and Analysis:

AUD	- Australian dollars
bbl	- Barrel
BPNG	- Bank of PNG
CAD	- Canadian dollars
EBITDA	- Earnings before interest, tax, depreciation and amortization
FY	- Financial Year
ESG	- Environmental, Social and Corporate Governance
IFRS	- International Financial Reporting Standards
IRC	- Internal Revenue Commission of PNG
LNG	- Liquified natural gas
MD&A	- Management discussion and analysis
mmbtu	- Million British thermal units
OPEC	- Organization of Petroleum Exporting Countries
PGK	- Papua New Guinea kina
PNG	- Papua New Guinea
US	- United States of America
USD	- United States dollars

HIGH ARCTIC OVERSEAS HOLDINGS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

December 31, 2024, and 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of High Arctic Overseas Holdings Corp.

Opinion

We have audited the consolidated financial statements of High Arctic Overseas Holdings Corp. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2024 and December 31, 2023
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2024. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the recoverable amount of the Papua New Guinea (PNG) Operations cash generating unit (CGU)

Description of the matter

We draw attention to Note 2(e)(iii), Note 3(j) and Note 6 to the financial statements. The carrying amounts of the Entity's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indicators exist, impairment is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amount for a CGU is determined as the higher of its fair value less costs of disposal, and its value in use. As at December 31, 2024, the Entity identified indicators of impairment for the PNG Operations CGU and as a result performed an impairment test. It was determined that the recoverable amount of the PNG Operations CGU was above its carrying value, resulting in no impairment at December 31, 2024.

The estimated recoverable amount of the PNG Operations CGU was determined using a discounted cash flow model which involved the following significant assumptions:

- Earnings before interest, taxes, depreciation and amortization (EBITDA) forecasts
- Timing of forecasted cashflows
- Discount rate.

Why the matter is a key audit matter

We identified the assessment of the recoverable amount of the PNG Operations CGU as a key audit matter. Significant auditor judgment was required to evaluate the PNG Operations CGU's EBITDA forecasts, timing of forecasted cashflows and the discount rate used to calculate the recoverable amount. Additionally, professionals with specialized skills and knowledge in the field of valuation assisted us in performing our audit procedures.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We compared the PNG Operations CGU's actual 2024 EBITDA to the amount budgeted for 2024 to assess the Entity's ability to accurately forecast.

We evaluated the appropriateness of the EBITDA forecasts used in the estimate of the recoverable amount for the PNG Operations CGU by:

- Comparing the 2025 EBITDA forecast for the PNG Operations CGU to the 2025 budget for the CGU to assess consistency with other significant assumptions used by the Entity in other estimates used in the financial statements
- Comparing the 2025 EBITDA forecast for the PNG Operations CGU to historical results, taking into account changes in conditions and events affecting the CGU to assess the adjustments or lack of adjustments made by the Entity in arriving at the 2025 EBITDA forecast
- Comparing certain underlying assumptions in the EBITDA forecasts for the PNG Operations CGU to certain market data.

We evaluated the timing of the forecasted cashflows for the PNG Operations CGU by comparing the timing to historical results and certain market data.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the Entity's discount rate by comparing the discount rate to market and other external data
- Assessing the reasonableness of the Entity's conclusion that the estimate of the recoverable amount exceeds the carrying amount of the PNG Operations CGU by comparing the Entity's estimate to market metrics and other external data.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is David Yung.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
April 29, 2025

HIGH ARCTIC OVERSEAS HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousands of United States Dollars)	As at December 31, 2024	As at December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	14,930	10,958
Accounts receivable (Note 4)	1,800	10,990
Inventory (Note 5 and 20)	7,459	7,009
Prepaid expenses and other assets	517	420
Due from related party (Note 19(a))	-	210
Income tax receivable (Note 16(e))	-	503
	24,706	30,090
Non-current assets		
Income tax receivable (Note 16(e))	490	-
Property and equipment (Note 6)	9,671	12,371
Right of use assets (Note 7(a))	420	913
Total assets	35,287	43,374
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	2,290	9,007
Due to related party (Note 19(a))	135	-
Deferred revenue (Note 9)	551	-
Lease liabilities (Note 7(b))	339	466
Income tax payable (Note 16)	789	282
	4,104	9,755
Non-current liabilities		
Lease liabilities (Note 7(b))	109	507
Deferred tax liabilities (Note 16)	121	-
Total liabilities	4,334	10,262
Shareholders' Equity		
Net investment in Cyprus (Note 10)	-	33,112
Share capital (Note 11(a))	29,502	-
Contributed surplus	13	-
Accumulated and other comprehensive loss	(29)	-
Retained earnings	1,467	-
	30,953	33,112
Total liabilities and shareholders' equity	35,287	43,374

Commitments and contingencies (Note 20).

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

Approved on behalf of the Board of Directors,

(Signed) ["Michael Binnion"]
[Michael Binnion]
Chairman of the Board

(Signed) ["Bruce Apana"]
[Bruce Apana]
Director

HIGH ARCTIC OVERSEAS HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Years ended December 31,	
(thousands of United States Dollars)	2024	2023
Revenue (Note 13)	24,075	43,380
Operating expenses (Note 14(a))	(15,006)	(28,964)
General and administrative expenses (Note 14(b))	(4,779)	(3,619)
Depreciation and amortization expenses (Notes 6 and 7(a))	(3,822)	(6,222)
Share-based compensation expense (Note 12)	(13)	-
Operating income	455	4,575
Interest income	175	-
Adjustment to contractual obligations (Note 20)	2,573	-
Adjustment to third party inventory provision (Note 20)	817	-
Management fee income (Note 19(a))	90	557
Finance expense (Note 14(c))	(182)	(243)
Foreign exchange loss	(24)	(143)
Asset impairment loss (Note 6)	-	(15,200)
Loss on sale of property and equipment	-	(13)
Income (loss) before income tax expense	3,904	(10,467)
Current income tax expense (Note 16)	(926)	(1,028)
Deferred income tax recovery (expense) (Note 16)	(121)	2,872
Income tax recovery (expense)	(1,047)	1,844
Net income (loss)	2,857	(8,623)
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net income (loss):		
Foreign currency translation gain (loss) for foreign operations	(29)	1
Comprehensive income (loss) for the year	2,828	(8,622)

	Years ended December 31,	
	2024	2023
Net income (loss) per share: (Note 11(b))		
Basic and diluted	$0.23	($0.69)

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

HIGH ARCTIC OVERSEAS HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands of United States Dollars)	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Net investment in Cyprus	Retained earnings	Total shareholders' equity
Balance, December 31, 2022	-	-	-	41,734	-	41,734
Net loss for the year	-	-	-	(8,622)	-	(8,622)
Balance, December 31, 2023		-	-	33,112	-	33,112
Balance, December 31, 2023, adjusted for the impact of the completion of the Arrangement transaction (Note 10)	-	-	-	33,112	-	33,112
Common shares issued on completion of Arrangement transaction	29,502	-	-	(29,502)	-	-
Dividend paid to HWO prior to Arrangement transaction (Note 19(b))	-	-	-	(5,000)	-	(5,000)
Net income prior to Arrangement transaction	-	-	-	1,390	-	1,390
Net income post Arrangement transaction	-	-	-	-	1,467	1,467
Share-based compensation expense	-	13	-	-	-	13
Other comprehensive (loss) post Arrangement transaction – foreign currency translation	- -	-	- (29)	- -	- -	- (29)
Balance, December 31, 2024	29,502	13	(29)	-	1,467	30,953

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

HIGH ARCTIC OVERSEAS HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of United States Dollars)	Years ended December 31, 2024	2023
Cash flows from operating activities:		
Net income (loss)	2,857	(8,623)
Adjustments for:		
Depreciation and amortization expenses	3,822	6,222
Deferred income tax expense (recovery)	121	(2,872)
Unrealized foreign exchange loss (gain)	(96)	82
Non-cash finance expense (Note 14(c))	53	251
Share-based compensation expense	13	-
Loss on sale of property and equipment	-	13
Asset impairment loss	-	15,200
Funds from operating activities	6,770	10,273
Change in non-cash working capital (Note 15)	3,342	(1,367)
Net cash from operating activities	10,112	8,906
Cash flows from investing activities:		
Property and equipment expenditures	(652)	(1,080)
Net cash used in investing activities	(652)	(1,080)
Cash flows from financing activities:		
Lease obligation payments	(487)	(714)
Dividend (Note 19(b))	(5,000)	-
Net cash used in financing activities	(5,487)	(714)
Effect of foreign exchange rate changes on opening cash balances	(1)	-
Change in cash and cash equivalents	3,972	7,112
Total cash and cash equivalents, beginning of year	10,958	3,846
Total cash and cash equivalents, end of year	14,930	10,958

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

HIGH ARCTIC OVERSEAS HOLDINGS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Stated in Thousands of United States Dollars)

1. Nature of business

High Arctic Overseas Holdings Corp. (”High Arctic” or the ”Corporation”) was incorporated under the laws of Alberta, Canada on April 1, 2024, and is a publicly traded corporation listed on the TSX Venture Exchange. The Corporation is engaged in contract drilling, equipment rentals and other oilfield services to the oil and natural gas industry in Papua New Guinea (”PNG”) through a subsidiary in Singapore, two subsidiaries in PNG and a subsidiary in Australia. The Corporation’s registered corporate office address is Suite 2350, 330 – 5th Ave SW Calgary, Canada T2P 0L4.

The Corporation was founded to enable a Plan of Arrangement (the ”Arrangement”) that separated the North American and PNG businesses of High Arctic Energy Services Inc. (”HWO”), resulting in the North American business continuing to be operated by HWO and the PNG business being operated by the Corporation. The Arrangement was approved by a vote of shareholders of HWO on June 17, 2024, and was completed on August 12, 2024. The common shares of the Corporation began trading on the TSX Venture Exchange ("TSXV") on August 16, 2024.

On August 12, 2024, in accordance with the Arrangement:

- HWO transferred all of the outstanding ordinary shares of High Arctic Energy Services Cyprus Limited (”Cyprus”), the subsidiary that owned and operated HWO's Papua New Guinea energy services business, to the Corporation;
- Each shareholder of HWO received, as consideration, one quarter of one post-Arrangement common share of the Corporation and one quarter of one post-Arrangement common share of HWO, for every pre-Arrangement share of HWO held prior to August 12, 2024;
- The Corporation became a reporting issuer in Alberta, British Columbia, Manitoba, Ontario, and Saskatchewan and was listed on the TSXV; and
- HWO retained its interest in the existing North American energy services business and remained listed on the Toronto Stock exchange and continued trading under the trading symbol HWO.

Since the Corporation and Cyprus were both wholly-owned by HWO, the transfer of all of the outstanding ordinary shares of Cyprus to the Corporation was deemed a common control transaction. These Financial Statements are presented under the continuity of interests basis. Financial results contained within these consolidated financial statements present the historic financial position, results of operations and cash flows of Cyprus for all prior periods up to August 12, 2024, under HWO’s control. The financial position, results of operations and cash flows from April 1, 2024, the date of incorporation of the Corporation, to August 12, 2024, include both Cyprus and the Corporation on a combined basis, and from August 12, 2024, forward include the results of the Corporation on a consolidated basis upon completion of the Arrangement.

The following table lists the Corporation’s principal subsidiaries, the jurisdiction of formation or incorporation of such subsidiaries and the percentage of share owned, directly or indirectly, by the Corporation as at December 31, 2024:

Name of subsidiary	Jurisdiction of formation or incorporation	Percentage ownership of shares beneficially owned or controlled (in) directly by the Corporation
High Arctic Energy Services Cyprus Limited	Cyprus	100%
High Arctic Energy Services PNG Limited	PNG	100%
PNG Industry Manpower Solutions Limited	PNG	100%
High Arctic Energy Services (Singapore) PTE Ltd.	Singapore	100%
High Arctic Energy Services Australia PTY Ltd.	Australia	100%

2. Basis of Presentation

(a) Statement of compliance and approval

These consolidated financial statements ("Financial Statements") have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board for the period ended December 31, 2024.

These Financial Statements were authorized for issuance by the Board of Directors on April 29, 2025.

(b) Basis of preparation

These Financial Statements have been prepared on a going concern basis using historical cost convention except as disclosed in Note 3

(c) Common control transaction

Since the Corporation and Cyprus were both wholly owned by HWO, the transfer of all of the outstanding ordinary shares of Cyprus to the Corporation was deemed a common control transaction. As such, the assets and liabilities assumed by the Corporation, including cash and cash equivalents, accounts receivable, inventory, prepaid expense and other assets, due from related party, income tax receivable, property and equipment, right of use assets, accounts payable and accrued liabilities, lease liabilities and income tax payable were originally recognized on the date of acquisition at their respective carrying amounts according to historical cost financial records of HWO.

(d) Functional and presentation currency

The financial statements are presented in United States Dollars ("USD").

The Canadian dollar ("CAD") is the functional currency of the Corporation. The US dollar is the functional currency of four of the Corporation's subsidiaries, with the exception of one subsidiary utilizing the Australian dollar as its functional currency.

All values are rounded to the nearest thousand dollars ($000), except where otherwise indicated.

(e) Judgments, estimates and assumptions

The preparation of the Corporation's Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities as at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The accounting policies and practices that involve the use of estimates and judgements that have a significant impact on the Corporation's financial results include expected credit loss ("ECL"), functional currency, identification of cash generating units ("CGUs"), impairment of property and equipment, inventory obsolescence provision, depreciation and amortization, share-based compensation, and deferred income taxes.

Critical and other significant accounting judgements and estimates:

Significant judgements and estimates are used in the application of accounting policies that have been identified as being complex and involving subjective judgements and assessments. They include:

i) ECL

The Corporation estimates the amount of ECL for trade receivables with no financing component using a provision matrix. The provision matrix is based on historical loss experience and is adjusted for forward looking estimates based on current and future economic conditions using internal and externally sourced data. Judgement is required when applying this information to the ECL and any adjustments as a result of this new information.

The Corporation uses the simplified approach of the ECL model for trade receivables with no significant financing component which requires measuring the loss allowance at an amount equal to the lifetime ECL at initial recognition and throughout its life.

ii) Functional currency

The determination of functional currency is based on the primary economic environment (including monetary policy) in which an entity operates. The functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity.

Factors that the Corporation considers when determining the functional currency of its subsidiaries include:

(a) the currency that the delivery of goods and services are contracted in;
(b) the currency used to conduct business in the region;
(c) the currency that mainly influences labour, material, and other costs of providing goods or services; and
(d) the currency in which receipts from operating activities are usually retained in.

When the indicators are mixed and the functional currency of an entity is not obvious, management uses its judgement to determine the functional currency that most appropriately represents the economic effects of the underlying transactions, events and conditions. Judgement was applied in determining the functional currency of the operations in PNG to be USD due to a history of drilling services contracts being negotiated and settled in USD, as well as most of the expenses are quoted and paid in USD.

iii) *Identification of CGUs and impairment of property and equipment*

Property and equipment are tested for impairment when events and or changes in circumstances indicate that the carrying amount may not be recoverable, which involves both judgement and estimation. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, defined as CGUs.

The classification of assets and allocation of corporate assets in CGUs requires significant judgement and interpretation. Further, the factors considered in CGU classification include the integration between assets, shared infrastructures, the existence of common sales points, geography and the way management monitors and makes decisions about its operations. As such, the determination of a CGU involves considerable judgement and could have a significant impact on impairment losses and reversals. At December 31, 2024, the Corporation has one CGU called PNG Operations.

The assessment of impairment or impairment reversal indicators is based on significant judgment regarding whether there are internal and external factors that would indicate that a cash generating unit, and specifically the non-financial assets within the cash generating unit, either are impaired or are no longer impaired. These factors include revenue and earnings before interest, taxes, depreciation, and amortization ("EBITDA") forecasts, expected industry activity levels, commodity price developments and market capitalization.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant CGU). The determination of the recoverable amount of a CGU requires significant assumptions to be made by the Corporation on the discount rates, timing of forecasted cash flows and EBITDA forecasts, using estimates of revenue, operating costs, expected utilization, rates and costs of available equipment (margin), and terminal values. An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its expected recoverable amount.

iv) *Inventory obsolescence provision*

The Corporation measures inventories at the lower of the cost and net realizable value. The cost of inventories may not be recoverable if inventories are damaged or can no longer be used in the field and therefore obsolete. Judgement is required when determining which inventory requires a provision for obsolescence.

The Corporation inspects inventory throughout the year and adjusts provisions for obsolete inventory each reporting period. An inventory that is identified as damaged or obsolete is eventually scrapped and removed from the inventory listing.

v) *Depreciation*

Depreciation of the Corporation's property and equipment incorporates estimates of useful lives, salvage values and depreciation methodology that is estimated to best reflect usage. Equipment under construction is not depreciated until it is available for use. All equipment is depreciated based on the straight-line method over the asset's useful life in years. Estimate details are presented in Note 3.

vi) *Share-based compensation*

The fair value of stock options, performance and deferred share units are estimated at the grant date using the Black-Scholes-Merton option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, dividend yield, estimated forfeitures, and estimated volatility of the Corporation's shares.

vii) *Deferred income taxes*

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. The Corporation's calculation of income taxes involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations and estimations of future taxable profits. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the existing estimated temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are increased or reduced depending on the probability that the related tax benefit will be realized in the future.

Geo-political, economic and environmental developments and impact on estimation uncertainty

The conflict between Russia and Ukraine, which began in early 2022, has created significant political uncertainty globally. The war has contributed to global oil and gas price volatility, making it even more challenging for companies operating in the industry to accurately forecast future trends and plan accordingly. The imposition of international sanctions on Russia has created additional political uncertainty and tension. The ongoing conflict has also created challenges for energy demand in Europe, as the region has relied heavily on energy imports from Russia in the past. The uncertainty created by the continuation of the Russia-Ukraine war has far-reaching consequences for the global oil and gas industry and continues to create uncertainty on prices and future investments.

In 2022, inflation emerged as a major challenge for economies worldwide, leading to a significant increase in prices and reducing purchasing power. This uncertainty in the marketplace created a host of difficulties for consumers, businesses, and governments. In response to inflation, central banks around the world implemented monetary policy measures aimed at controlling inflation and maintaining price stability. Most central banks increased interest rates in 2022 aimed at slowing the rate of inflation, which made borrowing more expensive. The impact of inflation on the economy has been felt by all participants, as rising prices over the past two years have made it more difficult to afford goods and services, leading to a decrease in real income. The uncertainty created by inflation has also made it more challenging for businesses to make long-term plans and investments, and for consumers to budget effectively. Inflation continues to create significant challenges for economies worldwide, highlighting the need for policymakers to closely monitor their economies and implement measures aimed at maintaining price stability. Toward the end of 2023 and into 2024 the effects of inflation have abated to a degree, and some economies have slowed and entered technical recessions. It is expected that the impacts of inflation will remain a key concern for economies worldwide and policymakers into the future.

Environmental, Social, and Governance ("ESG") refers to a set of non-financial factors that businesses consider in their operations and investments. ESG has gained significant importance to investors and other stakeholders in recent years, especially in the extractive energy industries, due to the carbon-intensive nature of activities and products. Companies are facing increased pressure from stakeholders to reduce their carbon footprint, improve their environmental performance, and promote good governance. ESG is also attracting the attention of lawmakers, as governments across the world implement legislation aimed at reducing carbon emissions. In the coming years, it is expected that ESG will play an increasingly important role and companies that fail to integrate ESG considerations into their operations and investments will face significant challenges. The global focus to address climate change has created a rotation of investment capital away from the extractive energy industries in certain markets with the potential to increase the Corporation's cost of capital and reduce access to growth funding.

Recent uncertainty and volatility in global capital markets has negatively impacted the availability, terms and pricing of both credit and equity financing in the marketplace. Global political and economic risks are also intensifying, including a significant shift in United States foreign policy and the use and threat of tariffs to achieve certain political and economic objectives. Should there be a significant economic contraction as a result of changes to United States foreign policy, further escalation of the conflicts in Ukraine and the Middle East, and/or if tensions between China the United States develop into a significant trade and economic dispute, the Corporation's ability to contract it's services, access capital on acceptable terms and control supply chain costs may be negatively impacted. All of these potential risks could have a significant impact on the Corporation's future earning capacity.

3. Material accounting policies

(a) Basis of consolidation

The Financial Statements include the accounts of High Arctic Overseas Holdings Corp. and its subsidiaries. Intercompany balances and transactions, including unrealized gains or losses between subsidiaries are eliminated upon consolidation. Subsidiaries are entities controlled by the Corporation. Control exists when High Arctic Overseas Holdings Corp. has the ability to govern the financial and operating policies of an entity to enable the receipt of the benefits from its activities. In assessing control, potential voting rights currently exercisable are considered.

The financial statements of subsidiaries are included in the Corporation's Financial Statements from the date that control commences until the date that control ceases. When the Corporation ceases control over a subsidiary, it derecognized the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control ceases.

(b) Business combinations

Acquisitions of subsidiaries and assets that meet the definition of a business under IFRS are accounted for using the acquisition method. The consideration paid for each acquisition is measured at the date of exchange as the aggregate of the fair value of assets given up, equity instruments issued by the Corporation and liabilities assumed. Any contingent consideration payable is also measured at fair value. Contingent consideration payable that is classified as equity is not re-measured and settlement is accounted for as equity. Otherwise, substantive changes in the fair value of contingent consideration payable is recognized in profit and loss.

The identifiable assets acquired and liabilities assumed are recognized at their fair value except for deferred income taxes which are measured in accordance with their applicable IFRS. Any shortfall of the fair value of the identifiable net assets below the consideration paid is recognized as goodwill and any surplus of the fair value of the identifiable net assets relative to the consideration paid is recorded as gain on acquisition. Transaction costs associated with an acquisition, other than those relating to the issuance of debt and equity instruments are expensed as incurred.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation reports preliminary amounts for the items for which the accounting is incomplete. Those preliminary amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date, that if known, would have materially affected the amounts recognized as of that date. The measurement period can be up to a maximum of one year and is the period from the date of acquisition to the date the Corporation obtains complete information about facts and circumstances that existed as of the acquisition date.

(c) Foreign currency

i. Functional currency:
Items included in the financial statements of each subsidiary of the Corporation are measured using their functional currencies, as dictated by their operating environment.

ii. Foreign operations:
The financial statements of subsidiaries that have a functional currency different from that of the Corporation ("foreign operations") are translated into USD as follows:

- assets and liabilities – at the closing rate at the date of the statement of financial position, and
- income and expenses – at the rate on the date of the transaction and/or the average rate during the period (where it approximates the rate at the date of the transaction).

All changes resulting from applying the closing rate to the assets and liabilities of foreign operations are recognized as gains or losses as part of other comprehensive income.

iii. Transactions and balances:
Transactions that take place within an entity that are denominated in a different currency are translated into that entity's functional currency using the exchange rates prevailing at the date the transactions take place. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency, are recognized in the consolidated statement of loss and comprehensive loss as foreign exchange gains or losses.

(d) Joint arrangements

When joint arrangements are entered, the Corporation determines whether it constitutes a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting, with income recorded in earnings (loss). Joint operations are recorded using proportionate consolidation.

(e) Revenue recognition

Revenue is recognized from a variety of sources. In general, revenue is measured based on the consideration specified in a contract with a customer based upon an agreed transaction price. The Corporation's revenue is generated from short-term or spot market contracts and long-term arrangements. As referenced in Note 17 regarding economic dependence, large customers usually have contract durations greater than one year.

Long-term contracts are those with a term greater than one year. Revenue from the rendering of services is recognized as the Corporation satisfies its performance obligations, which is generally over time, as the Corporation provides a majority of its services on a per billable day basis.

Contract drilling services include contracts for individual drilling rig packages that include crews and contracts for specialist drilling related services.

Revenue is recognized over time from spud to rig release on a daily basis, using day rates based on contract specified amounts, and may include fixed fee or time-based compensation for the initial location of the drilling rig on the well site and its removal after release.

Revenue from well completion and production services, including well workover, is typically recognized based on daily or hourly rates as stipulated in the contracts with the customer.

Revenue for equipment rentals, including mats, is recognized using daily or monthly rates determined within the contracts.

Revenue for the provision of manpower is recognized using daily or hourly rates as stipulated in the contracts with the customer.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(g) Financial instruments

Financial assets and liabilities are classified and measured at amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit and loss ("FVTPL"), depending on the nature of the instrument. The classification is generally based on the contractual cash flow characteristics of the asset or liability. Financial assets held to collect principal and interest cash flows on specified dates are measured at amortized cost.

Investments in share equity of other third parties are initially recognized at fair value and classified as FVTPL or FVTOCI. If designated as FVTOCI, all changes in fair value are recorded in other comprehensive income ("OCI"). Upon disposal of such investment, the cumulative OCI recorded is reclassified to retained earnings. Dividends from such investments are recognized in profit or loss as other income when the Corporation's right to receive payments is established.

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The fair value hierarchy establishes three levels to classify the inputs for valuation techniques used to measure fair value as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means; and
- Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives highest priority to level 1 inputs and lowest priority to level 3 inputs. The Corporation has level 1 inputs, such as cash and cash equivalents. The Corporation has no level 2 or level 3 inputs.

The following table provides a summary of the classification and measurement basis applicable for the Corporation's non-derivative financial instruments.

Instrument	Initial measurement	Subsequent measurement
Financial assets:		
Cash (and equivalents if applicable)	Fair value	Amortized cost (1)
Accounts receivable	Fair value	Amortized cost (2)
Due from related party	Fair value	Amortized cost (1)
Financial liabilities: (3)		
Accounts payable and accrued liabilities	Fair value	Amortized cost (1)
Due to related party	Fair value	Amortized cost (1)
Lease liabilities	Fair value	Amortized cost (1)

(1) Amortized cost using an effective interest rate.

(2) Upon initial recognition of a non-derivative financial asset, a loss allowance is recorded for ECL. Loss allowances for accounts receivable are measured based on lifetime ECL that incorporates historical loss information and is adjusted for current economic and credit conditions. Losses are recorded as a charge in earnings (loss) as part of general and administrative expenses.

(3) All financial liabilities are recognized initially at fair value and loans and borrowings are recorded net of directly attributable transaction costs.

As at December 31, 2024, and 2023, the Corporation did not have any derivative financial instruments.

(h) Property and equipment

Property and equipment is recorded at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits through increased capability or performance associated with the item will flow to the Corporation, and the cost can be measured reliably. Repair and maintenance costs are charged to net earnings (loss) during the period in which they are incurred.

Gains and losses on disposal of property and equipment are the result of the difference between proceeds obtained compared to the carrying amount of the asset disposed of and are included as part of gains and losses on sale of property and equipment in earnings (loss).

Depreciation is calculated on the depreciable amount which is the carrying cost of an asset less its salvage value and recognized in earnings (loss) over the estimated useful life of the asset. The Corporation allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each such component. The calculation of depreciation includes assumptions related to useful lives and residual values and is reviewed annually and adjusted if appropriate, on a prospective basis. The assumptions are based on experience with similar assets and are subject to change as new information becomes available.

Property and equipment are depreciated and right of use assets are amortized as follows:

Asset type	Expected life	Salvage value	Basis of depreciation
Property and equipment:			
Drilling rigs	5-15 years	Up to 10%	Straight line
Support and shop	7-10 years	Up to 5%	Straight line
Drilling support equipment	7-10 years	Up to 5%	Straight line
Hydraulic workover rig	7-10 years	Up to 5%	Straight line
Rentals and matting	5-10 years	Up to 5%	Straight line
Light vehicles	5-10 years	Up to 5%	Straight line
Heavy trucks	7-10 years	Up to 5%	Straight line
Buildings	20-25 years	Up to 10%	Straight line
Office equipment and computer hardware	3-5 years	Up to 5%	Straight line
Computer software	3-5 years	Nil	Straight line
Right of use assets:			
Real estate	1-12 years	Nil	Straight line

(i) Inventory

Inventory consists primarily of operating supplies and spare parts not held for sale and are valued at the lower of average cost and net realizable value. Inventory is charged to expense as items are consumed at the weighted average cost of the item.

Net realizable value is the estimated selling price less estimated selling costs. A regular review is undertaken to determine the extent of any obsolescence for which a provision is required.

(j) Impairment of assets

Impairment of financial assets

The Corporation's accounts receivable is recorded net of ECL, using the simplified approach in estimating the lifetime ECL, taking into consideration historical industry default rates as well as credit ratings and the current financial condition of specific customers.

Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets called CGUs and judgement is required to aggregate assets into their appropriate CGU. If indicators exist, impairment is recognized for the amount by which the CGUs carrying amount exceeds its recoverable amount. The recoverable amount for a CGU is determined as the higher of its fair value less costs of disposal, and its value in use.

Recoverable amounts are typically calculated using a discounted cash flow model. Value in use calculations estimate future cash flows, discounted to their present value, using a before-tax discount rate reflecting current market conditions specific to the risk inherent in the assets in the CGU. If the carrying amount of the CGU exceeds its recoverable amount, an impairment loss is charged to earnings (loss) such that the recorded value of the CGU is no greater than its recoverable amount.

A previously recognized impairment loss is required to be reversed if there has been a change in circumstances and/or estimates used to determine the CGU's recoverable amount. If the recoverable amount has increased since the time that the impairment loss was recorded, the carrying amount of the CGU is increased, but only up to its recoverable amount. Further, the amount of impairment reversal cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the CGU while impaired. Such impairment reversal is recognized in the consolidated statements of comprehensive income (loss).

(k) Share-based and other compensation

Equity incentive plan

The Corporation has adopted an omnibus equity incentive plan (the "Plan") which provides for the issuance of stock options, restricted share units, performance share units and deferred share units (which collectively are referred to as "Grants" and each individually a "Grant").

The Plan is a long-term incentive plan that permits the award of Grants to directors, officers and employees of, and consultants to, the Corporation. The purpose of the Plan is to promote share ownership of the eligible individuals to align the interests of such individuals with the interest of the Corporation's shareholders. All Grants made under the Plan (whether stock options, restricted share units, performance share units or deferred share units) will be administered by and subject to one consistent set of rules and restrictions in the Plan.

Stock options

The fair value determined at the grant date of stock options is recognized as an employee benefit expense, with a corresponding increase in contributed surplus, over the vesting period based on the Corporation's estimate of stock options that will eventually vest. At the end of each reporting period, the Corporation revises its estimate of the number of stock options expected to vest. The impact of the revision of the original estimates, if any, is recognized immediately.

When options are exercised, the Corporation issues common shares. The proceeds received plus the amount of the previously recognized benefit recorded in contributed surplus are credited to share capital.

Restricted share units and performance share units

A restricted share units ("RSU") is a right to receive a common share of the Corporation issued from treasury upon settlement, subject to the terms of the Plan and the applicable award agreement, which generally becomes vested, if at all, following a period of continuous employment or engagement. A performance share unit ("PSU") is the same as an RSU but has performance vesting conditions attached. The vesting and expiry dates of RSUs and PSUs are determined by the Board of Directors.

The fair market value of the RSUs and PSUs issued is equal to the Corporation's volume-weighted average trading price per share of the common shares on the TSXV for the five consecutive trading days ending on the last trading day prior to the grant date. The fair market value is expensed over the vesting term on a graded vesting basis.

RSU and PSU holders are entitled to dividend equivalent on any date a cash dividend is paid on the Corporation's common shares.

Holders will be credited with a dividend equivalent in the form of a number of RSUs or PSUs calculated by multiplying the amount of the dividend per common share by the aggregate number RSUs or PSUs that were credited to the participant's account as of the record date for payment of the dividend and dividing that amount by the fair market value of the common shares on the date on which the dividend is paid.

The RSUs and PSUs are treated as equity-settled share-based compensation and compensation expense is recognized on issued units as vesting occurs, at fair value, with a corresponding increase in contributed surplus.

Deferred share units

A deferred share unit ("DSU") is a right to receive a common share of the Corporation issued from treasury upon settlement, subject to the terms of the Plan and the applicable award agreement. DSUs when awarded pursuant to the Plan vest immediately and provide participants the right to receive, upon termination of service of the participant or such other later date as may be permitted by the Plan, common shares or a cash payment (at the election of the Corporation) equal to the five-day volume weighted average trading price of the common shares on the TSXV multiplied by that number of common shares equal to the number of DSUs held. DSU holders are also entitled to dividend equivalents and on any date a cash dividend is paid on the Corporation's common shares. DSU holders will be credited with a dividend equivalent in the form of a number of DSUs calculated by multiplying the amount of the dividend per common share by the aggregate number of DSUs that were credited to the participant's account as of the record date for payment of the dividend and dividing that amount by the fair market value of the common shares on the date on which the dividend is paid.

The DSUs are treated as equity-settled share-based compensation and compensation expense is recognized when the DSUs are issued, using fair values, with a corresponding increase in contributed surplus.

Other compensation

The Corporation recognizes a liability and an expense for bonuses expected to be paid to employees based on various formulae that take into consideration operating earnings and other factors attributable to the financial and operational performance of the Corporation. The Corporation recognizes a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

(l) Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a reduction from equity.

(m) Dividends

Dividends on common shares, if declared, are recognized in the Corporation's Financial Statements in the period in which the dividends are approved by the Board of Directors.

(n) Provisions

Provisions for legal claims and other obligations, where applicable, are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

The Corporation may become involved in legal claims through the normal course of operations, and these are recorded and/or disclosed as any other provision. The Corporation believes that any liabilities that may arise from such matters to the extent not provided for, are not likely to have a material effect on the Financial Statements.

(o) Income tax

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in earnings (loss) except to the extent that it relates to the items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date in the jurisdictions where the Corporation operates.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes.

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Net earnings (loss) per share

The Corporation presents basic and diluted net earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net earnings or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined using the treasury stock method, whereby net earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding is adjusted for the effects of all dilutive potential common shares. The treasury stock method assumes any proceeds obtained on the exercise of equity-based compensation arrangements would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the difference between the number of shares issued from the exercise of equity-based compensation arrangements and shares repurchased from the related proceeds.

(q) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Corporation determines its operating segments based on internal information regularly reviewed by the Corporation's chief operating decision makers (CODM) to allocate resources and assess performance. Currently the Corporation's operations is managed as a single operating segment by the Corporations CODM.

(r) Leases

At the inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation considers whether it has the right to substantially all the economic benefits from the use of the identified asset, and the right to direct the use of the asset.

The Corporation recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently amortized using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Generally, the Corporation uses its incremental borrowing rate as the discount rate.

The lease payments included in the present value calculation include fixed payments (and in substance fixed payments); variable lease payments that depend on an index or rate; amounts expected to be payable under a residual value guarantee; the exercise price of purchase options if the lessee is reasonably certain to exercise that option; and early termination penalties.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right of use asset or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

The Corporation recognizes the lease payments associated with short-term leases of less than a one-year duration as an expense on a straight-line basis over the lease term.

(s) Recent accounting pronouncements

Newly adopted accounting standards
On January 1, 2024, the Corporation adopted amendments to IAS 1, Presentation of Financial Statements, issued by IASB. The amendment is to clarify the classification of a liability as either current or non-current based on the Corporation's obligation at the end of the reporting period. There is no material impact on the disclosures or amounts reported in the Financial Statements.

Future accounting policy changes
In April 2024, the IASB issued IFRS 18, Presentation and Disclosures in Financial Statements, to replace IAS 1, Presentation of Financial Statements, effective January 1, 2027, with early adoption permitted. The new standard sets out the requirements for presentation and disclosures in the financial statements. The Corporation is currently reviewing the impact, if any, that this standard will have on its Financial Statements.

In May 2024, the IASB issued amendments to IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures, to address the classification and measurement of financial instruments, with an emphasis on clarifying the date of recognition and derecognition of financial assets and liabilities. The standard is effective January 1, 2026, with early adoption permitted. The Corporation is currently reviewing the impact, if any, that these amendments will have on its Financial Statements.

4. Accounts receivable

The aging and expected credit loss associated with accounts receivable was as follows:

(thousands of USD)	As at Dec 31, 2024	As at Dec 31, 2023
Less than 31 days	1,500	3,856
31 days to 60 days	301	4,754
61 days to 90 days	-	1,908
Greater than 90 days	-	488
	1,801	11,006
Expected credit losses	(1)	(16)
	1,800	10,990

The Corporation's accounts receivable is denominated in the following currencies:

(thousands of USD)	As at Dec 31, 2024	As at Dec 31, 2023
PNG Kina ("PGK")	897	1,280
US dollars ("USD")	903	9,710
	1,800	10,990

The Corporation determined the expected credit loss (ECL) provision percentages used in the provision matrix based on historical credit loss experience as well as historical global default rates for investment grade and speculative grade companies as published by Standard and Poor's. Further, the Corporation aggregated its accounts receivable into groups that share similar credit risk characteristics, taking into consideration drivers for each group's credit risk. The ECL also incorporates forward-looking information.

The details of this approach as at December 31, 2024, was as follows:

(thousands of USD)	Less than 31 days	31- 60 days	61 – 90 days	Over 90 days	Total
Investment grade receivables	1,500	301	-	-	1,801
Non-investment grade receivables	-	-	-	-	-
Total receivables	1,500	301	-	-	1,801
ECL for investment grade (%)	*0.04*	*0.06*	*0.10*	*0.30*	
ECL for non-investment grade (%)	*0.25*	*0.75*	*2.00*	*4.00*	
ECL provision – investment grade	(1)	-	-	-	(1)
ECL provision – non-investment grade	-	-	-	-	-
Specifically provided for amounts	-	-	-	-	-
Total provision for ECL	(1)	-	-	-	(1)

The comparative details of this approach as at December 31, 2023, was as follows:

(thousands of USD)	Less than 31 days	31- 60 days	61 – 90 days	Over 90 days	Total
Investment grade receivables	3,798	4,697	1,908	409	10,812
Non-investment grade receivables	58	57	-	79	194
Total receivables	3,856	4,754	1,908	488	11,006
ECL for investment grade (%)	*0.04*	*0.06*	*0.10*	*0.30*	
ECL for non-investment grade (%)	*0.25*	*0.75*	*2.00*	*4.00*	
ECL provision – investment grade	(2)	(3)	(2)	(1)	(8)
ECL provision – non-investment grade	-	-	-	(3)	(3)
Specifically provided for amounts	-	-	-	(5)	(5)
Total provision for ECL	(2)	(3)	(2)	(9)	(16)

5. Inventory

As at December 31, 2024, the Corporation had inventory of $7,459 (December 31, 2023 - $7,009), which is primarily comprised of parts and materials related to maintenance, recertification and refurbishment of drilling and workover rigs and related equipment and rentable mobile equipment. As at December 31, 2024, a cumulative provision for inventory obsolescence of $162 (December 31, 2023 - $162) has been recognized.

For the year ended December 31, 2024, consumed parts and materials for equipment, which are included in drilling services expense, totaled $420 ($884 for the year ended December 31, 2023).

6. Property and equipment

(thousands of USD)	Vehicles	Drilling services equipment	Office and computer equipment	Work-in progress	Total
Cost					
Balance, January 1, 2023	64	127,322	660	-	128,046
Additions	-	754	-	326	1,080
Dispositions	-	(519)	(492)	-	(1,011)
Transfers	36	40	16	(92)	-
Impairment	-	(15,200)	-	-	(15,200)
Balance, December 31, 2023	100	112,397	184	234	112,915
Additions	-	-	-	652	652
Dispositions	-	(30)	-	-	(30)
Transfers	-	376	6	(382)	-
Impairment	-	-	-	-	-
Balance, December 31, 2024	100	112,743	190	504	113,537
Accumulated depreciation					
Balance, January 1, 2023	63	95,131	645	-	95,839
Depreciation	4	5,697	7	-	5,708
Dispositions	-	(517)	(486)	-	(1,003)
Balance, December 31, 2023	67	100,311	166	-	100,544
Depreciation	8	3,338	6	-	3,352
Dispositions	-	(30)	-	-	(30)
Balance, December 31, 2024	75	103,619	172	-	103,866
Net book value, December 31, 2023	33	12,086	18	234	12,371
Net book value, December 31, 2024	25	9,124	18	504	9,671

<u>*2023 Impairment*</u>

During 2023, indicators of potential impairment were identified within the PNG Operations CGU. Indicators included the Corporation's primary customer planning to conclude drilling after completing its minimum commitment on their drilling schedule under a long-term contract and the lack of outstanding customer contract tenders or open bid submissions for the Corporation's rigs 115 and 116. The Corporation performed an impairment test, and it was determined that the recoverable amount was below the carrying value of $38,500, resulting in an impairment of $15,200 as at September 30, 2023.

The recoverable amount of the PNG Operations CGU was determined using a value in use calculation. Revenue and EBITDA forecasts were performed up to and including the year 2027, utilizing management's assessment of future combined drilling, rental and workover activity and were based on management's P50 forecast case (P50 being a case that can be exceeded with 50% probability i.e., the most probable case) using both external and internal sources, contracts currently in place as well as historical activity levels.

Cash flows used in the calculation were discounted using a discount rate specific to the PNG Operations. The after-tax discount rate used in determining the recoverable amount was 25.2% and was derived from the Corporation's weighted average cost of capital, adjusted for risk factors specific to the PNG Operations CGU.

2024 Impairment

As at December 31, 2024, indicators of impairment were identified within the PNG Operations CGU. Indicators included the Corporation's primary customers deferred restart of drilling activities along with general deferral of drilling activities within PNG including the deferral of the final investment decision on the large-scale Papua LNG project. The Corporation performed an impairment test, and it was determined that the recoverable amount of the PNG Operations CGU was above its carrying value resulting in no impairment at December 31, 2024.

The estimated recoverable amount of the PNG Operations CGU was determined using a determined using a discounted cash flow model which involved significant assumptions for the discount rate, timing of forecasted cash flows and EBITDA forecasts. EBITDA forecasts were performed up to and including the year 2028, utilizing management's assessment of future combined drilling, rental and workover activity and were based on management's forecast case using both external and internal sources, contracts currently in place as well as historical activity levels.

Cash flows used in the calculation were discounted using a discount rate specific to the PNG Operations CGU. The after-tax discount rate used in determining the recoverable amount was 26.25% and was derived from the Corporation's weighted average cost of capital, adjusted for risk factors specific to the PNG Operations CGU.

7. Right of use assets and lease liabilities

(a) Right of use assets:

(thousands of USD)	As at December 31, 2024	As at December 31, 2023
Cost:		
Opening balance	1,449	543
Additions	-	1,124
Dispositions	(94)	(219)
Effect of foreign exchange	(7)	1
Closing balance	1,348	1,449

(thousands of USD)	As at December 31, 2024	As at December 31, 2023
Accumulated amortization:		
Opening balance	536	85
Depreciation	470	514
Dispositions	(94)	(67)
Effect of foreign exchange	16	4
Closing balance	928	536
Net closing balance	420	913

The right of use assets relates to various types of real estate assets.

(b) Lease liabilities:

(thousands of USD)	As at December 31, 2024	As at December 31, 2023
Opening balance	973	463
Lease additions	-	1,124
Lease dispositions	(57)	(147)
Lease payments	(487)	(714)
Lease finance expense (Note 14(c))	53	251
Effect of foreign exchange rate changes	(34)	(4)
Closing balance	448	973
Current	339	466
Non-current	109	507

The lease liabilities relate to various types of real estate assets which are recorded as right of use assets.

The undiscounted cash flows relating to the lease liabilities are as follows:

(thousands of USD)	As at December 31, 2024	As at December 31, 2023
Less than one year	364	525
One year to five years	105	524
More than five years	-	-
Total undiscounted liabilities	469	1,049

8. Accounts payable and accrued liabilities

The nature of the Corporation's accounts payable and accrued liabilities are as follows:

(thousands of USD)	As at December 31, 2024	As at December 31, 2023
Trade accounts payable	336	3,470
Accrued liabilities	1,240	4,689
Wages and payroll taxes payable	703	705
Other accounts payable	11	143
Total accounts payable and accrued liabilities	2,290	9,007

9. Deferred revenue

(thousands of USD)	As at December 31, 2024	As at December 31, 2023
Deferred revenue	551	-
Total deferred revenue	551	-

The deferred revenue $551 (2023- nil) relates to amounts received in advance resulting from advance billing for services that the Corporation has not performed as per customer request.

10. Net investment in Cyprus

The Corporation's investment in Cyprus has been presented as a net investment in Cyprus in these Financial Statements because a direct ownership by shareholders of HWO prior to the Arrangement transaction did not exist. The net investment in Cyprus is comprised of accumulated net earnings (loss) of the operation of Cyprus and any distributions from Cyprus to HWO up to August 12, 2024, the date of the Arrangement transaction as described in Note 1.

The following table reconciles the net investment in Cyprus:

(thousands of USD)	Year ended December 31, 2024	Year ended December 31, 2023
Balance, beginning of period	33,112	41,734
Net income (loss) prior to Arrangement transaction	1,390	(8,622)
Dividend to HWO prior to Arrangement transaction	(5,000)	-
Common shares issued on completion of the Arrangement transaction	(29,502)	-
	-	33,112

11. Shareholders' equity

(a) Share capital [1]

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. No preferred shares have been issued by the Corporation. The common shares do not have a par value, and all issued shares are fully paid.

(thousand of USD except number of common shares)		December 31, 2024
	Shares	Amount
Common shares issued on completion of the Arrangement transaction	12,448,166	29,502
Common shares issued and outstanding, end of period	12,448,166	29,502

As described in Note 1, 12,448,166 common shares of the Corporation were issued to the shareholders of HWO upon completion of the Arrangement.

(b) Per share amounts [1]

(thousands of USD) (except number of common shares)	Years ended December 31, 2024	2023
Net income (loss)	2,857	(8,623)
Basic – weighted average number of common shares	12,448,166	12,448,166
Diluted – weighted average number of common shares [2]	12,539,805	12,448,166
Basic and diluted net income (loss) per share [2]	$0.23	($0.69)

(1) For the purposes of computing per share amounts, the number of common shares outstanding for the periods prior to the Arrangement is deemed to be the number of shares issued by the Corporation to the shareholders of HWO upon completion of the Arrangement. For the period after the Arrangement, the number of shares outstanding in the computation of per share amounts is the total issued shares of the Corporation on August 12, 2024, and any common shares issued subsequent to August 12, 2024.

(2) All potentially dilutive instruments, being the Corporation's stock options are considered in this calculation.

12. Share-based compensation

The Corporation has an equity incentive plan which provides for the issuance of stock options, restricted share units, performance share units and deferred share units (see note 3(k)). Under the Plan, the Corporation can issue up to 1,244,817 common shares (being 10% of all outstanding shares) as at December 31, 2024. As at December 31, 2024, 675,000 stock options, with an average exercise price of CAD $1.60, have been issued and are outstanding under the Plan, none of which has been exercised during the period ended December 31, 2024.

	Number of stock options	Weighted average exercise price ($CAD)
Balance, December 31, 2022	-	-
Balance, December 31, 2023	-	-
Granted	675,000	1.60
Balance, December 31, 2024	675,000	1.60

The following table summarizes the stock options outstanding and exercisable as at December 31, 2024:

Stock options outstanding			Stock options exercisable		
Exercise price ($CAD)	Number	Weighted average remaining life (years)	Exercise price ($CAD)	Number	Weighted average remaining life (years)
1.60	675,000	4.9	-	-	-

The Corporation accounts for its Plan using the fair value method. Under this method, share-based compensation cost is charged to earnings over the vesting period for stock options granted to officers, directors, employees and consultants with a corresponding increase to contributed surplus. The stock options granted, vest one-third on each of the first, second and third anniversaries of the date of grant.

The fair value of the stock options granted were estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted average assumptions.

	December 31, 2024
Risk-free interest rate (%)	3.0%
Expected life (years)	2.9
Expected volatility (%)	78.6%
Expected dividend yield (%)	-
Forfeiture rate (%)	12.8%
Fair value of options granted ($ per option)	0.71

During the year ended December 31, 2024, the Corporation recognized $13 (December 31, 2023 – nil) of share-based compensation expense related to stock options. As at December 31, 2024, there was $276 remaining as unrecognized share-based compensation related to stock options.

As at December 31, 2024, there were no amounts issued or outstanding related to restricted share units, performance share units or deferred share units.

13. Revenue

The following tables include a reconciliation of disaggregated revenue by type of service provided within the Corporation.

(thousands of USD)	Year ended December 31, 2024	2023
Service revenue	19,854	35,494
Equipment rental revenue	4,221	7,886
Total revenue	24,075	43,380

The Corporation's revenue originates geographically in PNG.

14. Supplementary expense disclosures

(a) Expenses by nature:

(thousands of USD)	Years ended December 31, 2024	2023
Personnel	8,387	12,199
Equipment operating and maintenance	299	1,035
Material and supplies	2,681	8,669
Drilling rig rental	3,047	6,400
Other	592	661
Total operating expenses	15,006	28,964

(b) General and administrative expenses by nature:

(thousands of USD)	Years ended December 31, 2024	2023
Personnel	2,760	2,460
Professional, legal and advisory fees	1,470	397
Information technology services	139	225
Corporate	304	226
Office and warehouse	91	255
Expense (recovery) of expected credit losses	(15)	9
Vehicle, supplies and other	30	47
Total general and administrative expenses	4,779	3,619

(c) Finance expense:

(thousands of USD)	Years ended December 31, 2024	2023
Bank fees	18	24
Finance expense – lease liabilities	53	251
Other	111	(32)
Total finance expense	182	243

15. Supplementary cash flow information

Changes in non-cash working capital balances:

(thousands of USD)	Years ended December 31, 2024	2023
Source (use) of cash:		
Accounts receivable	9,190	(4,446)
Inventory, prepaid expense and other assets	(547)	(352)
Accounts payable and accrued liabilities	(6,717)	4,003
Income taxes payable	507	(147)
Income taxes receivable	13	114
Deferred revenue	551	-
Due to/from related party	345	(539)
	3,342	(1,367)
Attributable to:		
Operating activities	3,342	(1,367)
Investing activities	-	-
Financing activities	-	-
	3,342	(1,367)

16. Income tax

(a) Income tax expense

(thousands of USD)	Years ended December 31, 2024	2023
Current income tax expense	926	1,028
Deferred income tax expense (recovery)	121	(2,872)
Total income tax expense (recovery)	1,047	(1,844)

(thousands of USD)	Years ended December 31, 2024	2023
Net income (loss) before income taxes	3,904	(10,467)
Canadian statutory tax rate	23%	23%
Expected income tax expense (recovery)	898	(2,407)
Increase (decrease) resulting from:		
Effect of foreign tax and rates	(104)	(1,005)
Change in unrecognized deferred tax asset	(1,086)	945
Withholding taxes	807	955
Other	532	(332)
Total income tax expense (recovery)	1,047	(1,844)
Effective tax rate	26.80%	17.62%

The provision for income tax differs from the result that would be obtained by applying the expected 2024 statutory tax rate of 23% (2023 – 23%) against the net loss before income taxes. The Corporation’s effective tax rate was impacted mainly by unrecognized deferred tax assets related to deductible temporary differences in PNG and the effective rate and deductible differences in the Corporation’s other international jurisdictions.

(b) Deferred tax assets (liabilities)

Differences between the accounting and tax bases of assets and liabilities at expected tax rates upon anticipated reversal of such differences create deferred tax assets and liabilities on the statement of financial position. As at December 31, 2024, the Corporation has a net deferred income tax liability.

The following table summarizes the deferred income tax assets and liabilities of the Corporation:

	As at December 31, 2024	As at December 31, 2023
Deferred income tax assets (liabilities):		
Property and equipment and inventory	(2,708)	(2,597)
Non-capital losses	2,251	2,250
Unrecognized deferred tax asset	-	(963)
Accrued expenses	252	1,139
Lease liabilities	101	239
Other	(17)	(68)
Net deferred income tax assets (liabilities)	(121)	-

(c) Unrecognized non-capital losses

Total non-capital losses carried forward for income tax purposes were $7,504 as at December 31, 2024 (December 31, 2023 - $7,501).

(d) Withholding taxes

The government of PNG levies foreign contractor withholding tax at 15% on all PNG revenue earned by companies incorporated outside of PNG, which includes the Corporation's Singaporean entity. Customers deduct this tax and remit it directly to the government in PNG. For the year ended December 31, 2024, this amounted to $807 (December 31, 2023 - $955) and is recorded as part of current income tax expense.

(e) Income tax receivable

Income tax receivable totaled $490 at December 31, 2024, and consists of installment payments made to the PNG government (December 31, 2023 - $503). The Corporation can apply the prepayments to future income tax payments on taxable earnings, once the carried forward tax losses are utilized. The Corporation does not anticipate the utilization of this tax receivable within the next 12 months.

17. Financial Instruments and risk management

Financial instrument measurement and classification:

The Corporation's financial assets and liabilities consist of cash and cash equivalents, due from related party, accounts receivable, due to related party, accounts payable and accrued liabilities, income tax receivable/payable and lease liabilities. The carrying values of these assets and liabilities approximate fair value due to the short-term nature of these instruments. The carrying value of lease liabilities where interest is charged at a fixed rate is not significantly different than fair value.

Financial and other risks:

The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes pandemic and/or endemic risk or the risk that operations and/or administration are forced to run at less than full capacity due to an absence or reduction of members of the workforce, either through forced closures by government both within countries and across national borders, by internally imposed rotational schedules and/or quarantine or illness of the workforce. Further, geopolitical risks are the potential risks that a business may face due to changes in global events, policies, national security threats, or regulations. These risks may impact a company's workforce and/or operations by limiting market access and increasing costs and could have significant impact on the Corporation. The Corporation is also exposed to cybersecurity related risks, due in part to the increase and prevalence of utilizing cloud hosted servers. Cybersecurity related risks could significantly impact the ability for the Corporation to operate, and therefore impact financial results.

Market risks:

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates:

(a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation had no financing or risk management contracts that would be affected by interest rates as at December 31, 2024, or December 31, 2023.

(b) Commodity price risk

Commodity price risk is the risk that the Corporation's future cash flows will fluctuate due to changes in demand for the Corporation's services, where the majority of the Corporation's customers are oil and gas producers. The Corporation's customers' activity and strategic decisions are impacted by the fluctuations of oil and gas pricing.

These prices are sensitive to local, regional and world economic and geopolitical events. This includes implications from changing oil demand and supply, policy direction by OPEC, the ongoing effect of the conflicts between Russia & Ukraine and Israel & Palestine, climate-change-driven transitions to lower emission energy sources, the impact of future pandemics upon economic activity, the implications of changes to government and government policy and investment decisions in PNG to expand its LNG export capacity.

The Corporation had no risk management contracts that would be affected by commodity prices as at December 31, 2024, and December 31, 2023.

(c) Foreign currency risk

Most of the Corporation's revenue and expenses are effectively transacted in USD. The Corporation does not actively engage in foreign currency hedging.

(d) PNG foreign currency restrictions

The Corporation's ability to repatriate funds from PNG is controlled by the PNG government through their central bank. There are currently several monetary and currency exchange control measures in PNG that can impact the ability to repatriate funds, as well as established requirements to transact in the local PNG currency (Kina or "PGK").

As at December 31, 2024, $7,741 (December 31, 2023 - $5,635) was on deposit with a large international bank in PNG. The Bank of PNG ("BPNG") has provided approval for the Corporation to maintain a USD bank account in accordance with the BPNG currency regulations. Historically, the Corporation has received approval from BPNG for drilling services contracts with its key customers in PNG to be denominated and settled in USD. The Corporation will continue to seek BPNG approval for our contracts to be settled in USD on a contract-by-contract basis, however, there is no assurance the BPNG will grant these approvals.

The BPNG currency regulations also limit the amount of foreign currency that companies can maintain in order to meet their forecasted three-month cash flow requirements, with excess funds required to be held in PGK. While no significant issues have been experienced to date, there is no guarantee such restrictions will not impact the Corporation's ability to transact or repatriate funds.

Credit risk, customers, and economic dependence:

Credit risk is the risk of a financial loss occurring as a result of a default by a counter party on its obligation to the Corporation. The Corporation's financial instruments that are exposed to credit risk consist primarily of accounts receivable and cash balances held in banks. The Corporation mitigates credit risk by regularly monitoring its accounts receivable position and depositing cash in properly capitalized banks. The Corporation also institutes credit reviews prior to commencement of contractual arrangements.

The Corporation's accounts receivable is predominantly with customers who explore for and develop petroleum reserves and are subject to industry credit risk consistent with the industry. The Corporation assesses the creditworthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding.

In providing for ECL, the Corporation uses the historical default rates within the industry between investment grade and non-investment grade customers as well as forward looking information to determine the appropriate loss allowance provision.

The net carrying amount of accounts receivable represents the estimated maximum credit exposure on the accounts receivable balance. The Corporation's customers are predominantly made up of large multinational customers in PNG.

For the year ended December 31, 2024, the Corporation provided services to two large multinational customers who individually accounted for greater than 10% of its consolidated revenues, with total sales of $23,612 (December 31, 2023 – two large multinational customers with total sales of $42,799).

As at December 31, 2024, two customers represented a total of $1,667 or 93% of the outstanding accounts receivable (December 31, 2023 – two customers representing $10,791 or 98% of outstanding accounts receivable).

Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, working capital management, coordinating, and authorizing project expenditures, authorization of contractual agreements, and managing compliance to debt finance agreements (as applicable).

The Corporation's future financial results and longer-term success are dependent upon its working capital, its ability to secure additional capital from debt or equity financings or completing other arrangements to fund the Corporation's activities while the

Corporation attempts to generate recurring positive cash flows from operations. The Corporation will continue to monitor its liquidity position in future periods.

The following table details the remaining contractual maturities of the Company's financial liabilities at as at December 31, 2024:

Payments due by period						
(thousands of USD)	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	>5 years	Total
Accounts payable and accrued liabilities	2,283	7	-	-	-	2,290
Due to related party	135	-	-	-	-	135
Deferred revenue	551	-	-	-	-	551
Lease liabilities	112	253	104	-	-	469
Income tax payable	-	789	-	-	-	789
Total	3,081	1,049	104	-	-	4,234

18. Capital management

The Corporation's primary objective of capital management is to maintain a strong capital base, in conjunction with conservative long-term debt levels so as to maintain investor, creditor and market confidence, and to sustain future development of the business. The Corporation seeks to maintain a balance between higher returns on equity that might be possible with higher levels of borrowings and the advantages and security created by a well-capitalized equity position.

The Corporation has no borrowings or debt and therefore, its capital structure consists of shareholders' equity of $30,953 as at December 31, 2024 (December 31, 2023 - $33,112).

The Corporation prepares annual and quarterly operating and capital expenditure budgets and forecasts to assist with the management of its capital. The Corporation intends to maintain a flexible capital structure and it may raise new equity or issue new debt in response to a change in economic conditions.

19. Related party transactions

(a) Management fee income (expense) and other general and administrative expenses

Management fee income (expense) consists of recoveries or the reimbursement of certain general and administrative expenses from the Corporation's predecessor parent company, HWO, prior to the reorganization of the Corporation on August 12, 2024. Subsequent to the reorganization, the Corporation was billed for certain expenses originally incurred by HWO as part of a formal management and administrative transition agreement. The agreement is in place to facilitate the orderly transition of certain management and administrative functions from HWO to the Corporation.

As at December 31, 2024, $135 is owed by the Corporation to HWO (December 31, 2023, $210 was due to the Corporation from HWO).

	Years ended December 31,	
(thousands of USD)	2024	2023
Due (to) from HAES Inc.	(135)	210

As at December 31, 2024, no amounts are owing to the Corporation's predecessor parent company HWO for management fees incurred by HWO prior to the reorganization of the Corporation on August 12, 2024.

The Corporation and HWO are deemed to be related parties given their common senior management in their CEO and CFO positions.

The table below summarizes related party income and expenses incurred by the Corporation which are included as a component of general and administrative expenses, in addition to management fee income (expense) of the Corporation for the years ended December 31, 2024 and 2023:

	Years ended December 31,	
(thousands of USD)	2024	2023
Related party expenses included as a component of general and administrative expenses	135	-
Management fee income	(90)	(557)
Net related party expense (income)	45	(557)

(b) Dividend

The table below summarizes the dividend paid to the Corporation's predecessor parent company HWO prior to completion of the Arrangement transaction:

	Years ended December 31,	
(thousands of USD)	2024	2023
Dividend paid in cash to HWO prior to Arrangement transaction	5,000	-

(c) Executive personnel

The table below summarizes the executive compensation paid for the respective periods:

	Years ended December 31,	
(thousands of USD)	2024	2023
Directors' fees, executive wages including short-term employee benefits	587	630
Share-based compensation	13	-
Total	600	630

One executive officer has a change of control clause that would result in additional wages and benefit expenses being accrued if executed, as well as immediate vesting of outstanding share-based compensation plans.

20. Commitments and contingencies

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied with equipment and an inventory of spare parts with a total value of $2,151 as at December 31, 2024, (December 31, 2023 - $6,135) by a customer for the Corporation's operations in PNG. The capital equipment and inventory are owned by this party. At December 31, 2024, the Corporation recorded $2,151 as customer inventory with a provision of the same amount. As such, the customer inventory is not included in the Financial Statements. Written notice is required to terminate the contracts. Upon notice to terminate the contract, the Corporation is required to return the balance of the capital equipment and inventory and make a payment to the customer for items that have been previously consumed, based on prevailing market rates or historical contract values or historical contract values if no readily available market data exists. Alternatively, the corporation may elect to return the unused capital equipment and inventory and make a payment to the customer based on historical contract values.

During the year ended December 31, 2024, the Corporation amended a number of its contracts with the customer related to the supply and management of certain equipment and spare parts inventory. As a result of the amendment, a reduction of $2,573 of previously reported obligations and an adjustment of $817 to the provision of the customer inventory are recorded.

In accordance with the updated and amended terms of the agreements, and as a result of consuming certain capital equipment and inventory, the Corporation has recognized a current obligation of $358 as at December 31, 2024, (December 31, 2023 - $2,589).