HIGH ARCTIC OVERSEAS HOLDINGS CORP.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED

September 30, 2024 and 2023

(Unaudited)

HIGH ARCTIC OVERSEAS HOLDINGS CORP.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (thousands of United States Dollars)	As at September 30, 2024	As at December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	14,858	10,958
Accounts receivable (Note 4)	1,762	10,990
Inventory (Note 5)	6,428	7,009
Prepaid expenses and other assets	324	420
Due from related party (Note 17(a))	539	210
Income tax receivable (Note 14(e))	488	503
	24,399	30,090
Non-current assets		
Property and equipment (Note 6)	10,263	12,371
Right of use assets (Note 7(a))	551	913
Total assets	35,213	43,374
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	4,770	9,007
Current portion of lease liabilities (Note 7(b))	432	466
Income tax payable (Note 14)	689	282
	5,891	9,755
Non-current liabilities		
Lease liabilities (Note 7(b))	147	507
Total liabilities	6,038	10,262
Shareholders' Equity		
Net investment in Cyprus (Note 9)	-	33,112
Share capital (Note 10(a))	29,502	-
Accumulated and other comprehensive income	12	-
Deficit	(339)	-
	29,175	33,112
Total liabilities and shareholders' equity	35,213	43,374

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

Commitments and contingencies (Note 18).
Subsequent event (Note19).

HIGH ARCTIC OVERSEAS HOLDINGS CORP.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of United States Dollars)	2024	2023	2024	2023
Revenue (Note 11)	2,891	12,520	21,654	30,847
Operating expenses (Note 12(a))	(1,827)	(8,827)	(13,278)	(20,468)
General and administrative expenses (Note 12(b))	(1,334)	(888)	(3,604)	(2,518)
Depreciation and amortization expenses (Notes 6 and 7(a))	(766)	(1,778)	(3,053)	(5,526)
Operating income (loss)	(1,036)	1,027	1,719	2,335
Interest income	31	-	137	-
Management fee income (expense) (Note 17(a))	(74)	110	90	420
Finance expense (Note 12(c))	(128)	(66)	(171)	(208)
Foreign exchange loss	(21)	(27)	(16)	(45)
Asset impairment loss (Note 6)	-	(15,200)	-	(15,200)
Gain on sale of property and equipment	-	-	-	5
Income (loss) before income tax expense	(1,228)	(14,156)	1,759	(12,693)
Income tax expense (Note 14)	(193)	(337)	(708)	(709)
Deferred income tax recovery (expense) (Note 14)	-	2,547	-	2,872
Income tax recovery (expense)	(193)	2,210	(708)	2,163
Net income (loss)	(1,421)	(11,946)	1,051	(10,530)
Other comprehensive income (loss):				
Items that may be reclassified subsequently to net income (loss):				
Foreign currency translation gain (loss) for foreign operations	16	(15)	12	(22)
Comprehensive income (loss) for the period	(1,405)	(11,961)	1,063	(10,552)

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2024	2023	2024	2023
Net income (loss) per share: (Note 10(b))				
Basic and diluted	($0.11)	($0.96)	$0.08	($0.85)

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

HIGH ARCTIC OVERSEAS HOLDINGS CORP.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited) (thousands of United States Dollars)	Share capital	Accumulated other comprehensive income	Net investment in Cyprus	Deficit	Total shareholders' equity
Balance, December 31, 2022	-	-	41,734	-	41,734
Other comprehensive loss – foreign currency translation loss	-	-	(22)	-	(22)
Net loss for the period	-	-	(10,530)	-	(10,530)
Balance, September 30, 2023	-	-	31,182	-	31,182
Balance, December 31, 2023	-	-	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 17(b))	-	-	(5,000)	-	(5,000)
Net income prior to Arrangement transaction	-	-	1,390	-	1,390
Net loss post Arrangement transaction	-	-	-	(339)	(339)
Other comprehensive income post Arrangement transaction – foreign currency translation gain	-	12	-	-	12
Balance, September 30, 2024	29,502	12	-	(339)	29,175

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

HIGH ARCTIC OVERSEAS HOLDINGS CORP.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (thousands of United States Dollars)	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Cash flows from operating activities:				
Net income (loss)	(1,421)	(11,946)	1,051	(10,530)
Adjustments for:				
Depreciation and amortization expenses	766	1,778	3,053	5,526
Deferred income tax recovery	-	(2,547)	-	(2,872)
Unrealized foreign exchange loss (gain)	13	(117)	(45)	(167)
Non-cash finance expense (Note 12(c))	12	60	44	192
Gain on sale of property and equipment	-	-	-	(5)
Asset impairment loss	-	15,200	-	15,200
Funds from (used in) operating activities	(630)	2,428	4,103	7,344
Change in non-cash working capital (Note 13)	1,849	(502)	5,761	(4,569)
Net cash from operating activities	1,219	1,926	9,864	2,775
Cash flows from investing activities:				
Property and equipment expenditures	(57)	(482)	(590)	(987)
Net cash used in investing activities	(57)	(482)	(590)	(987)
Cash flows from financing activities:				
Lease obligation payments	(128)	(178)	(374)	(535)
Dividends (Note 17(b))	(5,000)	-	(5,000)	-
Net cash used in financing activities	(5,128)	(178)	(5,374)	(535)
Effect of foreign exchange rate changes	-	-	-	-
Change in cash and cash equivalents	(3,966)	1,266	3,900	1,253
Total cash and cash equivalents, beginning of period	18,824	3,833	10,958	3,846
Total cash and cash equivalents, end of period	14,858	5,099	14,858	5,099

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

HIGH ARCTIC OVERSEAS HOLDINGS CORP.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(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, as anticipated by 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 unaudited interim 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 financial statements of the Corporation have been prepared by management in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 September 30, 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 unaudited interim consolidated financial statements ("Financial Statements") have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting. These Financial Statements represent the Corporation's initial presentation of the financial position, results of operations and cash flows under IFRS Accounting Standards as issued by the International Accounting Standards Board for the period ended September 30, 2024.

These Financial Statements were authorized for issuance by the Board of Directors on November 29, 2024.

(b) Basis of preparation

These Financial Statements are the first standalone Financial Statements prepared on a consolidated basis for the Corporation, and as such, the Corporation's material accounting polices have been provided 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 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 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.

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). Estimates of revenue and EBITDA forecasts used in the evaluation of impairment of assets are made using management's current operating forecasts, expected utilization, rates and costs of available equipment (margin), terminal values and discount rates. 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 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.

3. Material accounting policies

(a) *Basis of consolidation*

The Financial Statements include the accounts of High Arctic Overseas Holding 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 Holding 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 Financial Statements from the date that control commences until the date that 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 15 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, and level 2 inputs such as accounts receivable and accounts payable. The Corporation has no 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)

(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.

The Corporation does not currently 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 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 as follows:

Asset type	Expected life	Salvage value	Basis of depreciation
Drilling services 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 and deferred tax assets, 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 loss and comprehensive 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) <u>*Share capital*</u>
Incremental costs directly attributable to the issuance of shares are recognized as a reduction from equity.

(m) <u>*Dividends*</u>
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) <u>*Provisions*</u>
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) <u>*Income* tax</u>
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) <u>*Net earnings (loss) per share*</u>
The Corporation presents basic and diluted 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 to allocate resources and assess performance.

(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 depreciated 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.

4. Accounts receivable

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

(thousands of USD)	As at Sept 30, 2024	As at Dec 31, 2023
Less than 31 days	1,757	3,856
31 days to 60 days	-	4,754
61 days to 90 days	6	1,908
Greater than 90 days	-	488
	1,763	11,006
Expected credit losses	(1)	(16)
	1,762	10,990

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

(thousands of USD)	As at Sept 30, 2024	As at Dec 31, 2023
PNG Kina ("PGK")	550	1,280
US dollars ("USD")	1,212	9,710
	1,762	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 September 30, 2024 was as follows:

(thousands of USD)	Less than 31 days	31- 60 days	61 – 90 days	Over 90 days	Total
Investment grade receivables	1,749	-	6	-	1,755
Non-investment grade receivables	8	-	-	-	8
Total receivables	1,757	-	6	-	1,763
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 September 30, 2024, the Corporation had inventory of $6,428 (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 September 30, 2024, a cumulative provision for inventory obsolescence of $162 (December 31, 2023 - $162) has been recognized.

For the three and nine months ended September 30, 2024, consumed parts and materials for equipment, which are included in drilling services expense, totaled $122 ($110 three months ended September 30, 2023) and $325 ($380 nine months ended September 30, 2023), respectively.

6. Property and equipment

(thousands of USD)	Vehicles	Drilling services equipment	Office and computer equipment	Work-in progress	Total
Cost					
Balance, December 31, 2022	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	-	114	5	471	590
Dispositions	-	(4,930)	-	-	(4,930)
Transfers	-	262	-	(262)	-
Balance, September 30, 2024	100	107,843	189	443	108,575
Accumulated depreciation					
Balance, December 31, 2022	63	95,131	645	-	95,839
Depreciation	4	5,697	7	-	5,708
Dispositions	-	(517)	(486)	-	(1,003)
Balance, Dec 31, 2023	67	100,311	166	-	100,544
Depreciation	5	2,689	4	-	2,698
Dispositions	-	(4,930)	-	-	(4,930)
Balance, September 30, 2024	72	98,070	170	-	98,312
Net book value, Dec 31, 2023	33	12,086	18	234	12,371
Net book value, Sept 30, 2024	28	9,773	19	443	10,263

Impairment – 2023

As at September 30, 2023, indicators of potential impairment were identified within the PNG Operations. Indicators included the Corporation's primary customer planning to conclude drilling after completing its minimum well 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 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 and were based on management's current 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 derived from the Corporation's weighted average cost of capital, adjusted for risk factors specific to the PNG Operations CGU and used in determining the recoverable amount was 25.2%.

7. Right of use assets and lease liabilities

(a) Right of use assets:

(thousands of USD)	As at Sept 30, 2024	As at Dec 31, 2023
Cost:		
Opening balance	1,449	543
Additions	-	1,124
Dispositions	(94)	(219)
Effect of foreign exchange	3	1
Closing balance	1,358	1,449

(thousands of USD)	As at Sept 30, 2024	As at Dec 31, 2023
Accumulated amortization:		
Opening balance	536	85
Depreciation	355	514
Dispositions	(94)	(67)
Effect of foreign exchange	10	4
Closing balance	807	536
Net closing balance	551	913

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

(b) Lease liabilities:

(thousands of USD)	As at Sept 30, 2024	As at Dec 31, 2023
Opening balance	973	463
Lease additions	-	1,124
Lease dispositions	-	(147)
Lease payments	(374)	(714)
Lease finance expense (Note 10(c))	44	251
Effect of foreign exchange rate changes	(64)	(4)
Closing balance	579	973
Current	432	466
Non-current	147	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 Sept 30, 2024	As at Dec 31, 2023
Less than one year	460	525
One year to five years	148	524
More than five years	-	-
Total undiscounted liabilities	608	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 Sept 30, 2024	As at Dec 31, 2023
Trade accounts payable	95	3,470
Accrued liabilities	3,812	4,689
Wages and payroll taxes payable	819	705
Other accounts payable	44	143
Total accounts payable and accrued liabilities	4,770	9,007

9. Net investment in Cyprus

The Corporation's investment in Cyprus has been presented as 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)	Nine months ended Sept 30, 2024	Year ended Dec 31, 2023
Balance, beginning of period	33,112	41,734
Net income (loss)	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

10. 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)	September 30, 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)	Three months ended Sept 30, 2024	2023	Nine months ended Sept 30, 2024	2023
Net income (loss)	(1,421)	(11,946)	1,051	(10,530)
Basic and diluted - weighted average number of common Shares	12,448,166	12,448,166	12,448,166	12,448,166
Basic and diluted net income (loss) per share	($0.11)	($0.96)	$0.08	($0.85)

(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.

(c) Equity incentive plan

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 shares) as at September 30, 2024. As at September 30, 2024, no amounts have been issued or are outstanding under the Plan.

11. Revenue

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

(thousands of USD)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2024	2023	2024	2023
Service revenue	2,295	10,386	17,896	25,029
Equipment rental revenue	596	2,134	3,758	5,818
Total revenue	2,891	12,520	21,654	30,847

The Corporation's revenue originates geographically in PNG.

12. Supplementary expense disclosures

(a) Expenses by nature:

	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of USD)	2024	2023	2024	2023
Personnel	1,345	3,358	7,127	8,826
Equipment operating and maintenance	57	328	255	994
Material and supplies	329	2,887	2,434	5,709
Drilling rig rental (recovery)	(35)	2,011	2,965	4,388
Other	131	243	497	551
Total drilling services expenses	1,827	8,827	13,278	20,468

(b) General and administrative expenses by nature:

	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of USD)	2024	2023	2024	2023
Personnel	609	638	2,034	1,847
Professional, legal and advisory fees	470	139	1,072	296
Information technology services	27	34	87	170
Corporate	205	28	338	95
Office and warehouse	20	24	71	61
Expense (recovery) of expected credit losses	(3)	17	(16)	15
Vehicle, supplies and other	6	8	18	34
Total general and administrative expenses	1,334	888	3,604	2,518

(c) Finance expense:

	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of USD)	2024	2023	2024	2023
Bank fees	4	6	14	17
Finance expense – lease liabilities	12	60	44	192
Other	112	-	113	(1)
Finance expense	128	66	171	208

13. Supplementary cash flow information

Changes in non-cash working capital balances:

(thousands of USD)	Three months ended Sept 30, 2024	2023	Nine months ended Sept 30, 2024	2023
Source (use) of cash:				
Accounts receivable	2,934	(889)	9,228	(7,570)
Inventory, prepaid expense and other assets	(347)	(2,438)	677	166
Accounts payable and accrued liabilities	(762)	3,274	(4,237)	3,352
Income taxes payable	439	26	407	(168)
Income taxes receivable	1	(110)	15	140
Due from related party	(416)	(365)	(329)	(489)
	1,849	(502)	5,761	(4,569)
Attributable to:				
Operating activities	1,849	(502)	5,761	(4,569)
Investing activities	-	-	-	-
Financing activities	-	-	-	-
	1,849	(502)	5,761	(4,569)

14. Income tax

(a) Income tax expense

(thousands of USD)	Three months ended Sept 30, 2024	2023	Nine months ended Sept 30, 2024	2023
Current income tax expense	(193)	(337)	(708)	(709)
Deferred income tax expense (recovery)	-	2,547	-	2,872
Total tax expense (recovery)	(193)	2,210	(708)	2,163

(thousands of USD)	Three months ended Sept 30, 2024	2023	Nine months ended Sept 30, 2024	2023
Net income (loss) before income taxes	(1,228)	(14,156)	1,759	(12,693)
Canadian statutory tax rate	23.00%	23.00%	23.00%	23.00%
Expected income tax expense (recovery)	(282)	(3,256)	405	(2,919)
Increase (decrease) resulting from:				
Effect of foreign tax and rates	(80)	(1,242)	(280)	(1,578)
Change in unrecognized deferred tax asset	85	1,620	(218)	1,620
Withholding taxes	137	633	652	675
Other	333	35	149	40
Total income tax expense (recovery)	193	(2,210)	708	(2,162)
Effective tax rate	(15.72%)	15.60%	40.23%	17.00%

The provision for income tax differs from the result that would be obtained by applying the expected 2024 Canadian tax rate of 23.00% (2023 – 23.00%) 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. At September 30, 2024 the Corporation has an unrecognized net deferred income tax asset as it is not probable that future taxable profits would be sufficient to realize the deferred income tax asset at this time.

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

	As at September 30, 2024	As at December 31, 2023
Deferred income tax assets (liabilities):		
Property and equipment and inventory	(449)	(1,305)
Non-capital losses	1,129	2,250
Unrecognized deferred tax asset	(680)	(945)
Net deferred income tax assets (liabilities)	-	-

(c) Unrecognized non-capital losses

Total non-capital losses carried forward for income tax purposes was $6,738 at September 30, 2024 (December 31, 2023 - $9,006) which expire in years 2026 through 2030.

(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 three and nine months ended September 30, 2024, this amounted to $138 and $652 respectively (three and nine-months ended September 30, 2023 $320 and $873 respectively) and is recorded as part of current income tax expense.

(e) Income tax receivable

Income tax receivable totaled $488 at September 30, 2023 for installment payments made to the PNG government (December 31, 2023 - $503). The Corporation can apply the prepayments to future income tax payments on earnings.

15. Financial Instruments and risk management

Financial instrument measurement and classification:

The Corporation's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, due from 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 cyber-security related risks, due in part to the increase and prevalence of utilizing cloud hosted servers. Cyber-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 in place at September 30, 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 in place as at September 30, 2024, and December 31, 2023.

(c) Foreign currency risk

Most of the Corporation's revenue and expenses are effectively transacted in USD and 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 establish requirements to transact in the local PNG currency (Kina or "PGK").

As at September 30, 2024, $8,525 (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 three months ended September 30, 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 $2,823 (2023 – two large multinational customers with total sales of $10,581) and for the nine months ended September 30, 2024, provided services to two large multinational customer who individually accounted for greater than 10% of its consolidated revenues, with total sales of $21,404 (2023 – two large multinational customers with total sales of $26,214)

As at September 30, 2024, two customers represented a total of $1,755 or substantially all of the outstanding accounts receivable (December 31, 2023 – two customers representing $10,812 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 at September 30, 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	1,839	2,931	-	-	-	4,770
Lease liabilities	121	339	137	11	-	608
Income tax payable	190	499	-	-	-	689
Total	2,150	3,769	137	11	-	6,067

16. 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 long-term debt and therefore, its capital structure consists of shareholders' equity of $29,175 as at September 30, 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.

17. Related party transactions

(a) Due from predecessor parent company

As at September 30, 2024, $539 is due from 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 their common senior management in their CEO and CFO positions. This receivable from HWO was settled in full subsequent to September 30, 2024.

Management fee income (expense) consists of recoveries or expenses due to/from HWO related to general and administrative costs incurred by the Corporation and its subsidiaries in the respective period. The table below summarizes the management fee earned (incurred) by the Corporation to/from HWO for the three and nine months ended September 30, 2024 and 2023:

	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of USD)	2024	2023	2024	2023
Management fee income (expense)	(74)	110	90	420

(b) Dividends

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

	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of USD)	2024	2023	2024	2023
Dividends paid in cash to HWO prior to Arrangement transaction	5,000	-	5,000	-

(c) Executive personnel

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

	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of USD)	2024	2023	2024	2023
Total	95	58	260	223

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.

18. 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 $6,135 as at September 30, 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 and have not been recorded on the books of the Corporation. Written notice is required to end the contract. When the notice to terminate is communicated, the Corporation must return the balance of capital equipment and inventory and make a payment to the customer equivalent to any shortfall. As at September 30, 2024, the Corporation has recorded a current obligation of $2,930 (December 31, 2023 - $2,589) as a result of consuming third-party owned inventory in operations which it is required to replenish on or prior to the termination of the contractual arrangement.

19. Subsequent event

Subsequent to September 30, 2024, the Board of Directors of the Corporation approved the issuance of 800,000 stock options to directors, officers and management of the Corporation.