CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of High Arctic Energy Services Inc.

Opinion

We have audited the consolidated financial statements of High Arctic Energy Services Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022
- the consolidated statements of loss and comprehensive 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, 2023 and 2022, 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, 2023. 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, Note 3 and Note 7 to the financial statements. The carrying amounts of the Entity'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. 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 September 30, 2023, the Entity identified indicators of potential impairment for the PNG Operations CGU and performed an impairment test to determine the recoverable amount of the CGU as at this date. It was determined that the recoverable amount of the PNG Operations CGU was below its estimated carrying amount of $52.1 million, resulting in an impairment of $20.5 million at September 30, 2023.

The estimated recoverable amount of the PNG Operations CGU involves certain significant assumptions including the:

- earnings before interest, taxes, depreciation, and amortization ("EBITDA") forecast
- 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 results of our audit procedures regarding the EBITDA forecast and the discount rate. Additionally, the assessment of the recoverable amount of the PNG Operations CGU requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit

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

We compared the Entity's actual EBITDA for the nine-months ended September 30, 2023 to the 2023 EBITDA forecast to assess the Entity's ability to accurately forecast.

We evaluated the appropriateness of the 2024 EBITDA forecast used in the estimate of the recoverable amount for the PNG Operations CGU by:

With respect to the 2024 EBITDA forecast:

- We compared the 2024 EBITDA forecast for the PNG Operations CGU to the 2024 budget for the PNG Operations CGU to assess consistency with other significant assumptions used by the Entity in other estimates used in the financial statements
- We compared the 2024 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 2024 EBITDA forecast
- We compared certain underlying assumptions of the 2024 EBITDA forecast for the PNG Operations CGU to 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 estimate of the recoverable amount for the PNG Operations CGU by comparing the Entity's estimate to market metrics and other external data.

Evaluation of preliminary acquisition-date fair value measurements of acquired customer relationships and contingent consideration payable

Description of the matter

We draw attention to Note 2, Note 3 and Note 4 to the consolidated financial statements. On December 28, 2023 (the "acquisition date"), the Entity completed the acquisition of all of the shares of Delta Rentals Services Ltd. for the aggregate purchase price of $6.4 million (the "acquisition"). As a result of the acquisition, the Entity acquired customer relationships with a preliminary acquisition-date fair value of $1.2 million. The aggregate purchase price included contingent consideration payable with a preliminary acquisition-date fair value of $3.0 million.

Acquisitions of subsidiaries and assets that meet the definition of a business under IFRS Accounting Standards are accounted for using the acquisition method. The Entity measures the assets acquired, liabilities assumed and consideration paid in a business combination at fair value at the date of acquisition. Estimates and assumptions are used to calculate these fair values and changes to assumptions can have a significant impact on the determined fair values of assets acquired, liabilities assumed and consideration paid.

The significant assumptions used in determining the preliminary acquisition-date fair value of the customer relationships included forecasted revenues and cashflows from existing customer relationships, customer attrition rates and discount rates.

In determining the preliminary acquisition-date fair value of the contingent consideration payable, several profitability scenarios were considered and then given a probability rating and discounted to determine a probability weighted contingent consideration payable amount.

For purposes of estimating the preliminary acquisition-date fair values of the acquired customer relationships and contingent consideration payable, the Entity engaged an independent third-party valuator to estimate the preliminary acquisition-date fair values of the intangible assets, including the acquired customer relationships and the contingent consideration payable at the acquisition date.

Why the matter is a key audit matter

We identified the evaluation of the preliminary acquisition-date fair value measurements of acquired customer relationships and contingent consideration payable as a key audit matter. Significant auditor judgment was required in evaluating the application of the approaches and significant assumptions with respect to the preliminary acquisition-date fair values of the customer relationships and the contingent consideration payable. Additionally, the evaluation of the preliminary acquisition-date fair value measurements of acquired customer relationships and contingent consideration payable requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit

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

We evaluated the competence, capabilities and objectivity of the independent third-party valuator engaged by the Entity.

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

- evaluating the appropriateness of the valuation approaches and methods used by the Entity to calculate the preliminary acquisition-date fair values of the customer relationships and the contingent consideration payable
- assessing the reasonableness of the Entity's estimate of the preliminary acquisition-date fair values of the customer relationships and contingent consideration payable by comparing them against fair value ranges that were independently developed for the fair value of the customer relationships and contingent consideration payable using 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance 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 8, 2024

HIGH ARCTIC ENERGY SERVICES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousands of Canadian Dollars)	As at December 31, 2023	As at December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	50,331	19,559
Accounts receivable (Note 5)	17,468	11,092
Asset sale receivable (Note 1)	-	28,000
Inventory (Note 6)	9,378	9,099
Prepaid expenses and other assets	851	1,046
Current portion of notes receivable (Note 10)	745	-
Income tax receivable (Note 19(g))	665	482
	79,438	69,278
Non-current assets		
Property and equipment (Note 7)	27,554	52,962
Equity investments (Note 9)	8,182	7,739
Intangible assets (Note 4)	1,501	-
Goodwill (Note 4)	812	-
Notes receivable (Notes 4, 10 and 20)	2,995	2,604
Right of use assets (Note 11(a))	2,655	1,374
Total assets	123,137	133,957
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	14,134	8,671
Current portion of long-term debt (Note 13)	175	186
Current portion of lease liabilities (Note 11(b))	959	490
Current portion of contingent consideration payable (Note 4)	812	-
Dividend payable	-	243
Income tax payable	373	227
	16,453	9,817
Non-current liabilities		
Long-term debt (Note 13)	3,352	4,028
Lease liabilities (Note 11(b))	1,860	992
Contingent consideration payable (Note 4)	2,140	-
Deferred tax liabilities (Note 19 (c))	-	3,889
Total liabilities	23,805	18,726
Shareholders’ Equity		
Share capital (Note 14(a))	169,992	169,554
Contributed surplus	14,550	14,685
Accumulated and other comprehensive income	26,980	27,853
Deficit	(112,190)	(96,861)
	99,332	115,231
Total liabilities and shareholders’ equity	123,137	133,957

Commitments and contingencies (Note 24)

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

Approved on behalf of the Board,

(Signed) “Doug Strong”
Doug Strong
Director

(Signed) “Michael Binnion”
Michael Binnion
Director

HIGH ARCTIC ENERGY SERVICES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Year ended December 31,	
(thousands of Canadian Dollars)	2023	2022
Revenue (Note 16)	61,933	77,368
Oilfield services expenses (Note 17(a))	40,670	66,242
General and administrative expenses (Note 17(b))	9,466	9,478
Depreciation and amortization expenses (Notes 7 and 11)	9,953	17,097
Share-based compensation expense (Note 15)	496	784
	60,585	93,601
Operating income (loss)	1,348	(16,233)
Asset impairment loss (Note 7)	(20,500)	(9,667)
Interest income on short-term investments	2,018	210
Interest and finance expense (Note 17(c))	(192)	(1,493)
Foreign exchange loss	(514)	(191)
Gain on sale of nitrogen business (Notes 7 and 8)	615	-
Gain on sale of property and equipment (Note 7)	169	134
Income from equity investments (Note 9)	803	1
Loss before income tax from continuing operations	(16,253)	(27,239)
Income tax expense (Note 19)	(1,385)	(3,687)
Deferred income tax recovery (expense) (Note 19)	4,804	(5,201)
Income tax recovery (expense) from continuing operations	3,419	(8,888)
Net loss from continuing operations	(12,834)	(36,127)
Net loss from discontinued operations (Note 8)	(305)	(456)
Total net loss	(13,139)	(36,583)
Loss per share (Note 14(b))		
Basic and diluted – continuing operations	($0.25)	($0.74)
Basic and diluted – discontinued operations	($0.01)	($0.01)

	Year ended December 31,	
	2023	2022
Total net loss	(13,139)	(36,583)
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net income (loss):		
Foreign currency translation gain (loss) for foreign operations	(873)	4,432
Comprehensive loss for the year	(14,012)	(32,151)

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

HIGH ARCTIC ENERGY SERVICES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands of Canadian Dollars, except number of common shares)	Number of Common shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balance, December 31, 2021	48,733,145	169,697	13,818	23,421	(58,085)	148,851
Share-based compensation expense (Note 15)	-	-	784	-	-	784
Purchase of common shares for cancellation (Note 14)	(41,281)	(143)	83	-	-	(60)
Dividends	-	-	-	-	(2,193)	(2,193)
Other comprehensive income – foreign currency translation gain	-	-	-	4,432	-	4,432
Net loss for the year	-	-	-	-	(36,583)	(36,583)
Balance, December 31, 2022	48,691,864	169,554	14,685	27,853	(96,861)	115,231
Share-based compensation expense (Note 15)	-	-	496	-	-	496
Purchase of common shares for cancellation (Note 14)	(18,296)	(64)	39	-	-	(25)
Dividends	-	-	-	-	(2,190)	(2,190)
Exercise of performance share units	448,734	502	(502)	-	-	-
Other comprehensive loss – foreign currency translation loss	-	-	-	(873)	-	(873)
Share-based payment transaction	-	-	(168)	-	-	(168)
Net loss for the year	-	-	-	-	(13,139)	(13,139)
Balance, December 31, 2023	49,122,302	169,992	14,550	26,980	(112,190)	99,332

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

HIGH ARCTIC ENERGY SERVICES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of Canadian Dollars)	Year ended December 31, 2023	2022
Cash flows from operating activities:		
Net loss from continuing operations	(12,834)	(36,127)
Adjustments for:		
Depreciation and amortization expenses	9,953	17,097
Deferred income tax expense (recovery)	(4,804)	5,201
Unrealized foreign exchange loss	514	191
Asset impairment loss (Note 7)	20,500	9,667
Share-based compensation expense	496	784
Non-cash finance expense (income)	(148)	197
Income from equity investments	(803)	(1)
Share-based compensation payment	(168)	-
Gain on sale of nitrogen business (Notes 7 and 8)	(615)	-
Gain on sale of property and equipment (Note 7)	(169)	(134)
Funds from (used in) operating activities from continuing operations	11,922	(3,125)
Change in non-cash working capital (Note 18)	(528)	10,842
Cash from operating activities from continuing operations	11,394	7,717
Cash from (used in) operating activities from discontinued operations (Note 8)	(178)	146
Net cash from operating activities	11,216	7,863
Cash flows from investing activities:		
Property and equipment expenditures (Note 7)	(1,959)	(4,037)
Business combination (Note 4)	(3,430)	-
Proceeds from asset sales, net of costs	29,569	11,397
Change in non-cash working capital (Note 18)	-	(676)
Cash from investing activities from continuing operations	24,180	6,684
Cash from (used in) investing activities from discontinued operations (Note 8)	29	(32)
Net cash from investing activities	24,209	6,652
Cash flows from financing activities:		
Repayment of long-term debt (Note 13)	(687)	(3,861)
Dividend payments	(2,190)	(2,193)
Equity investment dividend (Note 9)	360	-
Lease obligation payments (Note 11)	(1,148)	(866)
Purchase of common shares for cancellation	(25)	(60)
Change in non-cash working capital (Note 18)	(243)	243
Net cash used in financing activities	(3,933)	(6,737)
Effect of foreign exchange rate changes	(720)	(256)
Change in cash and cash equivalents	30,772	7,522
Cash and cash equivalents, beginning of year	19,559	12,037
Cash and cash equivalents, end of year	50,331	19,559

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

HIGH ARCTIC ENERGY SERVICES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of business

High Arctic Energy Services Inc. ("High Arctic" or the "Corporation") is incorporated under the laws of Alberta, Canada and is a publicly traded corporation listed on the Toronto Stock Exchange under the symbol "HWO". High Arctic is engaged in contract drilling, equipment rentals and other oilfield services to the oil and natural gas industry in Papua New Guinea ("PNG") and Canada. The Corporation's head office address is located at Suite 2350, 330 – 5th Ave SW Calgary, Canada T2P 0L4.

As of December 31, 2023, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L., representing 44.6% of the outstanding common shares. In addition, High Arctic directors and officers collectively own 3,146,483 common shares, representing 6.4% of the outstanding common shares.

During 2022, High Arctic entered into an agreement to sell its Canadian well servicing assets (the "Well Servicing Transaction") for cash consideration of $38,200. Consideration of $10,200 was received in Q3 2022 and the asset sale receivable balance of $28,000 that was outstanding on December 31, 2022, was received in full during Q1 2023.

During 2022, High Arctic entered into an agreement with Team Snubbing Services Inc. ("Team Snubbing") to sell its snubbing assets (the "Snubbing Transaction"). Consideration received included an equity ownership investment (see Note 9) in Team Snubbing and a note receivable (see Note 10).

On June 19, 2023, High Arctic entered into an agreement to sell its Canadian Nitrogen transportation, hauling and pumping services business (the "Nitrogen Transaction") for cash consideration of $1,350. The transaction closed on July 31, 2023 (see Note 8).

On December 28, 2023, High Arctic completed the acquisition of all the shares of Delta Rental Services Ltd. ("Delta") for cash consideration of $3,430 and contingent consideration that includes a combination of cash and shares, payable over a three-year period (see Note 4).

The following table lists the Corporation's principal subsidiaries, the jurisdiction of formation or incorporation of such subsidiaries and the percentage of shares owned, directly or indirectly, by the Corporation as at December 31, 2023:

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%
HAES SD Holding Corp.	Alberta	100%
Powerstroke Well Control, Inc.	United States	100%
Seh' Chene GP Inc.	Alberta	49%
Seh' Chene Well Services Limited Partnership	Alberta	49%
Team Snubbing Services Inc.	Alberta	42%

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 ("IFRS") as issued by the International Accounting Standards Board. These Financial Statements were authorized for issuance by the Board of Directors on April 8, 2024.

(b) Basis of preparation

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

(c) Functional and presentation currency

The financial statements are presented in Canadian Dollars, which is also the currency of the primary economic operating environment ("functional currency") of the parent company.

The US dollar is the functional currency of five of the Corporation's subsidiaries, with one subsidiary utilizing the Australian dollar as its functional currency.

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

(d) 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, business combinations, joint arrangements, inventory obsolescence provision, equity investments, long-term debt, notes receivable, depreciation, amortization of intangible assets, share-based compensation and disposal of non-current assets and businesses.

Critical 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 United States dollars ("USD") due to a history of drilling services contracts being negotiated and settled in USD, as well as most of the expenses 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. At December 31, 2023, the Corporation's CGUs consist of Canadian Rentals Operations and PNG Operations.

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) *Business combinations – goodwill and intangible assets*

The Corporation measures the assets acquired, liabilities assumed and consideration paid in a business combination at fair value at the date of acquisition. Estimates and assumptions are used to calculate these fair values and changes to assumptions can have a significant impact on the determined fair values of assets acquired, liabilities assumed and consideration paid, which in turn can impact the amount recorded as goodwill or gain on acquisition. The Corporation's significant assumptions used in determining the acquisition date fair values of assets acquired, liabilities assumed and consideration paid are detailed in Note 4.

v) *Joint arrangements*

Judgement is required to assess whether joint arrangements incorporate joint rights to the assets and obligations of the arrangement and/or how the details of the arrangement suggest that a joint venture or joint operation results.

vi) *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.

vii) *Equity investments*

Equity investments are classified into two categories: investments in associates and joint ventures. Investments in associates are companies in which an entity has significant influence, defined in IFRS 10 – "Consolidated Financial Statements" as the power to participate in the financial and operating decisions of the investee, but not control. In this case, the equity method of accounting is used, as outlined in IAS 28 – "Investments in Associates and Joint Ventures", to recognize its share of the investee's profit or loss in the investor's financial statements. On the other hand, joint ventures are businesses that are jointly controlled by the investor and other venturers. The equity method is also applied in this case, as the investor recognizes its share of the joint venture's profits and losses.

viii) *Long-term debt and notes receivable*

Long-term debt and notes receivable are treated as financial liabilities and financial assets and are measured at initial recognition at fair value, including transaction costs, if any. The subsequent measurement of these financial instruments depends on their classification as either fair value through other comprehensive income ("FVOCI") or amortized cost. If classified as FVOCI, the financial instrument is measured at fair value with changes in fair value recognized in other comprehensive income. If classified as amortized cost, they are measured at amortized cost using the effective interest rate method, this involves calculating the discount rate that reflects the market conditions at the time of initial recognition and the terms of the financial instrument. The effective interest rate is then applied to the carrying amount of the financial instrument to determine the interest expense or income recognized in the profit or loss over the life of the instrument.

ix) *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.

x) *Amortization of intangible assets*

Amortization of the Corporation's intangibles assets incorporates estimates of each intangible assets' useful life and an amortization methodology that is estimated to best reflect usage. All intangibles are amortized based on the straight-line method over the asset's useful life in years.

xi) *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.

xii) *Disposal of non-current assets*

Once a disposal group is identified as held for sale, all associated assets are reclassified as current and presented separately in the statement of financial position. In addition, any liabilities directly associated with assets held for sale are also reclassified and presented as a separate financial statement line item. An asset or disposal group identified as held for sale may also be considered a discontinued operation if a component of an entity is disposed. A component must comprise operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes. A component must also represent a major line of business or a geographical segment. Judgment is required in determining whether an asset or disposal group identified as held for sale is considered a discontinued operation.

As disclosed in Notes 7 and 8, High Arctic sold all its nitrogen transportation, hauling and pumping business. The Corporation applies judgement to determine whether a component of the Corporation that either has been disposed of, or is classified as held for sale, meets the criteria of a discontinued operation. The key area that involves management judgement in this determination is whether the component represents a separate major line of business. There were no retained liabilities directly associated with the sale of this business and management determined that this represented a major line of business for the Corporation. As such, the Corporation has accounted for Nitrogen Transaction as a discontinued operation.

As disclosed in Note 7, in 2022 High Arctic sold specific assets associated with its well servicing and snubbing services operations in Canada. The Corporation applies judgement to determine whether a component of the Corporation that either has been disposed of, or is classified as held for sale, meets the criteria of a discontinued operation. The key area that involves management judgement in this determination is whether the component represents a separate major line of business.

The Corporation has concluded that the disposal of well servicing assets and snubbing assets do not meet the definition of discontinued operations because they do not represent the disposal of a separate major line of business. This is because the Corporation continues to conduct activities in its Production Services line of business through its investments in Team Snubbing Services Inc. and Seh' Chene Well Services Limited Partnership, and its well servicing assets in PNG. The Corporation also continues to own snubbing equipment and to assess opportunities in the United States.

xiii) *Reorganization and spinoff of PNG business*

In 2023, High Arctic announced plans to consider separating into two separate companies through a reorganization. The Corporation applies judgement to determine whether the spinoff component is classified as held for distribution to shareholders. The key area that involves management judgement in this determination is whether the spinoff reorganization is highly probable.

As at December 31, 2023, the Corporation has concluded that its intended reorganization that involves the spinout of its PNG business does not currently meet the definition of an asset held for sale or distribution and accordingly is not presented as held for distribution. While the Board of Directors' intention is to continue to proceed with a reorganization, certain outstanding matters need to be resolved before the reorganization can be viewed as being highly probable. Outstanding matters that remain to be concluded, amongst others, are the exact structure of the reorganization, Board of Director diligence and recommendation to shareholders, financial and legal advisor input, regulatory, legal, board and shareholder approval.

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 High Arctic'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 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 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 Canadian dollars 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 20 regarding economic dependence, large customers often have contract durations greater than one year and can include customers in both Canada and PNG.

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 its services on a per billable day or hourly 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 servicing, workover and snubbing is typically recognized based on daily or hourly rates as stipulated in the contracts with the customer.

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

A portion of the Corporation's revenue is lease revenue and not within the scope of IFRS 15 – "Revenue from Contracts with Customers", as such portions of revenue received represent the customers' ability to direct the use of an asset belonging to the Corporation. The Corporation has applied judgement to determine the amount of revenue that relates to lease revenue when lease rates were not specifically identified.

The Corporation recognizes the incremental costs of obtaining a contract as an expense when incurred if the related contract is one year or less.

The Corporation's revenue transactions do not contain significant financing components and the Corporation does not adjust transaction prices for the effects of a significant financing component when the period between the transfer of the promised service to the customer and the payment by the customer is less than one year. The Corporation does not disclose information related to performance obligations that have an original duration of one year or less.

(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 quotes 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, notes receivable, accounts payable and long-term debt. 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)
Notes receivable	Fair value	Amortized cost (1)
Financial liabilities (3)		
Accounts payable and accrued liabilities	Fair value	Amortized cost (1)
Contingent consideration payable	Fair value	Fair value
Long-term debt	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.

High Arctic currently does 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 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
Oilfield equipment:			
Drilling rigs	5-15 years	Up to 10%	Straight line
Service rigs	5-20 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 and UB rigs[1]	7-10 years	Up to 5%	Straight line
Snubbing rigs	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
Vehicles	Lessor of lease term or 5 years	Up to 15%	Straight line

(1) UB rigs – Underbalanced rigs

(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 oilfield services 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. These are called cash generating units ("CGUs"), and judgement is required to aggregate assets into their appropriate CGU. If indicators exist, impairment is recognized for the amount by which the cash generating unit'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.

  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*

Share-based plans:

- *Stock option plan*

  The Corporation has a stock option plan that provides incentives for directors, management, and certain employees. Options granted are measured at the fair value of the equity instruments at the grant date.

  The fair value determined at the grant date of the 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 the 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.

- *Performance share unit plan*

  The Corporation has a Performance Share Unit Plan ("PSUP") under which the Corporation may grant restricted share units ("RSUs") and/or performance share units ("PSUs") to its employees. The Corporation intends to grant PSUs which have performance vesting conditions, and other units which, unless otherwise directed by the Board of Directors, vest one-third on each of the first, second and third anniversaries from the date of the grant.

  The fair value of the RSUs and PSUs issued is equal to the Corporation's five day weighted average share price on the grant date. The fair value is expensed over the vesting term on a graded vesting basis.

  PSU and RSU holders are entitled to dividends 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 PSUs or RSUs calculated by multiplying the amount of the dividend per common share by the aggregate number of PSUs or RSUs 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 on the date on which the dividend is paid.

  The PSUs and RSUs 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*

  The Corporation has awarded Deferred Share Units ("DSUs") to non-employee directors of the Corporation. DSUs awarded vest immediately and provide participants the right to receive, at the election of the Corporation, common shares or a cash payment equal to the five-day volume weighted average price of the Corporation's common shares. DSU holders are also entitled to dividends 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 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:

- *Bonus plans*

  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.

- *Defined contribution pension plan*

  The Corporation matches payments by employees to a third-party service provider which manages a group retirement savings plan or a defined contribution pension plan. Amounts are recognized as a liability and expense in accordance with the fixed contribution terms. The Corporation has no legal or constructive obligation relating to future payments on behalf of the employee.

(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 is 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 not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

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) *Earnings (loss) per share*

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. The Corporation has determined that it has three operating segments; namely, Drilling services, Production services and Ancillary services, supported by a Corporate segment each of which has been presented as a reportable segment.

(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.

(s) *Identifiable intangible assets*
The Corporation's intangible assets include customer relationships, brand and non-compete agreements. Costs attributable to intangible assets are capitalized if future economic benefits are reasonably assured. Intangible assets are amortized using the straight-line method through net income over their estimated useful lives when the realization of economic benefits begins. The estimated useful lives are as follows: customer relationships five years, brand five years and non-compete agreements of five years. Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted prospectively, if appropriate.

(t) *Goodwill*
Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired less liabilities assumed based on their fair values as of the acquisition date. Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that is expected to benefit from the business combination. Each of these CGUs represents the lowest level within the Company at which the associated goodwill is monitored for management purposes. Goodwill is not amortized but is tested for impairment at least annually, or more frequently if certain indicators arise that indicate the assets might be impaired.

(u) *Recent accounting pronouncements - newly adopted accounting standards*
On January 1, 2023, the Corporation adopted the amendments introduced to IAS 1 – "Presentation of Financial Statements" to improve accounting policy disclosures. There was no material impact to the Corporation's consolidated financial statements.

On January 1, 2023, the Corporation adopted the amendments to IAS 12 – "Income Taxes," which requires companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. There was no material impact to Corporation's consolidated financial statements.

(v) *Future accounting policy changes*
In October 2022, the International Accounting Standards Board amended IAS 1 Presentation of Financial Statements to address the classification of liabilities with covenants as current or non-current in the Statements of Financial Position. The amendment is applicable to periods beginning on or after January 1, 2024. The Corporation does not expect that this amendment will have a significant impact on its consolidated financial statements.

4. Business combination

On December 28, 2023, High Arctic completed the acquisition of all the shares of Delta (the "Delta Acquisition"). Delta was a privately-owned rentals company focused on pressure control equipment and equipment supporting the high-pressure stimulation of oil and gas wells along with other well site rental equipment.

The aggregate purchase price of the Delta Acquisition was $6,382 consisting of $3,430 in cash paid on closing and contingent consideration payable of $2,952. The contingent consideration payable is payable in a combination of cash and shares of the Corporation over a thirty-six-month period following the transaction's close. The contingent consideration payable is based on the business acquired achieving specific profitability targets and is adjusted for capital expenditures incurred. The seller will receive a set percentage of the profitability target achieved. This percentage increases when the profitability target is exceeded by 20% and is reduced when less than 95% of the profitability target is achieved. No contingent consideration is payable when less than 50% of the profitability target is achieved. In conjunction with the Delta Acquisition, the Corporation incurred $110 in transaction costs which has been recorded in general and administrative expenses.

The preliminary purchase price allocation was based on management's best estimate of the fair value of Delta's assets, liabilities and the contingent consideration recorded as at the December 28, 2023 transaction date. If new information materially impacting the estimated fair values at close is obtained within a year of the transaction date, the purchase price allocation will be revised.

Preliminary allocation of purchase price:

(thousands of Canadian Dollars)	
Assets acquired:	
Accounts receivable	1,237
Deposits and prepaid expenses	60
Oilfield services equipment	3,540
Office and computer equipment	33
Right of use asset	1,174
Note receivable (Note 10)	792
Intangible assets	1,501
Goodwill	812
	9,149
Less current liabilities acquired (excluding current portion of lease liabilities)	(678)
Less lease liabilities	(1,174)
Less deferred tax liability	(915)
Net assets acquired	6,382
Consideration given:	
Cash	3,430
Contingent consideration payable	2,952
Total consideration	6,382

For the period of December 28, 2023 to December 31, 2023, the acquired Delta business contributed nominal revenue and net income to the Corporation's consolidated results. Had the acquisition occurred on January 1, 2023, it is estimated that the consolidated pro-forma revenue and net loss from continuing operations for the year ended December 31, 2023 would have been $69,969 (unaudited) and ($10,877) (unaudited), respectively.

The Corporation accounted for the acquisition as a business combination and used the acquisition method to record the assets and liabilities acquired at fair value. An independent third-party valuator was engaged to estimate the fair value for the oilfield services equipment and intangible assets and the determination of the contingent consideration payable.

The preliminary purchase price allocation was based on the Corporation's best estimate of fair values of the assets acquired, liabilities assumed and consideration as at the transaction date of December 28, 2023. If, within a year of the transaction date, new information is obtained regarding facts and circumstances as of the transaction date that adjust these fair values, the purchase price allocation will be revised.

The Corporation used the cost approach for valuing the property and equipment acquired in the Delta Acquisition. In applying the cost approach, the Corporation valued each individual asset and considered its replacement cost adjusted for depreciation and obsolescence.

The intangible assets include customer relationships with a fair value of $1,215, brand with a fair value of $76 and a non-compete agreement with a fair value of $210. The fair value of customer relationships was determined using an income approach using the multi-period excess earnings method. The significant assumptions used in determining the fair value of the customer relationships include forecasted revenues and cashflows from existing customer relationships, customer attrition rates, contributory asset charges and discount rates.

In determining the fair value of the contingent consideration payable, several profitability scenarios were considered and then given a probability rating and discounted to determine a probability-weighted contingent consideration payable amount.

5. Accounts receivable

The aging and ECL associated with accounts receivable was as follows:

(thousands of Canadian Dollars)	As at Dec, 31, 2023	As at Dec 31, 2022
Less than 31 days	6,680	3,049
31 days to 60 days	6,842	2,636
61 days to 90 days	2,854	2,173
Greater than 90 days	1,284	3,279
	17,660	11,137
Expected credit loss	(192)	(45)
	17,468	11,092

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

(thousands of Canadian Dollars)	As at Dec 31, 2023	As at Dec 31, 2022
Canadian dollars	2,534	2,064
US dollars ('USD')	14,934	9,028
	17,468	11,092

High Arctic determined the 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, High Arctic 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, 2023 was as follows:

(thousands of Canadian Dollars)	Less than 31 days	31- 60 days	61 – 90 days	Over 90 days	Total
Investment grade receivables	5,893	6,278	2,674	541	15,386
Non-investment grade receivables	787	564	180	743	2,274
Total receivables	6,680	6,842	2,854	1,284	17,660
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)	(4)	(3)	(2)	(11)
ECL provision – non-investment grade	(2)	(4)	(4)	(31)	(41)
Specifically provided for amounts	-	-	-	(140)	(140)
Total provision for ECL	(4)	(8)	(7)	(173)	(192)

The comparative details of this approach as at December 31, 2022 was as follows:

(thousands of Canadian Dollars)	Less than 31 days	31- 60 days	61 – 90 days	Over 90 days	Total
Investment grade receivables	1,743	2,428	2,109	3,026	9,306
Non-investment grade receivables	1,306	208	64	253	1,831
Total receivables	3,049	2,636	2,173	3,279	11,137
ECL for investment grade (%)	*0.04*	*0.06*	*0.10*	*0.30*	-
ECL for non-investment grade (%)	*0.25*	*0.75*	*5.00*	*10.00*	-
ECL provision – investment grade	-	(1)	(2)	(9)	(12)
ECL provision – non-investment grade	(3)	(2)	(3)	(25)	(33)
Total provision for ECL	(3)	(3)	(5)	(34)	(45)

6. Inventory

As at December 31, 2023, the Corporation had inventory of $9,378 (2022 - $9,099), which is primarily comprised of parts and materials related to maintenance, recertification and refurbishment of rigs and rig-related equipment in the Corporation's drilling segment. In 2023, consumed parts and materials for equipment, which are included in oilfield services expense, amounted to $1,193 (2022 - $250). In 2022, the Corporation completed inventory counts and obsolescence reviews of its inventory located at all locations throughout PNG which led to an inventory adjustment of $4,450 and a reduction in the obsolescence provision of $579. As at December 31, 2023, a cumulative provision of $214 (2022 - $256) remains for inventory held in PNG.

7. Property and equipment

(thousands of Canadian Dollars)	Vehicles	Oilfield equipment	Office and computer equipment	Land and building	Work-in progress	Total
Cost						
Balance, Dec 31, 2021	7,799	340,401	4,469	10,782	7,272	370,723
Additions	-	-	-	-	4,073	4,073
Dispositions	(6,573)	(149,634)	(1,464)	(3,916)	(1,937)	(163,524)
Transfers	-	9,518	47	-	(9,565)	-
Reclassification from vehicle lease	664	-	-	-	-	664
Impairment	-	(9,667)	-	-	-	(9,667)
Effect of foreign exchange	7	10,977	57	-	157	11,198
Balance, Dec 31, 2022	1,897	201,595	3,109	6,866	-	213,467
Additions	-	1,018	-	-	941	1,959
Disposals	(1,492)	(16,513)	(664)	-	-	(18,669)
Acquisition (Note 4)	-	3,540	33	-	-	3,573
Transfers	(30)	634	21	-	(625)	-
Impairment	-	(20,500)	-	-	-	(20,500)
Effect of foreign exchange	(3)	(3,643)	(8)	-	(6)	(3,660)
Balance, Dec 31, 2023	372	166,131	2,491	6,866	310	176,170
Accumulated depreciation						
Balance, Dec 31, 2021	7,177	232,672	3,834	1,731	-	245,414
Depreciation	186	16,391	155	216	-	16,948
Dispositions	(5,891)	(102,777)	(1,305)	(444)	-	(110,417)
Reclassification from vehicle lease	408	-	-	-	-	408
Effect of foreign exchange	5	8,091	56	-	-	8,152
Balance, Dec 31, 2022	1,885	154,377	2,740	1,503	-	160,505
Depreciation	12	8,957	107	173	-	9,249
Disposal	(1,580)	(15,715)	(655)	-	-	(17,950)
Effect of foreign exchange	(2)	(3,178)	(8)	-	-	(3,188)
Balance, Dec 31, 2023	315	144,441	2,184	1,676	-	148,616
Net book value, Dec 31, 2022	12	47,218	369	5,363	-	52,962
Net book value, Dec 31, 2023	57	21,690	307	5,190	310	27,554

Impairment – 2023

As at September 30, 2023, the Corporation identified indicators of potential impairment in its PNG Operations CGU. 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 High Arctic's rigs 115 and 116. The Corporation performed an impairment test to determine the recoverable amount of the PNG Operations CGU and it was determined that the recoverable amount of the PNG Operations CGU was below its carrying value of $52,050 resulting in an impairment of $20,500 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 CGU. 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%.

The Corporation determined that there were no indicators of impairment for the Canadian Rentals Operations and PNG Operations CGUs at December 31, 2023.

2023 Dispositions

For the year ended December 31, 2023, as part of the Nitrogen Transaction, High Arctic disposed of property and equipment for cash consideration of $1,350 which resulted in a gain on sale of $615 (see Note 8).

In 2023, High Arctic disposed of other property and equipment and received cash proceeds of $234 (2022 - $1,201) resulting in a gain on sale of $169 (2022 - $134).

2022 Dispositions and impairment

On July 17, 2022, High Arctic entered into the Well Servicing Transaction and through a separate agreement agreed to sell its snubbing assets (the "Snubbing Transaction"). The first close of the Well Servicing Transaction and the close of the Snubbing Transaction occurred on July 27, 2022 ("the Sale Transactions"). The Corporation recognized impairment expense of $9,667 relating to the well servicing and snubbing CGU carrying value.

The Canadian well servicing assets were sold for total cash consideration of $38,200. This transaction resulted in the sale of the assets and transfer of field personnel and a large majority of office support personnel to the acquiring company. The net book value of assets and liabilities sold to the acquiring company was $47,191 and the fair value less cost to sell was $38,200, resulting in an impairment of $8,991.

The Canadian Snubbing assets were sold to a private entity, Team Snubbing. This transaction also resulted in the transfer of field personnel to Team Snubbing. As part of the consideration, High Arctic received a convertible promissory note from Team Snubbing for $3,365. High Arctic received the remainder of the consideration of $7,738 in the form of 420,000 common voting shares in Team Snubbing, representing 42% of the post-closing total outstanding shares in Team Snubbing. The net book value of assets and liabilities sold to the acquiring company was $11,779 and the fair value less cost to sell was $11,103, resulting in an impairment of $676.

As disclosed in Note 2(d) xii, High Arctic determined that the completion of the Sale Transactions did not result in the discontinuation, or disposal of, a separate major line of business for the Corporation and accordingly the Sale Transactions did not result in the presentation of discontinued operations under IFRS.

8. Discontinued operations

The operating results of the Corporation's nitrogen transportation, hauling and pumping services business reported herein as discontinued operations for the years ended December 31, 2023 and 2022, respectively, are as follows:

	Year ended December 31	
(thousands of Canadian Dollars)	2023	2022
Revenue	1,307	2,652
Expenses		
Oilfield services	1,191	1.861
General and administration	292	646
Depreciation	129	601
Net loss from discontinued operations	(305)	(456)

Discontinued operations reported in the consolidated statements of cash flows are as follows:

	Year ended December 31	
(thousands of Canadian Dollars)	2023	2022
Cash flow from (used in) operating activities	(178)	146
Cash flow from (used in) investing activities	29	(32)
Cash flow from (used in) financing activities	-	-

9. Equity investments

(thousands of Canadian Dollars)	As at Dec 31, 2023	As at Dec 31, 2022
Equity investment – Team Snubbing	8,034	7,589
Equity investment – Seh' Chene Well Services Limited Partnership	148	150
	8,182	7,739

On July 27, 2022, as part of the consideration for the Snubbing Transaction, High Arctic received 420,000 common voting shares in Team Snubbing representing a 42% ownership in total outstanding common shares of Team Snubbing. The Corporation recognized the initial investment at $7,738. The fair value of the share consideration is level 3 and was determined based on an independent third-party evaluation, utilizing a combination of valuation approaches including the discounted cash flow method, adjusted net asset approach, and market approach.

During 2023 Team Snubbing declared its first dividend of $857 and as a result High Arctic's proportionate share of the dividend, or $360, which was recorded as a reduction to High Arctic's equity investment in Team Snubbing.

The following financial information for Team Snubbing as at and for the year ended December 31, 2023, and as at December 31, 2022 and for the period from the date of acquisition on July 27, 2022 to December 31, 2022 are as follows:

Balance Sheet

(thousands of Canadian Dollars)	As at Dec 31, 2023	As at Dec 31, 2022
Cash	255	18
Current assets excluding cash	4,815	3,406
Non-current assets	16,354	12,853
Current liabilities	(10,413)	(3,503)
Non-current liabilities	(2,783)	(4,709)

Income Statement

(thousands of Canadian Dollars)	Year ended Dec 31, 2023	Period ended Dec 31, 2022[1]
Revenue	21,252	6,050
Tax expense	(399)	(55)
Net income (loss) after tax	1,912	(355)
Net income (loss) after tax – 42% share	803	(149)

[1] Income statement movements represent activity of Team Snubbing from the date of acquisition of the Corporation's investment of July 27, 2022 to December 31, 2022.

High Arctic has a 49% ownership interest in the Seh' Chene Well Services Limited Partnership (the "Partnership") and is one of two participants in the Partnership whose mission is to execute dependable high-quality energy services, focused on environmental stewardship, while creating opportunity for local Indigenous communities and individuals. Investment into the Partnership in 2020 was nominal with the Corporation's interest in earnings accumulating to $148 as at December 31, 2023. No earnings were distributed from the Partnership in 2023 and 2022.

10. Notes receivable

(thousands of Canadian Dollars)	As at Dec 31, 2023	As at Dec 31, 2022
Convertible promissory note	3,365	3,365
Less: Interest accretion on convertible promissory note	(417)	(761)
Note receivable on Delta Acquisition (Note 4)	880	-
Less: Interest accretion on note receivable on the Delta Acquisition	(88)	-
	3,740	2,604
Current	745	-
Non-current	2,995	2,604

In 2022, as part of the consideration for the Snubbing Transaction, High Arctic received a convertible promissory note from Team Snubbing for $3,365 with a five-year term, annual interest rate of 4.5% accruing from January 1, 2023 and principal repayments commencing July 2024. The note receivable is considered a financial asset. The carrying value of the note is determined by discounting the anticipated future cash flow impact of the note using an effective interest rate of 13% which approximates the Corporation's cost of capital at the date of entering into the agreement. Accretion of $417 was recorded to the note receivable during 2023 and resulted in a carrying value balance of $2,948 as at December 31, 2023.

In the event of default, the outstanding principal amount plus accrued interest is convertible to additional common shares of Team Snubbing. As at December 31, 2023, there was not an event of default.

In 2023, as part of the consideration for the Delta Acquisition, High Arctic received an interest-free note receivable for $880 with a three-year term, accruing from December 28, 2023, and principal repayments commencing December 2024. The note receivable is considered a financial asset. The carrying value of the note is determined by discounting the anticipated future cash flow impact of the note using an effective interest rate of 5% which approximates the credit risk associated with the principal amount outstanding of the note. Accretion of $88 was recorded to the note receivable as at December 28, 2023, the transaction date of the Delta Acquisition, and resulted in a carrying value balance of $792 as at December 31, 2023.

11. Right of use assets and lease liabilities

(a) Right of use assets:

(thousands of Canadian Dollars)	As at Dec 31, 2023	As at Dec 31, 2022
Costs:		
Opening balance	1,560	7,782
Additions	1,697	1,669
Dispositions	(729)	(7,240)
Acquisition (Note 4)	1,174	-
Reclassification – Property and equipment (Note 7)	-	(664)
Effect of foreign exchange	(49)	13
Closing balance	3,653	1,560

(thousands of Canadian Dollars)	As at Dec 31, 2023	As at Dec 31, 2022
Accumulated amortization:		
Opening balance	186	2,514
Additions	833	750
Dispositions	-	(2,688)
Reclassification – Property and equipment (Note 7)	-	(408)
Effect of foreign exchange	(21)	18
Closing balance	998	186
Net closing balance	2,655	1,374

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

(b) Lease liabilities:

(thousands of Canadian Dollars)	As at Dec 31, 2023	As at Dec 31, 2022
Opening balance	1,482	8,445
Lease additions	1,697	1,395
Lease disposals	(550)	(7,695)
Acquisition (Note 4)	1,174	-
Lease payments	(1,148)	(866)
Lease finance expense (Note 17)	196	197
Effect of foreign exchange rate changes	(32)	6
Closing balance	2,819	1,482
Current	959	490
Non-current	1,860	992

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

The undiscounted cash flows relating to the lease liabilities at December 31, 2023 and December 31, 2022 are as follows:

(thousands of Canadian Dollars)	As at Dec 31, 2023	As at Dec 31, 2022
Less than one year	1,055	564
One year to five years	2,144	1,093
More than five years	-	-
Total undiscounted liabilities	3,199	1,657

12. Accounts payable and accrued liabilities

The nature of the Corporation’s accounts payable and accrued liabilities for the years ended December 31, 2023 and 2022, respectively, are as follows:

(thousands of Canadian Dollars)	As at Dec 31, 2023	As at Dec 31, 2022
Trade accounts payable	5,405	1,629
Accrued liabilities	7,385	6,102
Wages and payroll taxes payable	973	816
Other accounts payable	371	124
Total accounts payable and accrued liabilities	14,134	8,671

13. Long term debt

(thousands of Canadian Dollars)	As at Dec 31, 2023	As at Dec 31, 2022
Current	175	186
Non-current	3,352	4,028
Total	3,527	4,214

The Corporation has mortgage financing secured by lands and buildings owned by High Arctic located within Alberta, Canada. As at December 31, 2023, the mortgage has a remaining initial term of three years with a fixed interest rate of 4.30% with payments occurring monthly.

The Corporation's mortgage financing contained certain non-financial covenants requiring the lender's consent including changes to the underlying business. In conjunction with the Nitrogen Transaction (see Notes 1 and 8), the terms of the Corporation's mortgage financing were amended. The amendments resulted in a one-time repayment of $500 of mortgage principal on July 28, 2023, the release of the sold assets from the general security of the mortgage and reduced reporting obligations.

14. Shareholders' equity

a) Share capital

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. On December 13, 2023, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 1,000,000 common shares, or approximately 2 percent of the Corporation's outstanding shares, under a Normal Course Issuer Bid ("NCIB"). The NCIB is valid for one year, commencing on December 15, 2023, and terminating on December 14, 2024. Pursuant to the previous NCIB, 18,296 shares were purchased and cancelled during 2023.

	As at Dec 31, 2023	As at Dec 31, 2023	As at Dec 31, 2022	As at Dec 31, 2022
Common shares issued and outstanding:	Shares	Amount	Shares	Amount
Balance, beginning of year	48,691,864	$169,554	48,733,145	$169,697
Exercise of performance share units (Note 15)	448,734	502	-	-
Purchase of common shares for cancellation	(18,296)	(64)	(41,281)	(143)
Balance, end of year	49,122,302	$169,992	48,691,864	$169,554

b) Per share amounts

(thousands of Canadian Dollars, except number of common shares)	Year ended December 31, 2023	2022
Continuing Operations		
Basic and diluted		
Net loss from continuing operations	($12,834)	($36,127)
Weighted average number of common shares	48,715,959	48,730,195
Basic and diluted net loss per share	($0.25)	($0.74)
Discontinued Operations		
Basic and diluted		
Net loss from discontinued operations	($305)	($456)
Weighted average number of common shares	48,715,959	48,730,195
Basic and diluted net loss per share	($0.01)	($0.01)

(1) All potentially dilutive instruments such as stock options and units under the Performance Share Unit Plan and Deferred Share Unit Plan are considered in this calculation.

(2) For the years ended December 31, 2023 and December 31, 2022, stock options were excluded from the earnings per share calculation of diluted earnings as these options were anti-dilutive.

15. Share based compensation

The Corporation has four equity-based compensation plans under which up to 4,912,230 common shares (being 10% of all outstanding shares) may be issued as at December 31, 2023. The following table summarizes the Corporation's outstanding grants for each equity-based compensation plan:

(number of options)	As at Dec 31, 2023	As at Dec 31, 2022
Stock options	117,000	250,000
Performance share unit plan – restricted units	140,059	524,965
Performance share unit plan – performance units	180,538	407,945
Deferred share units	938,536	1,107,970
Balance, end of year	1,376,133	2,290,880
Common shares available for grants	4,912,230	4,869,186
Percentage used of total available	28%	47%
Remaining common shares available for grant	3,536,097	2,578,306

Share based compensation expense associated with each equity-based compensation plans amounted to:

	Year ended December 31,	
(thousands of Canadian Dollars)	2023	2022
Stock options	18	45
Performance share unit plan – restricted and performance units	222	329
Deferred share units	256	410
Total expense	496	784

Stock option plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management, and certain employees. At December 31, 2023, a total of 117,000 stock options were outstanding and expire at various dates up to 2027 at exercise prices that range from $1.30 to $1.44 per share.

These stock options are typically exercisable over a term of five years and are subject to a three-year vesting period with 33.3 percent exercisable by the holder after the first anniversary date, another 33.3 percent after the second anniversary date and the balance after the third anniversary date.

Details regarding the stock options and associated changes and weighted average exercise prices are as follows:

	Number of stock options	Weighted average exercise price ($)
As at December 31, 2021	464,500	$2.02
Granted	30,000	1.30
Expired	(75,000)	3.75
Forfeited/cancelled	(169,500)	2.02
As at December 31, 2022	250,000	1.39
Forfeited	(133,000)	(1.39)
As at December 31, 2023	117,000	$1.39

(Exercise price)	Outstanding number of options	Weighted average remaining life of outstanding options (years)	Weighted average exercise price of outstanding options ($)	Exercisable number of options	Weighted average exercise price of options that are exercisable ($)
$1.30	40,500	3.70		13,770	
$1.44	76,500	2.96		53,550	
As at December 31, 2023	117,000	3.22	$1.39	67,320	$1.33

The Corporation values all its share options using the Black-Scholes model. No stock options were granted in 2023.

Performance share unit plan ("PSUP")

Details regarding the PSUP Units and related activity is as follows:

(number of units)	RSUs	PSUs	Total
As at December 31, 2021	351,123	389,435	740,558
Granted	159,999	319,999	479,998
Dividends re-invested	13,843	16,288	30,131
Forfeited/cancelled	-	(317,777)	(317,777)
As at December 31, 2022	524,965	407,945	932,910
Dividends re-invested	19,906	14,464	34,370
Exercised	(330,842)	(117,892)	(448,734)
Forfeited	(73,970)	(123,979)	(197,949)
As at December 31, 2023	140,059	180,538	320,597

There were no PSU's granted in 2023. The weighted average fair value of PSU's granted during 2022 was $1.72, equivalent to the previous 5-day weighted average share price at the time of grant.

Deferred share unit plan ("DSU")

Details regarding the DSU and related activity is as follows:

(number of options)	As at Dec 31, 2023	As at Dec 31, 2022
Outstanding, beginning of year	1,107,970	836,743
Granted	155,547	246,410
Forfeited	(364,677)	-
Dividends re-invested	39,696	24,817
Outstanding, end of year	938,536	1,107,970

The weighted average fair value of DSUs granted during 2023 was $1.23 (2022 - $1.50), equivalent to the previous 5-day weighted average share price at the time of grant. DSUs granted in 2023 pursuant to the Board Directors' election to have quarterly compensation for services rendered settled in DSUs rather than cash were 155,547 DSUs (2022 – 156,410 DSUs).

16. Revenue

The following tables include a reconciliation of disaggregated revenue by reportable segment. Revenue has been disaggregated by primary geographic location and type of service provided.

Year ended December 31, 2023 (thousands of Canadian Dollars)	Drilling services	Ancillary services(3)	Production services	Inter-segment elimination	Total
Service revenue:					
Canada	-	-	-	-	-
PNG	39,274	-	-	-	39,274
	39,274	-	-	-	39,274
Equipment rental revenue:					
Canada	-	3,384	-	-	3,384
PNG	8,636	10,639	-	-	19,275
	8,636	14,023	-	-	22,659
Total revenue	47,910	14,023	-	-	61,933

Year ended December 31, 2022 (thousands of Canadian Dollars)	Drilling services	Ancillary services[3]	Production services	Inter-segment elimination	Total
Service revenue:					
Canada[1]	-	-	33,857	-	33,857
PNG	30,227	-	-	-	30,227
	30,227	-	33,857	-	64,084
Equipment rental revenue:					
Canada[2]	-	4,002	2,243	(1,601)	4,644
PNG	444	8,196	-	-	8,640
	444	12,198	2,243	(1,601)	13,284
Total revenue	30,671	12,198	36,100	(1,601)	77,368

(1) Revenue associated with the Canadian Well Servicing and Snubbing assets sold in 2022 totaled $36,100.

(2) Equipment rental revenue associated with the assets sold in the Canadian Well Servicing Transaction included in Ancillary services totaled $2,495 during 2022.

(3) Service revenue associated with the Nitrogen transportation, hauling and pumping service business sold in 2023 totaled $1,307 (2022 - $2,652) and is presented as discontinued operations. See Note 8.

High Arctic has a 49% ownership interest in the Seh' Chene Well Services Limited Partnership (the "Partnership") and is one of two participants in the Partnership whose mission is to execute dependable high-quality energy services, focused on environmental stewardship, while creating opportunity for local Indigenous communities and individuals. The Partnership is governed by a Limited Partnership Agreement, which requires that unanimous consent be obtained from the participants for all significant operating and financing decisions. High Arctic has been appointed as manager to oversee the day-to-day operations of the Partnership, which includes providing drilling, well completion, well reclamation and abandonment, production workover and equipment rental services to third parties on behalf of the Partnership. High Arctic earned Production Services revenue for the year ended December 31, 2023, from the Partnership of $Nil (2022 - $3,903)

17. Supplementary expense disclosures

(a) Oilfield services expenses by nature

(thousands of Canadian Dollars)	Year ended December 31, 2023	2022
Personnel	16,045	36,044
Equipment operating and maintenance	2,164	12,056
Material and supplies	12,586	14,656
Drilling rig rental	8,648	540
Other	1,227	2,946
Total oilfield services expense[1]	40,670	66,242

(1) Oilfield services expenses associated with the Nitrogen transportation, hauling and pumping service business sold in 2023 totaled $1,191 (2022 - $1,861) and is presented as discontinued operations. See Note 8.

(b) General and administrative expenses by nature – continuing operations:

	Year ended December 31,	
(thousands of Canadian Dollars)	2023	2022
Personnel	5,223	6,869
Professional, legal, and advisory fees	1,955	1.163
Information technology services	766	917
Corporate	676	473
Office and warehouse	280	211
Expense (recovery) of ECL	157	(388)
Vehicle, supplies and other	409	233
Total general and administrative expense [1]	9,466	9,478

[1] General and administrative expenses associated with the Nitrogen transportation, hauling and pumping service business sold in 2023 totaled $292 (2022 - $646) and is presented as discontinued operations. See Note 8.

(c) Interest and finance expense:

	Year ended December 31,	
(thousands of Canadian Dollars)	2023	2022
Accretion (income) expense on notes receivable (Note 10)	(192)	761
Interest expense, borrowing facilities and standby fees (Note 13)	172	442
Lease finance expense (Note 11)	196	197
Other expenses	16	93
Total interest and finance expense	192	1,493

18. Supplementary cash flow information

Changes in non-cash working capital balances:

	Year ended December 31,	
(thousands of Canadian Dollars)	2023	2022
Source (use) of cash:		
Accounts receivable	(4,984)	9,622
Inventory, prepaid expense, and other assets	189	1,230
Accounts payable and accrued liabilities	4,639	(4,697)
Dividend payable	(243)	243
Income taxes receivable	(177)	2,524
Income taxes payable	68	(437)
Impact of foreign exchange on working capital	(263)	1,924
	(771)	10,409
Attributable to:		
Operating activities from continuing operations	(528)	10,842
Investing activities from continuing operations	-	(676)
Financing activities from continuing operations	(243)	243
	(771)	10,409

19. Income tax

(a) Income tax expense

(thousands of Canadian Dollars)	Year ended December 31, 2023	Year ended December 31, 2022
Current income tax expense:		
Jurisdictions within North America	4	-
Jurisdictions outside of North America	1,381	3,687
Total current income tax expense	1,385	3,687
Deferred income tax expense (recovery):		
Jurisdictions within North America	(915)	7,743
Jurisdictions outside of North America	(3,889)	(2,542)
Total deferred tax expense (recovery)	(4,804)	5,201
Total tax expense (recovery)		
Jurisdictions within North America	(911)	7,743
Jurisdictions outside of North America	(2,508)	1,145
Total tax expense (recovery)	(3,419)	8,888

(thousands of Canadian Dollars)	Year ended December 31, 2023	Year ended December 31, 2022
Net loss before income tax	(16,558)	(27,695)
Canadian statutory tax rate	23.16%	23.26%
Expected income tax expense (recovery)	(3,835)	(6,442)
Increase (decrease) resulting from:		
Canada tax rate changes	-	595
Effect of foreign tax and rates	(1,840)	2,712
Non-deductible differences	128	194
Change in unrecognized deferred tax asset	1,885	11,637
Reconciliation to prior year provision	(168)	31
Withholding taxes	1,322	-
Recognition of previously unrecognized deferred tax liability	(915)	-
Other	4	161
Total income tax expense (recovery)	(3,419)	8,888
Effective tax rate	20.6%	(32.1%)

(b) The provision for income tax differs from the result that would be obtained by applying the expected Canadian tax rate of 23.16% (2022 – 23.26%) 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 Canada and the effective rate and deductible differences in international jurisdictions.

(c) 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.

The following table summarizes the deferred income tax assets and liabilities by jurisdiction:

	Year ended December 31, 2023	Year ended December 31, 2022
North America:		
Deferred income tax assets (liabilities):		
Property and equipment	1,665	2,821
Intangibles	(350)	-
Right of use assets	(337)	(137)
Lease liabilities	357	161
Non-capital losses	31,526	29,479
Capital losses	4,606	4,606
Unrecognized deferred tax asset	(37,467)	(36,939)
Other	-	9
	-	-
Jurisdictions outside of North America:		
Deferred income tax assets (liabilities):		
Property and equipment and inventory	(1,726)	(7,690)
Non-capital losses	2,976	3,764
Unrecognized deferred tax asset	(1,250)	-
Other	-	37
	-	(3,889)
Net deferred income tax assets (liabilities)	-	(3,889)

The following tables summarize the movements of the deferred income tax assets and liabilities during the year:

	December 31, 2022	Recognized in net loss	Business Combination	December 31, 2023
North America:				
Deferred income tax assets (liabilities):				
Property and equipment	2,821	(591)	(565)	1,665
Intangibles	-	-	(350)	(350)
Right of use assets	(137)	73	(273)	(337)
Lease liabilities	161	(77)	273	357
Non-capital losses	29,479	2,047	-	31,526
Capital losses	4,606	-	-	4,606
Unrecognized deferred tax asset	(36,939)	(528)	-	(37,467)
Other	9	(9)	-	
	-	915	(915)	-
Jurisdictions outside of North America:				
Deferred income tax liabilities:				
Property and equipment and Inventory	(7,690)	5,964	-	(1,726)
Non-capital losses	3,764	(788)	-	2,976
Unrecognized deferred tax asset	-	(1,250)	-	(1,250)
Other	37	(37)	-	-
	(3,889)	3,889	-	-
Net deferred income tax (liabilities) assets	(3,889)	-	-	-

	December 31, 2021	Recognized in net loss	Exchange differences	December 31, 2022
North America:				
Deferred income tax assets (liabilities):				
Property and equipment	(1,697)	4,518	-	2,821
Right of use assets	(1,198)	1,061	-	(137)
Lease liabilities	1,946	(1,785)	-	161
Non-capital losses	29,264	215	-	29,479
Capital losses	4,686	(80)	-	4,606
Unrecognized deferred tax asset	(25,302)	(11,637)	-	(36,939)
Other	44	(35)	-	9
	7,743	(7,743)	-	-
Jurisdictions outside of North America:				
Deferred income tax liabilities:				
Property and equipment and Inventory	(9,015)	710	615	(7,690)
Non-capital losses	2,489	1,415	(140)	3,764
Other	476	(439)	-	37
	(6,050)	1,686	475	(3,889)
Net deferred income tax (liabilities) assets	1,693	(6,057)	475	(3,889)

During 2023, deferred tax assets created through the accumulation of non-capital losses in Canada were reviewed to assess the probability that future taxable profit could be utilized against such losses, and it was estimated that subsequent to the Sale Transactions the asset should be written down to $Nil.

(d) Unrecognized non-capital losses

Total Canadian non-capital losses carried forward for income tax purposes was $135,537 at December 31, 2023 (2022 - $126,736), which expire in years 2027 through 2042.

(e) Capital losses

At December 31, 2023, the capital losses carried forward for income tax purposes was $39,603 (2022 - $39,603), which can be carried forward indefinitely, but only used against capital gains.

(f) Withholding taxes

The government of PNG levies withholding taxes when funds are repatriated out of the country, which includes intercompany dividends. For the year ended December 31, 2023, withholding tax levied associated with such charges amounted to a credit of $273 for overpayment of 2022 taxes (2022 an expense of $2,638) and are recorded as part of current income tax expense. The average dividend withholding rate is estimated to be 15% (2022 – 15%).

The government of PNG levies foreign contractor withholding tax at 15% (2022 – 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, 2023, this amounted to $1,595 (2022 - $1,193) and is recorded as part of current income tax expense.

(g) Income tax receivable

Income tax receivable totaled $665 at December 31, 2023 for installment payments made to the PNG government (2022 - $482). The Corporation can apply the prepayments to future income tax payments on earnings. Current income tax receivable is reflective of expected future tax payments to the PNG Government.

20. Financial Instruments and risk management

Financial instrument measurement and classification:
The Corporation's financial assets and liabilities consist of accounts receivable, notes receivable, accounts payable and accrued liabilities, dividends payable, income tax payable, long-term debt, lease liabilities and contingent consideration payable. The carrying values of accounts receivable, accounts payable and accrued liabilities, dividends payable and income tax payable approximate fair value due to the short-term nature of these instruments. The carrying value of long-term debt and lease liabilities where interest is charged at a fixed rate is not significantly different than fair value.

At December 31, 2023, the estimated fair value of the Corporation's notes receivable was $3,740 (December 31, 2022 - $2,604). This determination of fair value is based on level 3 inputs as there are no active market valuation inputs available in order to support a different valuation for the notes receivable.

At December 31, 2023, the estimated fair value of the contingent consideration payable was calculated to total $2,952 (see Note 4).

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 have impact on a company's workforce and operations by limiting market access and increasing costs and could have significant impact on the Corporation. Also, cyber-security risks increase with the use of cloud hosted servers. Such restrictions 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 currently has mortgage financing with a fixed interest rate of 4.30% (Note 13). The Corporation is exposed to interest rate risk upon renewal or expiration of the initial term. The Corporation had no risk management contracts that would be affected by interest rates in place at December 31, 2023 and 2022.

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 High Arctic's services, where almost all the Corporation's customers are oil and gas producers. High Arctic's customers' activity and strategic decisions are impacted by the fluctuations of oil and gas pricing.

These prices are sensitive to not only the relationship between the Canadian and US dollar, but more importantly 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 at December 31, 2023 and 2022.

c) Foreign currency 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.

Most of the Corporation's international revenue and expenses are effectively transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the year ended December 31, 2023, a $0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in a change to the net loss amounting to $853 (2022: $341).

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 December 31, 2023, USD $5,635 (December 31, 2022 - USD $564) was on deposit with a large international bank in PNG. The Bank of PNG ("BPNG") has provided approval for High Arctic 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 has a range of customers comprised of small independent, intermediate and large multinational oil and gas producers in North America and predominantly large global customers in PNG.

The Corporation provided services to one large multinational customer who individually accounted for greater than 10% of its consolidated revenues during the year ended December 31, 2023 with total sales of $51,827 (2022: three customers with total sales of $44,481).

As at December 31, 2023, two customers represented a total of $15,139 or 92% of outstanding accounts receivable (December 31, 2022 - three customers represented a total of $6,415 or 58% 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.

The following table details the remaining contractual maturities of the Company's financial liabilities as of December 31, 2023:

Payments due by period						
(thousands of Canadian Dollars)	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Total
Accounts payable and accrued liabilities	14,134	-	-	-	-	14,134
Lease liabilities	153	806	914	946	-	2,819
Long-term debt	29	146	173	523	2,656	3,527
Contingent consideration payable	-	812	1,096	1,044	-	2,952
Income tax payable	373	-	-	-	-	373
Total	14,689	1,764	2,183	2,513	2,656	23,805

21. 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's management considers the capital structure to consist of long-term debt, including any current portion of long-term debt, and shareholders' equity. As at December 31, 2023, the Corporation had long-term debt outstanding of $3,527 (2022 - $4,214) and $99,332 (2022 - $115,231) of shareholders' equity. The Corporation's resulting long-term debt to equity ratio was 0.04 (2022 – 0.04) as at December 31, 2023.

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 alter its dividend levels, raise new equity or issue new debt in response to a change in economic conditions.

There were no significant changes to the Corporation's approach to capital management during the year ended December 31, 2023.

22. Related party transactions

Director and executive personnel

The table below summarizes all Board of Director and executive compensation:

	Year ended December 31, 2023	Year ended December 31, 2022
Directors' fees, executive wages including short-term employee benefits	1,572	1,827
Share-based compensation	452	760
Total	2,024	2,587

Two executive officers have a change of control clause (2022 – two executive officers) that would result in additional wages and benefit expenses being accrued if executed, as well as immediate vesting of outstanding share-based compensation plans. Severance amounts of $86 were paid during 2023 (2022 - $158) to executive personnel.

23. Segmented Information

The Corporation determines its operating segments based on internal information reviewed by the executive management team and Board of Directors to allocate resources and assess performance. The Corporation's reportable operating segments are strategic operating units that offer different products and services. The Corporation operates in Canada and PNG. The Corporation has three operating segments, supported by a corporate segment as follows:

a) *Drilling services*
This segment currently consists of the Corporation's drilling services provided in PNG, including the provision of drilling personnel to assist our customer's operations.

b) *Ancillary services*
Ancillary services segment consists of High Arctic's oilfield rental equipment in Canada and PNG and, historically, prior to the Nitrogen Transaction, its Canadian nitrogen services.

c) *Production services*
This segment historically consisted of the Corporation's well servicing and snubbing services provided in Canada that were sold as a part of the Sales Transactions in 2022. Remaining production services assets include the Corporation's snubbing assets in the US, its equity investments in Team Snubbing and Seh' Chene and its hydraulic workover rig in PNG.

d) *Corporate*
This segment provides management and administrative services to all the Corporation's operations.

Details associated with each geographic and operating segment are provided as at and for the years ended December 31, 2023 and 2022 in the tables which follow.

i. *Revenue by geographic location*

(thousands of Canadian Dollars)	Year ended December 31, 2023	2022
Revenue		
PNG	58,549	38,867
Canada[1]	3,384	40,102
Interco eliminations	-	(1,601)
Total revenue	61,933	77,368

[1] Revenue associated with the Nitrogen transportation, hauling and pumping service business sold in 2023 totaled $1,307 (2022 - $2,652) and is presented as discontinued operations. See Note 8.

ii. *Assets by geographic location*

(thousands of Canadian Dollars)	As at December 31, 2023		As at December 31, 2022	
Segment	Non-current assets	Total Assets	Non-current assets	Total Assets
PNG	17,385	56,466	44,847	68,649
Canada	26,314	66,671	19,832	65,308
	43,699	123,137	64,679	133,957

iii. *Income (loss) from reportable segments*

	Year ended December 31, 2023					
(thousands of Canadian Dollars)	Drilling services	Ancillary services	Production services	Corporate	Inter-segment elimination	Total
Revenue	47,910	14,023	-	-	-	61,933
Oilfield services expenses	(36,597)	(4,016)	(57)	-	-	(40,670)
General and administrative expenses	(4,194)	(889)	(17)	(4,366)	-	(9,466)
Finance and other income	-	-	-	2,018	-	2,018
Interest and finance expenses	-	-	-	(192)	-	(192)
Foreign exchange loss	-	-	-	(514)	-	(514)
Depreciation and amortization expenses	(5,472)	(2,978)	(1,236)	(267)	-	(9,953)
Share-based compensation expense	-	-	-	(496)	-	(496)
Asset impairment loss	(18,702)	-	(1,798)	-	-	(20,500)
Gain on sale of property and equipment	7	137	-	25	-	169
Gain on sale of nitrogen business	-	615	-	-	-	615
Income from equity investments	-	-	803	-	-	803
Net segment income (loss) before income tax from continuing operations	(17,048)	6,892	(2,305)	(3,792)	-	(16,253)
Net segment loss before income tax from discontinued operations	-	(305)	-	-	-	(305)

(thousands of Canadian Dollars)	Drilling services	Ancillary services	Production services	Corporate	Inter-segment elimination	Total
						Year ended December 31, 2022
Revenue	30,671	12,198	36,100	-	(1,601)	77,368
Oilfield services expenses	(29,330)	(4,882)	(33,631)	-	1,601	(66,242)
General and administrative expenses	(4,269)	(194)	(1,745)	(3,658)	-	(9,478)
Finance and other income	-	-	-	-	-	210
Interest and finance expenses	-	-	-	(1,283)	-	(1,493)
Foreign exchange loss	-	-	-	(191)	-	(191)
Depreciation and amortization expenses	(6,781)	(3,340)	(6,811)	(165)	-	(17,097)
Share-based compensation expense	-	-	-	(784)	-	(784)
Asset impairment loss	-	-	(9,667)	-	-	(9,667)
Gain (loss) on sale of property and equipment	(133)	690	(423)	-	-	134
Income from equity investments	-	-	1	-	-	1
Net segment income (loss) before income tax from continuing operations	(9,842)	4,860	(16,176)	(6,081)	-	(27,239)
Net segment loss before income tax from discontinued operations	-	(456)	-	-	-	(456)

iv. *Asset breakdown by reportable segments*

(thousands of Canadian Dollars)	Drilling services	Ancillary services	Production services	Corporate	Total (As at Dec 31, 2023)	Drilling services	Ancillary services	Production services	Corporate	Total (As at Dec 31, 2022)
Property and equipment	8,364	14,197	817	4,176	27,554	31,787	16,331	4,462	382	52,962
Right of use assets	984	1,371	-	300	2,655	314	490	-	570	1,374
Total assets	39,419	30,517	9,069	44,132	123,137	52,256	27,263	12,773	41,665	133,957

24. 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 $8,114 at December 31, 2023 (December 31, 2022 - $8,309) by a customer for the Corporation's operations in PNG, the underlying value is denominated in USD. The capital equipment and inventory are owned by this party and have not been recorded on the books of High Arctic. 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, December 31, 2023, the Corporation has recorded a current obligation of $3,424 (December 31, 2022 - $3,270) 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.