HIGH ARCTIC ENERGY SERVICES CYPRUS LIMITED

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE YEARS ENDED
December 31, 2023, 2022 and 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") is a summary review of risks, the results of operations, liquidity, and capital resources of High Arctic Energy Services Cyprus Limited and its subsidiaries ("HAES Cyprus" or the "Corporation") and should be read in conjunction with the audited consolidated financial statements and notes of the Corporation for the years ended December 31, 2023, 2022 and 2021 (the "Financial Statements").

The Financial Statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

This MD&A complements and supplements the Financial Statements as at December 31, 2023, and 2022 and for the years ended December 31, 2023, 2022, and 2021 of HAES Cyprus. For a full understanding of the financial position and results of operations of the PNG Business, this MD&A should be read in conjunction with the Financial Statements of the Corporation and the historical annual and interim consolidated financial statements, and annual information forms of its parent company High Arctic Energy Services Inc. ("High Arctic") for the years ended December 31, 2023, 2022 and 2021. High Arctic's historical annual and interim consolidated financial statements are available at www.sedarplus.ca under High Arctic's profile.

Management is responsible for the integrity of the information contained in this MD&A and for consistency between the MD&A and the Financial Statements. In preparing these statements, estimates, judgments and allocations were necessary and management believes these have been based on careful judgements and are properly presented. The Financial Statements have been prepared using polices and procedures established by management and fairly reflect the Corporation's financial position, statements of comprehensive loss, changes in shareholder's equity and cash flows.

Readers are cautioned that this MD&A contains certain forward-looking information. Please refer to the "Forward-Looking Statements" section of this MD&A for the Corporation's discussion on forward looking information including risk factors that could cause actual results to differ materially from such forward-looking information and certain assumptions used to underlie the forward-looking information. Definitions of certain non-IFRS financial measures are included under the "Non-IFRS Measures" section of this MD&A. Please refer to abbreviations listed on the last page of this MD&A. All amounts are expressed in thousands of US Dollars ("USD") unless otherwise noted. USD is the functional and reporting currency of the Corporation.

In the following discussion, the year ended December 31, 2023 may be referred to as "FY 2023". The comparative years ended December 31, 2022 and 2021 may be referred to as "FY 2022" and "FY 2021" respectively.

CORPORATE PROFILE

Headquartered in Nicosia, Cyprus High Arctic Energy Services Cyprus Limited provides services in Papua New Guinea ("PNG") through its wholly owned subsidiaries to the extractive industries with particular focus on exploration and production companies operating in the energy sector. The Corporation conducts its business operations in three separate operating segments: Drilling Services, Ancillary Services and Production Services.

Drilling Services

The Drilling Services segment consists of the Corporation's drilling services with its drilling assets in PNG including the provision of personnel to assist our customer's drilling related operations. The Corporation has operated in PNG since 2007 and controls the largest fleet of tier-one heli-portable drilling rigs in the country, with two owned rigs and one rig managed by the Corporation under operating and maintenance contracts for one of the Corporation's customers.

Ancillary Services

The Ancillary Services segment consists of a fleet of rental equipment that includes matting, cranes, forklifts, trucks, camps, tanks, and vehicles and primarily services the oil and gas exploration and production companies operating in PNG.

Production Services

The Production Services segment in PNG comprises the Corporation's hydraulic workover rig, the only dedicated workover rig in PNG.

Select Comparative Financial Information

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

	Years ended Dec 31,		
(thousands of USD)	2023	2022	2021
Operating results			
Revenue	**43,380**	29,929	11,750
Net loss [(2)]	**(8,623)**	(4,958)	(5,021)
Oilfield services operating margin [(1)]	**14,416**	5,598	3,730
Oilfield services operating margin as a % of revenue [(1)]	***33.2%***	*18.7%*	*31.7%*
EBITDA [(1)] [(2)]	**(4,002)**	3,065	2,004
Adjusted EBITDA [(1)]	**11,354**	5,517	1,975
Adjusted EBITDA as a % of revenue [(1)]	***26.2%***	*18.4%*	*16.8%*
Operating income (loss) [(1)]	**4,575**	(5,753)	(7,033)
Cash flow from operations:			
Cash flow from (used in) operating activities	**8,906**	2,632	(1,898)
Funds flow from operating activities [(1)]	**10,273**	512	1,682
Capital expenditures	**1,080**	401	1,870
			As at December 31
(thousands of USD)	2023	2022	2021
Financial position:			
Working capital [(1)]	**20,335**	12,173	12,442
Cash and cash equivalents	**10,958**	3,846	1,886
Total assets	**43,374**	50,570	68,462
Shareholder's equity	**33,112**	41,734	57,445

(1) Oilfield services operating margin, EBITDA (Earnings before interest, tax, depreciation, and amortization), Adjusted EBITDA, Operating loss, Funds flow from operating activities and Working capital do not have a standardized meanings prescribed by IFRS – see "Non IFRS Measures" on page 11 for calculations of these measures.

(2) Net loss, EBITDA and other financial results presented were impacted by a ($2,858) inventory adjustment in 2022 and by ($15,200) asset impairment in 2023.

Operating Results

Drilling services segment

	Years ended Dec 31,		
(thousands of USD, unless otherwise noted)	2023	2022	2021
Revenue	**35,494**	23,600	8,456
Oilfield services expense	**26,980**	22,399	7,139
Oilfield services operating margin[(1)]	**8,514**	1,201	1,317
Operating margin (%)	***24.0%***	*5.1%*	*15.6%*

(1) See "Non-IFRS Measures"

Revenues for FY 2023 increased over the comparable period in 2022 and 2021 primarily as revenues generated from the reactivation of Rig 103 in mid-March of 2023 far exceeded revenues earned in 2022 from the short-term contract awarded to Rig 115, and the lack of any meaningful drilling activity in 2021. Slightly offsetting the increased revenue from the higher drilling rig utilization in FY 2023 was a reduced level of revenue from the provision of manpower as personnel were allocated to roles in or supporting the increased drilling operations. In 2021 and 2022, significant revenue was provided by the deployment of personnel with two main customers while drilling services were suspended, predominantly due to restrictions associated with the COVID-19 pandemic. The Corporation continues to develop its labour resourcing capabilities for its customers.

Operating margin as a percentage of revenues increased in FY 2023. This was attributable to increased activity resulting from the full utilization of PNG Rig 103 from mid-March 2023 to the end of 2023. 2022 margins were negatively impacted by the inventory adjustment and obsolescence provision of $2,858 recorded and low margin reimbursable expenses incurred on behalf of the Corporation's principal customer in preparation for reactivating Rig 103 the following year.

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) which remain preserved and maintained ready for deployment. Rig 115 last worked in the first half of 2022, conducting a complex well abandonment. Rig 116 has not been contracted for work since its initial contract expired in 2017 and accordingly will require certain capital refurbishment before going back to work.

Ancillary services segment

		Years ended Dec 31,	
(thousands of USD, unless otherwise noted)	2023	2022	2021
Revenue	**7,886**	6,329	3,294
Oilfield services expense	**1,937**	1,866	806
Oilfield services operating margin(1)	**5,949**	4,463	2,488
Operating margin (%)	***75.4%***	*70.5%*	*75.5%*

(1) See "Non-IFRS Measures"

The Ancillary services segment consists of the Corporation's oilfield rental equipment in PNG. In 2023, rental services revenue increased over FY 2022 as additional rental equipment was deployed with the Rig 103 drilling operations in PNG. Revenue in 2021 was considerably lower than FY 2023 and FY 2022 due to lower activity in PNG predominantly due to restrictions associated with the COVID-19 pandemic.

Operating margin as a percentage of revenues increased in FY 2023 from 70.5% in FY 2022 to 75.4%. This was attributable to higher revenue results being spread over the relatively fixed cost base inherent in the Corporation's Ancillary services segment.

Production services segment

There has been no revenue generating activity in the Corporation's Production services segment in 2021, 2022 or 2023. The Corporation continues to market its hydraulic workover rig package, Rig 102, in PNG and across the region. Oilfield services expenses for the Production services segment totalled $47, $66 and $75 for FY 2023, 2022 and 2021 respectively.

General and Administrative ("G&A")

		Years ended Dec 31,	
(thousands of USD, unless otherwise noted)	2023	2022	2021
G&A	**3,619**	3,657	2,420
Percent of revenue (%)	***8.3%***	*12.2%*	*20.6%*

G&A expenses totaled $3,619 for FY 2023, consistent with the $3,657 incurred in 2022 which itself was up 51% from 2021 as PNG exited the deepest restrictions imposed to attempt to control the spread of COVID-19 and the Corporation returned personnel to full time employment. When compared to 2022 G&A, costs were relatively flat as headcount remained consistent throughout the two years. As a percentage of revenue, G&A decreased from 20.6% in 2021 to 12.2% in 2022 to 8.3% in 2023 primarily as a result of the increasing revenue base from year to year.

Interest income

Interest income earned in 2023 was nil (2022 - $586 and 2021 - $389). Interest was earned on a $10 million loan owing to the Corporation's parent High Arctic Energy Services Inc. The loan was settled in 2022 with the Corporation forgiving the loan with High Arctic Energy Services Inc. and in return issuing a non-cash dividend in exchange.

Bank fee and finance expense

Bank fees and finance expenses incurred in 2023 totaled $243 (2022 - $107 and 2021 - $20). The increase in these expenses is primarily due to the first full year of finance expenses related to the lease agreement for its Port Moresby yard and office facility in PNG.

Management fees

Management fees earned in 2023 were $557 (2022 - $718 and 2021 - $665). These fees represent recoveries from High Arctic Energy Services Inc. of general and administrative costs incurred by the Corporation and its subsidiaries in the respective period.

Depreciation

Full year 2023 depreciation expense of $6,222 was lower than the FY 2022 depreciation expense of $7,694 primarily as a result of the reduced cost base of the Corporation's property and equipment and right-of-use assets following the impairment recorded in 2023.

Impairment

During FY 2023, the Corporation identified indicators of potential impairment in its PNG Operations CGU. The indicators noted have created uncertainty around future drilling activity levels in PNG for the Corporation. 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 resulting in an impairment of $15,200 in 2023, reducing the net carrying value of oilfield property and equipment.

Income taxes

		Years ended Dec 31,	
(thousands of USD, unless otherwise noted)	2023	2022	2021
Net loss before income tax	**(10,467)**	(4,150)	(5,970)
Current income tax expense	**(1,028)**	(2,708)	(675)
Deferred income tax recovery (expense)	**2,872**	1,900	1,624
Total income tax recovery (expense)	**1,844**	(808)	949
Effective tax rate	***17.6%***	*(19.5%)*	*15.9%*

The Corporation's current income tax expense comprises withholding taxes incurred in foreign jurisdictions where the Corporation has its operations. These withholding taxes are based on revenues earned or dividends paid and not on pre-tax income and as a result makes comparing effective tax rates from one period to another difficult. The reduction in current income tax expense in 2023 is due primarily to taxes levied on a dividend paid by PNG to the Corporation. The income tax recovery for 2023 relates primarily to a deferred income tax recovery of $2,880 due to the impairment recorded in 2023.

Total non-capital losses carried forward for income tax purposes was $2,250 at December 31, 2023 (2022 - $3,504).

Liquidity and capital resources

		Years ended Dec 31,	
(thousands of USD)	2023	2022	2021
Cash provided by (used in) operations:			
Operating activities	**8,906**	2,632	(1,898)
Investing activities	**(1,080)**	324	(1,825)
Financing activities	**(714)**	(993)	(4,967)
Effect of exchange rate changes on cash	**-**	(3)	12
Increase (decrease) in cash	**7,112**	1,960	(8,678)

(thousands of USD, unless otherwise noted)	As at Dec 31, 2023	As at Dec 31, 2022	As at Dec 31, 2021
Current assets	**30,090**	17,905	18,687
Working capital(1)	**20,335**	12,173	12,442
Working capital ratio(1)	**3.1:1**	3.1:1	3.0:1
Cash and cash equivalents	**10,958**	3,846	1,886

(1) See "Non-IFRS Measures"

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

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

Operating Activities
For the year ended December 31, 2023, cash generated from operating activities was $8,906, up from $2,632 in 2022. Funds flow from operations totaled $10,273 in the year ended December 31, 2023 compared to $512 in 2022 (see "Non-IFRS Measures"). In 2023, there was a $1,367 cash outflow from working capital changes compared to an inflow of $2,120 in 2022. Cash outflows in 2021 were a result of lower activity in PNG predominantly due to restrictions associated with the COVID-19 pandemic.

Investing Activities
During the year ended December 31, 2023, the Corporation's cash used in investing activities was $1,080 (2022: $324 inflow) reflecting capital expenditures whereas in 2022, capital expenditures were $401 offset by proceeds on disposal of $725. The investments were predominantly spent on rental equipment for opportunistic deployment under take-or-pay customer contracts. In 2021 cash used in investing activities totaled $1,825 primarily as a result of the Corporation investing in its hydraulic workover rig package, Rig 102 in anticipation of new contracts for services.

Financing Activities
During the year ended December 31, 2023, the Corporation's cash used in financing activities was $714 compared to the $993 used in 2022. FY 2022 includes a dividend payment to High Arctic of $750. The remaining amounts relate to the financing component of PNG's lease obligation payments. 2023 was higher in this regard compared to 2022 as it was the first full year of the three-year lease agreement for its Port Moresby yard and office facility in PNG. Cash used in financing activities was $4,967 in 2021 primarily driven by a large cash dividend of $4,675 paid to High Arctic.

Commitments and Contingencies
As part of the Corporation's contractual rig management and operations, the Corporation has been supplied with equipment and an inventory of spare parts with a total value of $6,135 at December 31, 2023 (December 31, 2022 - $6,135, January 1, 2022 - $6,135) by a customer for the Corporation's operations in PNG. The capital equipment and inventory are owned by this party and have not been recorded on the books of HAES Cyprus. 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 $2,589 (December 31, 2022 - $2,414, January 1, 2022 - Nil) 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.

Industry Indicators and Market Trends

The following table provides information for the last three years to assist with the understanding of the PNG oilfield services industry and the effect that commodity prices have on industry activity levels.

	2023	2022	2021
Oil and LNG prices –			
Average for each period:			
Brent crude oil (US$/bbl)(1)	82	99	71
Japan LNG (US$/mmbtu)(2)	14.39	18.43	10.76

(1) Source: Sproule
(2) Source: YCharts

Pricing for oil and natural gas production in PNG is generally tied to world prices such as Brent crude oil and Japan LNG, which rebounded strongly from lows experienced in 2020 and early 2021 when global demand was negatively impacted by COVID-19. Current commodity price levels provide a sustainable environment in which to invest in exploring for and developing new oil and gas reserves.

In 2023 Brent crude oil pricing has retreated from the high pricing environment experienced in 2022, with periods of trading below $80/bbl. Trading was similar for international LNG sales, as European sales volumes pulled back from the levels observed in 2022 as a consequence of the conflict in Ukraine and the explosion of the Nord Stream II pipelines, in 2023 US LNG output increased and milder winters were encountered. The Corporation's PNG activity has historically been based on longer term, USD denominated contracts and therefore is less affected over the short-term volatility in oil and gas prices.

Activity levels for the Corporation's major customers in PNG are less dependent on short-term fluctuations in oil and gas prices and instead are based on medium and long-term decisions, particularly with their significant interest in large scale LNG projects both on-stream and in-development.

Financial Risk Management

Financial and other risks

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

Market and other related risk

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

a) Interest rate risk

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

b) Commodity price risk

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

These prices are sensitive to local, regional and world economic and geopolitical events. This includes implications from changing oil demand and supply, policy direction taken by OPEC including the role taken by Russia, climate change driven transitions to lower emission energy sources, the implications of changes to government and government policy and ongoing negotiations in PNG to build LNG expansion with industry.

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

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

Foreign currency risk and PNG foreign currency restrictions

Foreign currency risk is the risk that a variation in the exchange rate between the USD and foreign currencies will affect the Corporation's results. The Corporation has exposure to PNG Kina ("PGK") fluctuations and other currencies such as the Australian dollar ("AUD") through its international operations. As a result, the Corporation is exposed to foreign exchange gains and losses through the settlement of foreign currency denominated transactions, which is recorded in net earnings (loss), as well as the conversion of the Corporation's subsidiaries with functional currencies other than USD, into USD for financial reporting presentation purposes, which is recorded as part of other comprehensive income (loss) within shareholder's equity.

The Corporation hedges its exposure to the PGK somewhat by denominating all of its major service contracts in USD regardless of whether they are settled in USD or in PGK. It does have some exposure via minor service contracts denominated and settled in PGK, local supplier and payroll expenses incurred in PGK and through bank balances carried in PGK. The impact of exchange rates for FY 2023 resulted in $143 in foreign exchange losses (FY 2022 - $10) primarily as a result of the depreciation of the PGK in 2023.

The Corporation has a subsidiary domiciled in Australia which is the Corporation's only entity with a functional currency that is not USD. Accordingly, the Corporation is also exposed to costs in AUD related primarily for the provision of management and administrative services. For the years ended December 31, 2023 and December 31, 2022 a $0.10 change in the exchange rate of the USD relative to the AUD would have resulted in an immaterial change to the net loss of the Corporation as the Australia subsidiary had nil income after receiving management fee income from High Arctic.

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 PGK.

As at December 31, 2023, $5,635 (December 31, 2022 - $564) was on deposit with a large international bank in PNG. BPNG has provided approval for the PNG Business to maintain a USD bank account in accordance with the BPNG currency regulations.

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

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

The Corporation's financial instruments have the following foreign exchange exposure as at December 31, 2023:

(in thousands)	PGK(1)	Aus Dollar (AUD)(2)
Cash	4,621	373
Accounts receivable	4,823	10
Accounts payable and accrued liabilities	(29)	(20)
Total	9,415	363

(1) As at Dec 31, 2023, one PGK was equivalent to 0.2655 USD.
(2) As at Dec 31, 2023, one AUD was equivalent to 0.6806 USD.

PNG restrictions on distributions

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

Credit risk, customers, and economic dependence

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

The Corporation's accounts receivable 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 credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding.

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

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

The Corporation provided services to two large multinational customers who individually accounted for greater than 10% of its consolidated revenues during the year ended December 31, 2023 with total sales of $42,799 (2022 – three large multinational customers with total sales of $29,929, 2021 – three large multinational customers with total sales of $9,906).

As at December 31, 2023, two customers represented a total of $10,791 or 98% of outstanding accounts receivable (2022 – two customers representing $5,807 or 89% of outstanding accounts receivable).

Liquidity Risk

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

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

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

Critical Accounting and other Significant Judgements and Estimates

As a routine element of the financial statement preparation process, management is required to make estimates and assumptions based on information available as at the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, and the possible disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenue and expenses for the period.

Information on the Corporation's critical accounting judgements and estimates can be found in Note 2 Basis of Presentation – Critical Accounting Judgements and Estimates in the audited annual consolidated financial statements for the year ended December 31, 2023. Although estimates and assumptions must be made during the financial statement preparation process, it is management's opinion that none of the estimates or assumptions were Highly uncertain at the time they were made. The most significant estimates in the Corporation's Financial Statements relate to, but are not limited to, the following:

Accounts receivable – Expected credit loss

The Corporation estimates the amount of expected credit losses 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 expected credit loss and any adjustments as a result of new information.

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

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 are 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. Inventory that is identified as damaged or obsolete is eventually scrapped and removed from the inventory listing.

Identification of CGUs & 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 of whether there are internal and external factors that would indicate that a CGU and specifically the non-financial assets within the CGU, either are impaired or are no longer impaired. These factors include revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") forecasts, expected industry activity levels, commodity price developments and market capitalization.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the CGU). Estimates of revenues 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.

At December 31, 2023, the Corporation determined that no indicators of impairment existed within the Corporation's CGU.

Business Risks and Uncertainties

In addition to the financial risks discussed above under "Financial Risk Management", below under "Forward Looking Statements" and elsewhere in this MD&A, the Corporation is exposed to a number of business risks and uncertainties that could have a material impact. They include, but are not limited to:

Risks Applicable to the Oil and Gas Industry in General

The success of the Corporation is dependent to a great extent on the health of the extractive industries and particularly the oil and natural gas industry in PNG and internationally which, in turn, is driven in large part by commodity prices. As a service provider to this industry, the Corporation is exposed to various risks, including:

- volatility in global supply and demand and market prices for oil and natural gas and the effect of these volatilities on the demand for oilfield services generally;
- the Russia-Ukraine conflict has had a significant impact on many aspects of the global economy. It has affected geopolitical relations between Russia and other countries, disrupted oil and gas supply chains, led to an increased focus on energy security and increased demand for energy services from other regions. This conflict could continue to cause disruption in the long term due to political tensions, policy change and economic factors;
- the emergence of conflict in the Middle East has increased risk to safe transportation and shipping via the Suez Canal and threatens to impact global oil and gas trade;
- general economic and political conditions in jurisdictions in which the Corporation operates including variations in currency exchange rates, interest rates and income tax rates;
- macroeconomic events can have a wide-ranging effect on the global economy. This includes increasing prices of commodities, impacts of government fiscal policy, increased costs of doing business and higher borrowing costs due to rising interest rates;
- risks inherent in foreign operations, including political, economic risk and the risk of foreign currency controls that could restrict the transfer of funds in or out of countries in which the Corporation operates or result in the imposition of taxes on such transfers;
- lingering affects of the Covid-19 pandemic which resulted in cessation of travel to PNG for nearly 2 years and has caused widespread economic volatility, with effects ranging from restrictions on freedom of movement and disruptions to deployment of labour force, international trade, and tourism;
- suppliers and third-party vendors experiencing workforce disruption or being ordered to cease operations;
- the implications of changes to government and government policy in countries where the Corporation conducts business;
- government and regulatory approval of our customers' projects;
- changes in legislation and the regulatory environment, including uncertainties with respect to royalty regimes, environmental guidelines, climate change policy, and resource extraction or development agreements;
- alternatives to and changing demands for petroleum products;
- the worldwide demand for oilfield services in connection with the workover and completion of oil and natural gas wells;

- liabilities and risks inherent in oil and natural gas operations, including environmental liabilities and risks arising below ground surface;
- credit risks associated with customers in the oil and natural gas industry, including the inability of a significant customer to pay for goods and services that have been provided;
- natural disasters, including earthquakes, particularly in PNG which is a country with frequently measured seismic events; and
- uncertainties in weather affecting the ability to provide services and/or the duration of the service periods and the activities that can be completed.

These factors may have an impact upon the Corporation and its customer base which, in turn, would impact the Corporation's business prospects. Readers of this MD&A should carefully consider the risks described under the heading "Risk Factors" in the accompanying Management Information Circular Appendix 'E', which are specifically incorporated by reference herein. The Management Information Circular is available on SEDAR+ at www.sedarplus.ca, copies of which can be obtained on request, from the Corporation.

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

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

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

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

The following table provides a quantitative reconciliation of consolidated net loss, as disclosed in the consolidated statements of loss and comprehensive loss, to EBITDA and Adjusted EBITDA for the years ended December 31, 2023, 2022 and 2021:

		Years ended Dec 31,	
(thousands of USD)	2023	2022	2021
Net loss	**(8,623)**	(4,958)	(5,021)
Add:			
Interest income	**-**	(586)	(389)
Bank charges and finance expenses	**243**	107	20
Income tax expense (recovery)	**(1,844)**	808	(949)
Depreciation	**6,222**	7,694	8,343
EBITDA	**(4,002)**	3,065	2,004
Adjustments to EBITDA:			
Inventory adjustments	**-**	2,858	-
Asset impairment expense	**15,200**	-	-
Loss (gain) on sale of property and equipment	**13**	(416)	(39)
Foreign exchange loss	**143**	10	10
Adjusted EBITDA	**11,354**	5,517	1,975

Oilfield services operating margin

Oilfield services operating margin is a non-IFRS financial measure that does not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Oilfield services operating margin is used by management to analyze overall operating performance. Management believes this non-IFRS financial measure provides useful information to investors and others in understanding the Corporation's operating performance. Oilfield services operating margin is not intended to represent revenue, net earnings (loss), or other measures of financial performance calculated in accordance with IFRS. Oilfield services operating margin is calculated as revenue less oilfield services expense. Oilfield services operating margin as presented is not intended to represent or be construed as an alternative to revenue or net earnings (loss) in accordance with IFRS. The table disclosed under "Oilfield services operating margin %" below provides a quantitative reconciliation of revenue, as disclosed in the consolidated statements of loss and comprehensive loss, to oilfield services operating margin and oilfield operating margin % for the years ended December 31, 2023, 2022 and 2021.

Oilfield services operating margin %

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

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

		Years ended Dec 31,	
(thousands of USD, unless otherwise noted)	2023	2022	2021
Revenue	43,380	29,929	11,750
Oilfield services expenses	(28,964)	(24,331)	(8,020)
Oilfield services operating margin	14,146	5,598	3,730
Oilfield services operating margin %	33.2%	18.7%	31.7%

Operating income (loss)

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

The table disclosed below provides a quantitative reconciliation of revenue, as disclosed in the consolidated statements of comprehensive loss to operating income (loss) for the years ended December 31, 2023, 2022 and 2021:

		Years ended Dec 31,	
(thousands of USD)	2023	2022	2021
Revenue	43,380	29,929	11,750
Oilfield services expenses	(28,964)	(24,331)	(8,020)
G&A expenses	(3,619)	(3,657)	(2,420)
Depreciation	(6,222)	(7,694)	(8,343)
Operating income (loss)	4,575	(5,753)	(7,033)

Percentage of revenue

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

Funds flow from operations

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

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

The following tables provide a quantitative reconciliation of net cash generated from (used in) operating activities, as disclosed in the consolidated statements of cash flows, to funds flow from (used in) operations for years ended December 31, 2023, 2022 and 2021:

		Years ended Dec 31,	
(thousands of USD)	2023	2022	2021
Net cash generated from (used in) operating activities	8,906	2,632	(1,898)
Less:			
Changes in non-cash working capital balances - operating	(1,367)	2,120	(3,580)
Funds flow from operations	10,273	512	1,682

Working capital

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

The following tables provide a quantitative reconciliation of current assets, as disclosed in the consolidated statements of financial position, to working capital as at December 31, 2023, 2022 and 2021:

(thousands of USD)	As at Dec 31, 2023	As at Dec 31, 2022	As at Dec 31, 2021
Current assets	30,090	17,905	18,687
Current liabilities	(9,755)	(5,732)	(6,245)
Working capital	20,335	12,173	12,442
Working capital ratio	3.1:1	3.1:1	3.0:1

Forward-Looking Statements

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

Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will include, among other things, the outlook for energy services; continued impact of Russia-Ukraine conflict; the impact of conflict in the middle east; the Corporation’s ability to maintain a USD bank account and conduct its business in USD in PNG; market fluctuations in commodity prices, and foreign currency exchange rates; restrictions to repatriate funds held in PGK; expectations regarding the Corporation’s ability to manage its liquidity risk; raise capital and manage its debt finance agreements; projections of market prices and costs; factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion; the Corporation’s ongoing relationship with its major customers; customers drilling intentions; the Corporation’s ability to position itself to be a significant supplier of services, equipment and manpower for other projects in PNG; deploying idle heli-portable drilling rigs 115 and 116 and securing future work with other exploration companies in PNG.

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

The Corporation’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and elsewhere in this MD&A.

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

Abbreviations

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

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