# MANAGEMENT'S DISCUSSION & ANALYSIS

## FOR THE THREE MONTHS ENDED
## March 31, 2024 and 2023

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") is a summary review of core operations, strategy, outlook, risks, the results of operations, liquidity, and capital resources of High Arctic Energy Services Inc. ("High Arctic" or the "Corporation"). This MD&A is based on information available to May 15, 2024 and should be read in conjunction with the unaudited interim consolidated financial statements and notes for the three-months ended March 31, 2024 and 2023 (the "Financial Statements") and the audited consolidated financial statements and notes for the year ended December 31, 2023 and 2022. Additional information relating to the Corporation including the Corporation's Annual Information Form ("AIF") for the year ended December 31, 2023, is available under the Corporation's profile on SEDAR+ at www.sedarplus.ca. This MD&A and the Financial Statements were reviewed by High Arctic's Audit Committee and approved by the Board of Directors on May 15, 2024. All amounts are expressed in thousands of Canadian dollars ("CAD") unless otherwise noted and have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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

In the following discussion, the three months ended March 31, 2024 may be referred to as the "quarter" or "Q1 2024" and the comparative three months ended March 31, 2023 may be referred to as "Q1 2023". References to other quarters may be presented as "QX 20XX" with X/XX being the quarter/year to which the commentary relates.

## CORPORATE PROFILE

Headquartered in Calgary, Alberta, Canada, High Arctic provides oilfield services to exploration and production companies operating in Papua New Guinea ("PNG") and Canada. High Arctic is a publicly traded corporation listed on the Toronto Stock Exchange in Canada under the symbol "HWO". High Arctic conducts its business operations in three separate operating segments: Drilling Services, Ancillary Services and Production Services. These operating segments are supported by a Corporate segment.

### Drilling Services

The Drilling Services segment consists of High Arctic's drilling services in PNG including the provision of personnel to assist our customer's drilling related operations in the country. High Arctic 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 High Arctic under operating and maintenance contracts for one of the Corporation's customers.

### Ancillary Services

The Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG. In PNG, the oilfield rental fleet includes matting, cranes, forklifts, trucks, camps, tanks, and vehicles and primarily services the oil and gas producers operating in PNG.

The rentals business in Canada is primarily focused on pressure control and now, subsequent to the Delta Acquisition, operates under the Delta Rental Services brand.

On December 28, 2023, High Arctic completed the acquisition (the "Delta Acquisition") of Delta Rental Services Ltd. ("Delta"). 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.

On July 31, 2023, the Corporation completed the sale of its Canadian nitrogen business previously included in its Ancillary Services segment. Personnel supporting the nitrogen operations departed the Corporation and most moved over to the acquirer. As a result, the Corporation has exited the nitrogen line of business and accordingly, for the period presented in this MD&A, the operating results of the Corporation's nitrogen assets have been presented as discontinued operations.

### Production Services

The Production Services segment consists of the Corporation's snubbing assets in the U.S., its strategic equity investments in Team Snubbing Services Inc. ("Team Snubbing"), the Seh' Chene Well Services Limited Partnership ("Seh' Chene Partnership"), and its hydraulic workover rig in PNG.

### Corporate

The Corporate segment consists of High Arctic's other lines of business including monetary investments and borrowings, executive leadership, and certain corporate administrative services.

## 2024 FIRST QUARTER HIGHLIGHTS

- Seamless integration of the Delta business with the legacy High Arctic rental business that now operates under the Delta Rental Services banner with first quarter results in line with expectations, and potential for upside from deploying underutilized assets into our expanded geographical coverage in Alberta.
- Realized a fourth continuous quarter of full utilization of PNG Rig 103 and with performance in Q1 2024 consistent with the second half of 2023.
- Improved liquidity with a working capital balance of $67.5 million, which includes a cash balance of $57.3 million, and long-term debt of $3.5 million.
- Generated Adjusted EBITDA from continuing operations of $4.5 million on revenue of $18.0 million.
- Achieved net income of $3.5 million or $0.07 per share on a fully-diluted basis.
- Strong Q1 2024 operational performance from Team Snubbing resulted in $0.5 million in income from equity investments from High Arctic's 42% equity investment.

### Select Comparative Financial Information

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

| | Three months ended Mar 31, | |
|---|---|---|
| (thousands of Canadian Dollars, except per share amounts) | 2024 | 2023 |
| **Operating results from continuing operations:** | | |
| Revenue – continuing operations | **18,005** | 8,771 |
| Net income (loss) - continuing operations | **3,505** | (630) |
| *Per share (basic & diluted)* (1) | ***0.07*** | *(0.01)* |
| Oilfield services operating margin - continuing operations (1) | **7,345** | 2,893 |
| *Oilfield services operating margin as a % of revenue* (2) | ***40.8%*** | *33.0%* |
| EBITDA - continuing operations (1) | **5,073** | 1,252 |
| Adjusted EBITDA - continuing operations (1) | **4,529** | 941 |
| *Adjusted EBITDA as a % of revenue* (1) | ***25.2%*** | *10.7%* |
| Operating income (loss) - continuing operations (2) | **2,756** | (1,977) |
| **Cash flow from continuing operations:** | | |
| Cash flow from continuing operating activities | **7,435** | 308 |
| *Per share (basic & diluted)* (1) | ***0.15*** | *0.01* |
| Funds flow from continuing operating activities (2) | **4,617** | 1,291 |
| *Per share (basic & diluted)* (1) | ***0.09*** | *0.03* |
| Dividends declared | **-** | 730 |
| *Per share (basic & diluted)* (1) | **-** | *0.015* |
| Capital expenditures | **1,050** | 396 |

| | As at | |
|---|---|---|
| (thousands of Canadian Dollars, except per share amounts) | Mar 31, 2024 | Dec 31, 2023 |
| **Financial position:** | | |
| Working capital (2) | **67,567** | 62,985 |
| Cash and cash equivalents | **57,038** | 50,331 |
| Total assets | **129,562** | 123,137 |
| Long-term debt (non-current) | **3,308** | 3,352 |
| Shareholders' equity | **103,761** | 99,332 |
| *Per share (basic)* (1) | ***2.11*** | *2.04* |
| *Per share (fully diluted)* (1) | ***2.06*** | *1.94* |
| Common shares outstanding | **49,122,302** | 49,122,302 |

(1) The number of common shares used in calculating net loss per share, cash flow from (used in) operating activities, funds flow from operating activities per share, dividend payments per share, and shareholders' equity per share is determined as explained in Note 10 of the Financial Statements.

(2) Readers are cautioned that Oilfield services operating margin, EBITDA (Earnings before interest, tax, depreciation, and amortization), Adjusted EBITDA, Operating loss, Funds flow from operating activities, Dividend payments per share, Working capital does not have a standardized meaning prescribed by IFRS – see "Non IFRS Measures" on page 13 for calculations of these measures.

## Return of Capital and Corporate Reorganization

On May 11, 2024, the Board of Directors of the Corporation announced that it had unanimously approved the reorganization of High Arctic to separate the Corporation's North American and PNG businesses, by way of a court-approved plan of arrangement (the "Arrangement"), as well as a distribution of surplus cash to shareholders by way of a return of capital of up to $38.2 million. The Arrangement will transfer High Arctic's PNG business to a separate, dedicated, and independent, publicly-traded company named High Arctic Overseas Holdings Corp., while High Arctic will continue to own and operate the Corporation's existing North American business. Each of the two companies will have its own management and operational teams and a separate Board of Directors.

For some time the Corporation has both pursued or entertained potential business combination transactions. The distinctly different profiles of the North American and PNG businesses have proven to be the main impediment to unearthing transactions acceptable to all parties and in the best interests of High Arctic Shareholders. Finding unique companies desirous of being linked to both distinct businesses has proven futile. Companies to whom association with our North American Business may be attractive are a distinctly broader group and do not overlap with the international companies with whom the PNG business and its risk profile may fit well.

Board and Management unanimously agree that the planned separation of these two businesses will ensure that management are dedicated to enhancing the value of each business and better able to access pathways to transformative and accretive transactions that are currently inaccessible. The reorganization is still subject to, amongst other things, regulatory approval and shareholder approval of 66 2/3% of votes cast at the annual general and special meeting of shareholders scheduled for June 17, 2024.

## Outlook

The acquisition of Delta in December and its integration with our legacy rentals business in Canada, has delivered scale for a cash-positive operation. Delta has performed in line with our pre-transaction expectations during this first quarter and we expect to see strong performance through 2024 as we focus on the marketing of underutilized assets into our expanded geographical coverage.

Over the past two years, the Corporation has divested underperforming and non-core assets and business. Now the Corporation's Canadian business consists of a high-margin equipment rental business centered upon pressure control, a minority interest in Canada's largest oilfield snubbing services business, Team Snubbing Services Inc., and industrial properties at Clairmont and Whitecourt in Alberta, Canada.

High Arctic's investment in Team Snubbing has positively impacted our financial results. In Canada, Team Snubbing continues to report consistent growth in service hours and revenue generation quarter-over-quarter, and the outlook through 2024 is for a continuation of this positive trend. Team Snubbing has increased its ownership of its international partnership to 90% through a non-cash arrangement and has control of Team Snubbing International Inc. and its business. Both of its snubbing packages in Alaska recommenced operations, after seasonal slowdowns, during the first quarter and are expected to operate through the year up until the depths of winter.

We have set a solid platform for 2024 with a strong first quarter from our rentals business and the investment in Team Snubbing. Coupling the outlook for Team Snubbing and the strategic growth of our successfully combined rentals business along with the industry macro developments around pipeline projects that will finally access tidewater markets and expand oil and gas takeaway for Canada in 2024, the Corporation anticipates strong demand for its equipment. Our Canadian business will be well positioned for the entrance of new leadership anticipated through the reorganization to deliver upon a growth strategy that creates value for shareholders.

Consistent with the end of 2023, the outlook for the Corporation's PNG business in 2024 remains subdued. In the Drilling Services segment, Rig 103 realized full utilisation in Q1 2024 and will finish drilling activity during the second quarter, with relocation to suspend and cold-stack Rig 103 expected to be completed by the end of Q2 2024. The Ancillary Services segment's rental fleet of equipment continues to generate strong utilization and pricing and our manpower solutions continues to build momentum as we enhance service offerings and capabilities. With no additional wells for Rig 103, the Corporation expects associated PNG rental revenues to scale back in the second half of 2024.

In the longer term, High Arctic believes PNG is on the precipice of a new round of large-scale projects in the natural resources sector. The Papua LNG project headed up by French super-major TotalEnergies is anticipated to be the next major project and is now targeting a final investment decision in 2025. There is expectation for increased drilling activity through the latter half of this decade, not only to develop wells for the supply of gas to the Papua-LNG export facility, but also to explore for and appraise other discoveries. The recent signing of a fiscal stability agreement between the P'nyang gas field joint venture and the government of PNG is another positive signal for that project to follow Papua-LNG.

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

The Corporation continues to pursue business opportunities in PNG, engage with potential customers for its services there and in the wider region and take actions to protect its capability to realize the future potential of the PNG business.

## 2024 Strategic Objectives

High Arctic's 2024 Strategic Objectives build on the platforms created and directions taken in 2023, and include:

- Continued relentless focus on safety excellence and quality service delivery,
- Distribute surplus capital and prepare for the spin out of the PNG business to shareholders,
- Create appropriate capital and corporate structures for the current businesses, that provide the opportunity to consider transactions which would create value for the Corporation's shareholders,
- Grow the core businesses through selective and opportunistic investments,
- Steward capital to preserve balance sheet strength and financial flexibility, and
- Execute accretive acquisitions in Canada that allow the Corporation to optimize its available tax loss carry-forwards.

## Discussion of Operations

### First Quarter 2024 Summary

- Drilling Rig 103 operated continuously through Q1 2024, driving substantive increases in both the Drilling Services and Ancillary Services segments including pull through rentals associated with drilling activity when compared to the Q1 2023 results. When coupled with increased contribution from Canadian rentals inclusive of the first full quarter contribution from the Delta business acquired in Q4 2023, and a reduction in low margin reimbursables this delivered the following financial results:
  - Revenue for the quarter from continuing operations of $18,005, comparable to Q4 2023 and an increase of $9,234 or 105% compared to Q1 2023 at $8,771, and
  - Adjusted EBITDA from continuing operations of $4,529 in Q1 2024, outpacing the $3,240 generated in Q4 2023 and a significant increase of $3,588 over Q1 2023.
- The improved operations in Q1 2024 combined with increased investment income in the quarter to drive the following improved financial results for the Corporation despite elevated administrative expenses associated with the reorganization initiative:
  - Net income of $3,505 from continuing operations in Q1 2024 compared to $2,745 in Q4 2023 and a net loss from continuing operations of $630 realized in Q1 2023, and
  - Increased oilfield services operating margins from 33.0 % in Q1 2023 to 40.8% in Q1 2024.

## Operating Results

### Drilling services segment

| | Three months ended Mar 31, | |
|---|---|---|
| (thousands of Canadian Dollars, unless otherwise noted) | 2024 | 2023 |
| Revenue | 12,388 | 6,276 |
| Oilfield services expense | (8,746) | (5,085) |
| Oilfield services operating margin[1] | 3,642 | 1,191 |
| ***Operating margin (%)*** | ***29.4%*** | *19.0%* |

(1) See "Non-IFRS Measures"

Revenues in the quarter increased by $6,112 or 97% over Q1 2023 with full utilization of PNG Rig 103. Customer owned Rig 103 was fully active in Q1 2024 whereas in Q1 2023 revenue was earned from only one partial month of active drilling and work performed preparing Rig 103 for operations. In both periods a consistent level of activity was contributed from the provision of skilled personnel for key customers in PNG. Operating margin as a percentage of revenues increased significantly in Q1 2024 for the same reasons.

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

**Ancillary services segment**

| (thousands of Canadian Dollars, unless otherwise noted) | Three months ended Mar 31, 2024 | 2023 |
|---|---|---|
| Revenue – continuing operations | 5,617 | 2,495 |
| Oilfield services expense – continuing operations | (1,894) | (793) |
| Oilfield services operating margin[1] | 3,723 | 1,702 |
| ***Operating margin (%)*** | ***66.3%*** | *68.2%* |

(1) See "Non-IFRS Measures"

The Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG. Inclusive of the Q4 2023 Delta Acquisition, rental equipment in Canada is centred upon pressure control equipment and equipment supporting the high-pressure stimulation of oil and gas wells in the WCSB.

Revenues from continuing operations increased $3,122 or 125% in the quarter when compared to Q1 2023 due to increased deployment of rental equipment in PNG and the increased contribution from Canadian rentals inclusive of the first full quarter contribution from the Delta business acquired in late Q4 2023. Margins for the same period were comparable at 66.3% in Q1 2024 versus 68.2% in Q1 2023 primarily a result of the higher contribution from the Canadian rental business in 2024.

**Nitrogen Assets – Discontinued Operations**

On July 31, 2023, the Corporation closed the sale of all nitrogen business assets, which were located in Canada, previously included in its Ancillary Services segment. Accordingly, for the three-month period presented in this MD&A, the operating results of the Corporation's nitrogen assets have been presented as discontinued operations.

The results of the operations of the disposed nitrogen assets are as follows:

| (thousands of Canadian Dollars, unless otherwise noted) | Three months ended Mar 31, 2024 | 2023 |
|---|---|---|
| Revenue | - | 754 |
| Oilfield services expenses | - | (574) |
| General and administrative expenses | - | (115) |
| Depreciation expense | - | (60) |
| **Net income from discontinued operations** | **-** | 5 |

**Production services segment**

| (thousands of Canadian Dollars, unless otherwise noted) | Three months ended Mar 31, 2024 | 2023 |
|---|---|---|
| Revenue | - | - |
| Oilfield services expense | (20) | - |
| Oilfield services operating margin[1] | (20) | - |
| ***Operating margin (%)*** | ***nm*** | *nm* |

(1) See "Non-IFRS Measures"

The Production Services segment operations consist of High Arctic's hydraulic workover rig package (Rig 102) in PNG, its snubbing units in Colorado, U.S., and its equity investment in the Seh' Chene Partnership in Canada. There was no activity in the production services segment in both the three-month periods ended March 31, 2024 and 2023.

Though the Seh' Chene Partnership has experienced limited business activity since the 2022 Canadian sales transactions, the partnership is still active and the Corporation together with its partner look to re-position its customer offerings and explore other avenues for business activity.

High Arctic continues to pursue discussions with active E&P companies in PNG towards deployment of Rig 102 after refurbishing the service rig package and actively bidding for projects.

Team Snubbing

Also included in High Arctic's production services segment is its equity investment in Team Snubbing. High Arctic accounts for the results of its 42% equity interest in Team Snubbing using the equity method of accounting, with Team Snubbing's net earnings recorded as income from equity investments in the respective reporting period. As reported in the Corporation's Q1 2024 Financial Statements (Note 8), Team Snubbing achieved gross revenues of $ 7,460 for Q1 2024 versus gross revenues of $6,202 for the comparative period in 2023.

This increase in revenues is a result of increased job count activity as Team Snubbing had eight snubbing packages available for operation during Q1 2024, versus six in Q1 2023. High Arctic's proportionate share of net income for Q1 2024 was $490 versus $373 for the comparable period in 2023 due to higher customer demand and stronger operational performance.

**General and Administrative ("G&A")**

| (thousands of Canadian Dollars, unless otherwise noted) | Three months ended Mar 31, 2024 | 2023 |
|---|---|---|
| G&A | **2,816** | 1,952 |
| ***Percent of revenue (%)*** | ***15.6%*** | *22.3%* |

G&A costs for Q1 2024 were higher than Q1 2023 by $864 primarily as a result of higher corporate and professional fees incurred by High Arctic relating to its work towards the Arrangement, integration costs related to the acquisition of Delta and as a result of the special meeting the Corporation was obliged to hold on January 10, 2024. G&A as a percentage of revenue in the quarter declined from 22.3% in Q1 2023 to 15.6% in Q1 2024 as a result of the higher revenue levels achieved in quarter.

**Depreciation**

Depreciation expenses on property and equipment and right-of-use assets totaled $1,639 in Q1 2024 (compared to $2,732 during Q1 2023, a decline of $1,093 or 40%. This decline is a result of the impairment recorded in Q3 2023 that reduced the cost base of High Arctic's property and equipment which has, in turn, reduced depreciation expense.

**Share-based Compensation**

Share-based compensation expense is the charge to income over the service period relating to stock option or unit plans which generally contemplate the issuance of common shares upon vesting. The Corporation recorded $59 in Q1 2024 compared to $186 in Q1 2023. This decrease was primarily due to the departure of two directors in 2023 and no new share unit or options grants to management or directors throughout 2023 and in the first quarter of 2024.

**Interest, finance expenses and income from investments**

| (thousands of Canadian Dollars) | Three months ended Mar 31, 2024 | 2023 |
|---|---|---|
| Interest on long-term debt and standby fees | 38 | 48 |
| Finance expense – lease liabilities | 45 | 15 |
| Notes receivable accretion | (64) | (44) |
| Other expenses | 11 | 21 |
| **Interest and finance expense** | 30 | 40 |
| **Interest income** | 570 | 417 |
| **Income (loss) from equity investments** | 490 | 373 |

Interest expense is pursuant to a mortgage secured by lands and buildings owned by High Arctic located within Alberta, Canada. The mortgage has a remaining initial term of under three years with a fixed interest rate of 4.30% and payments occurring monthly. The Corporation's mortgage financing contains certain non-financial covenants requiring lenders' consent including changes to the underlying business. As at March 31, 2024, the mortgage principal balance was $3,482.

Finance expense on lease liabilities associated with the time value of money for Q1 2024 was a recovery of $45 versus $15 in Q1 2023. The increase is due to higher lease obligations in 2024 as a result of lease obligations pursuant to the Delta Acquisition and a facility lease obligation in PNG.

As part of the sale of the Canadian snubbing assets in 2022, the Corporation received a convertible promissory note for $3,365 with a five-year term, annual interest rate of 4.5% accruing from January 1, 2023, and principal payments commencing in July 2024. The carrying value is being adjusted for accretion over the term of the note with $53 recorded during the three-month period ended March 31, 2024 (Q1 2023: $44).

Interest income from cash invested in high-interest accounts and Guaranteed Investment Certificates ("GICs") totalled $570 during Q1 2024 (Q1 2023 – $417). As at March 31, 2024, the Corporation has $10,456 invested in GICs earning 5.0 to 5.3% and $30,000 maintained in a high-interest savings account earning an interest rate of 5.15%.

Income from equity investments represents High Arctic's equity interest in Team Snubbing and the Seh' Chene Partnership using the equity method of accounting. High Arctic records its proportionate interest of net income generated from these investments into its earnings in the respective reporting period. Q1 2024 income from equity investments improved as a result of the higher snubbing package utilization combined with the stronger operational performance realized in the quarter by Team Snubbing.

**Other Comprehensive gain (loss)**

The Corporation recorded a $865 foreign currency translation gain in other comprehensive income for the quarter (Q1 2023: $45 loss) associated with the translation of its subsidiaries that have a functional currency other than CAD. The gain incurred in the quarter was primarily a result of a stronger US Dollar ("USD") at the end of Q1 2024. The USDCAD exchange rate at March 31, 2024 was 1.3550 compared to the USDCAD exchange rate of 1.3533 at March 31, 2023.

**Liquidity and capital resources**

| | Three months ended Mar 31, | |
|---|---|---|
| (thousands of Canadian Dollars) | 2024 | 2023 |
| Cash provided by (used in) continued operations: | | |
| Operating activities | 7,435 | 308 |
| Investing activities | (1,050) | 27,768 |
| Financing activities | (298) | (964) |
| Effect of exchange rate changes on cash | 620 | 9 |
| Increase (decrease) in cash from continuing operations | 6,707 | 27,121 |

| (thousands of Canadian Dollars, unless otherwise noted) | As at Mar 31, 2024 | As at Dec 31, 2023 |
|---|---|---|
| Current assets | 86,218 | 79,438 |
| Working capital(1) | 67,567 | 62,985 |
| Working capital ratio(1) | 4.6:1 | 4.8:1 |
| Cash and cash equivalents | 57,038 | 50,331 |
| Net cash(1) | 53,556 | 46,804 |

(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 High Arctic's requirement to transact with international suppliers and customers, High Arctic has received approval from the BPNG to maintain its 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**

In Q1 2024, cash generated from operating activities from continuing operations was $7,435, as compared with $308 of cash generated from operating activities from continuing operations in Q1 2023. Funds flow from continuing operations totaled $4,617 in the quarter whereas it was only $1,291 in Q1 2023 (see "Non-IFRS Measures"). In Q1 2024, changes in non-cash working capital totaled $2,818 versus ($983) in Q1 2023.

**Investing Activities**
During the quarter, the Corporation's cash spent on investing activities from continuing operations totaled $1,050 and related to capital expenditures. For Q1 2023 the Corporation received $27,768 net, primarily as a result of the receipt of the final cash proceeds of $28,000 from the 2022 sale of the Corporation's Canadian well servicing assets.

**Financing Activities**
During the quarter, the Corporation's cash used in financing activities was $298 and significantly lower when compared to Q1 2023 at $964. During Q1 2024, the Corporation paid $45 (Q1 2023: $56) towards principal payments on its mortgage financing (see "Mortgage Financing" below) and $253 against lease liability payments (Q1 2023: $153). The largest contributor to the decline in cash used in financing activities in the quarter was due to $730 and $25 returned to shareholders in the form of dividends and share repurchases in Q1 2023 compared to nil for both in Q1 2024.

**Mortgage financing**

| (thousands of Canadian Dollars) | As at Mar 31, 2024 | As at Dec 31, 2023 |
|---|---|---|
| Current | 174 | 175 |
| Non-current | 3,308 | 3,352 |
| Total | 3,482 | 3,527 |

The Corporation has mortgage financing secured by lands and buildings owned by High Arctic located within Alberta, Canada. The mortgage has a remaining initial term of under three years with a fixed interest rate of 4.30% with payments occurring monthly. The Corporation's mortgage financing contains certain non-financial covenants requiring lenders' consent including changes to the underlying business.

**Commitments and Contingencies**
As part of the Corporation's contractual rig management and operations, the Corporation has been supplied equipment and an inventory of spare parts with a total value of $8,131 at March 31, 2024 (December 31, 2023 - $8,114) 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 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 March 31, 2024, the Corporation has recorded a current obligation of $3,508 (December 31, 2023 - $3,424) 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.

**Outstanding Share Data**
The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. Directors, officers, and certain employees have been granted stock options and incentive shares and units under the Corporation's approved equity compensation plans.

| | Three months ended Mar 31, 2024 | | Year ended Dec 31, 2023 | |
|---|---|---|---|---|
| (Common shares issued and outstanding) | Shares | Amount | Shares | Amount |
| Balance, beginning and end of period | 49,122,302 | $169,992 | 49,122,302 | $169,992 |

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 2.0 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 this NCIB, no shares were purchased and cancelled in 2023 and no shares were purchased and cancelled in Q1 2024. As at the date of this MD&A, no shares have been purchased and cancelled in 2024.

The Corporation's previous NCIB commenced on December 15, 2022 and terminated on December 14, 2023. Pursuant to this previous NCIB, 18,296 common shares were purchased and cancelled in Q1 2023.

At March 31, 2024, 13,770 stock options were outstanding at an average exercise price of $1.30 per share, as well as 320,597 units under the Corporation's Performance Share Unit Plan and 970,017 units under the Deferred Share Unit plan were outstanding. Subsequent to March 31, 2024, all of the 13,770 stock options outstanding were either cancelled or, with respect to stock options held by a former executive employee of the Corporation, expired unexercised. As at the date of this MD&A, no stock options were outstanding.

No common shares have been issued from December 31, 2023 to the date of this MD&A.

## Summary of Quarterly Results – Continuing operations

The following is a summary of selected consolidated financial information of the Corporation for the last eight completed quarters:

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (thousands of Canadian Dollars) (except per share) | Mar 31, 2024 | Dec 31, 2023 | Sep 30, 2023 | Jun 30, 2023 | Mar 31, 2023 | Dec 31, 2022 | Sep 30, 2022 | Jun 30, 2022 |
| **Revenue** (2) | 18,005 | 18,114 | 17,814 | 17,234 | 8,771 | 11,792 | 11,899 | 25,023 |
| **Adjusted EBITDA**(1) | 4,529 | 3,240 | 3,246 | 4,413 | 897 | (716) | 558 | 2,979 |
| **Net income (loss)**(2) | 3,505 | 2,667 | (15,039) | 89 | (630) | (8,798) | (4,409) | (20,233) |
| **Earnings (loss) per share – basic and diluted**(1) | 0.07 | 0.06 | (0.31) | - | (0.01) | (0.18) | (0.09) | (0.42) |
| **Cash flow from operating activities**(1) | 7,435 | 8,003 | 1,993 | 1,082 | 316 | 541 | 930 | 6,001 |
| **Funds flow from (used in) operating activities**(1) | 4,617 | 3,452 | 3,265 | 3,914 | 1,291 | (7,995) | (661) | 2,502 |

(1) See "Non-IFRS Measures"

(2) Revenue generated from the Canadian well services and snubbing assets sold in 2022 for Q3-2022 was $4,959. The Canadian snubbing assets were sold for an equity interest in the purchaser, Team Snubbing, on July 27, 2022. As a result, subsequent to this date, revenue and expenses in connection with High Arctic's 42% ownership interest in Team Snubbing are being reflected in income from equity investments.

Revenue remained consistent in Q1 2024 relative to both Q4 2023 and Q3 2023 primarily as a result of the Rig 103 drilling operations that were ongoing for all three quarters. Revenue contribution from the Delta business acquired in late Q4 2023 mostly offset the decline in revenue in Q1 2024 from reimbursable costs in the drilling services segment that was lower in the quarter by $1,869 when compared to Q4 2023. The net income of $3,505 achieved in Q1 2024 represents a full quarter of results from the continuing business with Delta, a meaningful equity income contribution of $490 from the Team Snubbing investment and $570 of interest income.

The net loss from continuing operations in Q3 2023 was attributable to asset impairment expenses of $20,500 associated with High Arctic's PNG Operations CGU partially offset by a $3,865 deferred income tax recovery, and a $615 gain on sale of the Canadian nitrogen business assets. The relatively large net loss from continuing operations incurred in Q4 2022 and Q3 2022 were primarily a result of the inventory adjustments of $3,900 relating to stock held in PNG and the $8,679 equipment impairment and $7,921 write-down of deferred income tax asset respectively. Funds flow from operating activities has generally improved over the course of the eight quarters presented as underperforming businesses have been sold, the PNG Rig 103 drilling operations have been consistent for the last four quarters, and a full contribution from the Delta business acquired in late Q4 2023.

## Industry Indicators and Market Trends

### PNG

The following table provides information for the last eight quarters to assist with the understanding of the PNG oilfield services industry and the effect that commodity prices have on industry activity levels. In addition, the Corporation's international financial results are impacted by fluctuations in the USD to CAD exchange rate.

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar 31, 2024 | Dec 31, 2023 | Sep 30, 2023 | Jun 30, 2023 | Mar 31, 2023 | Dec 31, 2022 | Sep 30, 2022 | Jun 30, 2022 |
| **Oil and LNG prices – Average for each period:** | | | | | | | | |
| Brent crude oil (US$/bbl)(1) | 82 | 83 | 86 | 78 | 82 | 89 | 98 | 112 |
| Japan LNG (US$/mmbtu)(2) | 13.72 | 13.26 | 12.58 | 13.49 | 18.21 | 20.67 | 20.60 | 17.07 |
| USD/CAD exchange rate(1) | 1.35 | 1.36 | 1.34 | 1.34 | 1.35 | 1.35 | 1.37 | 1.29 |

(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 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.

More recently global commodity prices have stabilized in the high 70's to low 80's down from their 2022 highs. In the quarter, Brent Crude Oil price average remained relatively stable at USD 82/bbl with modest demand growth being forecasted over the short to medium term. The conflict in the Middle East that began early in Q4 2023 has created significant volatility in oil pricing since October 2023 but a significant risk premium has not yet been witnessed in Brent pricing to date. OPEC has confirmed its plans to maintain their current production cuts which continue to provide firm price support for the commodity. Japanese LNG prices increased a modest 3% to USD 13.72/mmbtu in the quarter as this LNG market has stayed in relative balance in recent quarters.

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. The USD strengthened against the CAD in Q1 2024 from an year-end 2023 USDCAD of 1.3226 to USDCAD of 1.3550 as at March 31, 2024. This positively impacted the Corporation's financial results from its PNG operations for the quarter.

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.

**Canada**

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

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar 31, 2024 | Dec 31, 2023 | Sep 30, 2023 | Jun 30, 2023 | Mar 31, 2023 | Dec 31, 2022 | Sep 30, 2022 | Jun 30, 2022 |
| **Oil and natural gas prices – Average for each period:** | | | | | | | | |
| West Texas Intermediate (WTI) (US$/bbl)(1) | 77 | 78 | 82 | 74 | 76 | 83 | 92 | 108 |
| West Canada Select (WCS) (CA$/bbl)(1) | 78 | 77 | 93 | 79 | 69 | 77 | 94 | 122 |
| Canada Light Sweet Oil (CLS) (CA$/bbl)(1) | 95 | 98 | 107 | 95 | 100 | 108 | 117 | 136 |
| AECO (CA$/mmbtu)(1) | 2.18 | 2.30 | 2.61 | 2.43 | 3.23 | 5.24 | 4.46 | 7.26 |

(1) Source: Sproule

In Q1 2024, WTI, WCS, CLS prices all stayed within a narrow 2-5% range. This rangebound price environment is consistent with broader macro environment. Recessionary fears in North America have all but dissipated as inflation in mostly all OECD countries has been largely reigned in and economic output, whilst muted, continues to grow. This stable economic view in the near-term has reduced price volatility in the often volatile commodity market in both Canada and globally.

In Canada, industry activity remained steady throughout the quarter and was relatively consistent when compared to recent quarters. North American commodity prices remain in a profitable range assisted by the favourable USD/CAD exchange rate, the aforementioned strong demand outlook and a political focus attempting to balance energy transition and energy security. All of these factors are favourable to the energy industry and provide impetus to justify upstream capital investment.

## 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 mortgage financing with a fixed interest rate of 4.30%. The Corporation is exposed to interest rate risk upon renewal or expiration of the initial term. In addition, the Corporation is also exposed to interest rate risk on any future borrowing as rates fluctuate in response to changes in monetary policy and the prime interest rates. The Corporation had no risk management contracts that would be affected by interest rates in place at March 31, 2024.

**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 customer's 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 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 March 31, 2024.

**Foreign currency risk and PNG foreign currency restrictions**
Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The Corporation has exposure to USD fluctuations and other currencies such as the PNG Kina ("PGK") 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 CAD, into CAD for financial reporting presentation purposes, which is recorded as part of other comprehensive income (loss) within shareholders' equity.

During 2024 and 2023, a majority 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 three months ended March 31, 2024, 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 income amounting to $293 (Q1 2023: $26).

The average USD to CAD ("USDCAD") exchange rate for the quarter was 1.3489 comparable to the 1.3518 realized during Q1 2023. As at March 31, 2024, the US dollar had strengthened considerably in the quarter and settled at 1.3550 USDCAD compared to the prior year-end rate of 1.3226.

The impact of exchange rates for the quarter resulted collectively in a $113 foreign exchange gain versus a loss of $6 in Q1 2023 being recorded in the statements of income/loss on various foreign currency denominated transactions and on the translation of foreign denominated monetary assets and liabilities.

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 March 31, 2024, USD $8,292 (December 31, 2023 - USD $5,635) was on deposit with a large international bank in 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 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.

As at March 31, 2024, the Corporation cash balances in PNG totaled $12,346. 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 High Arctic 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 March 31, 2024, the dividend would attract a withholding tax in PNG of approximately $1,852 and the funds repatriated from PNG would be reduced accordingly.

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

| (in thousands) | USD(1) | PGK(2) | Aus Dollar (AUD)(3) |
|---|---|---|---|
| Cash | 14,493 | 3,267 | 787 |
| Accounts receivable | 9,609 | 3,590 | 20 |
| Accounts payable and accrued liabilities | (9,126) | (28) | (1,291) |
| Total | 14,976 | 6,829 | (484) |

(1) As of Mar. 31, 2024, one USD was equivalent to 1.3550 CAD.
(2) As at Mar. 31, 2024, one PGK was equivalent to 0.3539 CAD.
(3) As at Mar. 31, 2024, one AUD was equivalent to 0.8827 CAD.

## 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 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 three months ended March 31, 2024 with total sales of $13,510 (2023: two customers with total sales of $6,977).

As at March 31, 2024, one customer represented a total of $12,575 or 73% of outstanding accounts receivable (December 31, 2023 – two customers represented a total of $15,139 or 92% of outstanding accounts receivable).

The aging of the Corporation's accounts receivable is as follows:

| (thousands of Canadian Dollars) | As at Mar 31, 2024 | As at Dec 31, 2023 |
|---|---|---|
| Less than 31 days | 7,165 | 6,680 |
| 31 days to 60 days | 7,715 | 6,842 |
| 61 days to 90 days | 1,173 | 2,854 |
| Greater than 90 days | 1,750 | 1,284 |
| Provision for expected credit losses | (203) | (192) |
| Total | 17,600 | 17,468 |

## 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, managing compliance to debt finance agreements, and remaining attentive to the relationship with High Arctic's bankers and other creditors. The Corporation seeks to manage its financing based on the results of these processes.

Subsequent to the closing of the sale of certain Canadian well servicing and snubbing assets in 2022, the Corporation's revolving credit facility was terminated. High Arctic intends to fund working capital and capital expenditure needs from cash balances with a view to establishing new arrangements geared towards its Canadian and Papua New Guinea businesses in due course.

### Critical Accounting Judgements and Estimates

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.

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

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

For information regarding the corporate governance policies and practices of High Arctic, the reader should refer to High Arctic's 2023 Annual Report, High Arctic's Annual Information Form dated April 8, 2024 in respect of the year ended December 31, 2023, High Arctic's Information Circular in respect of the June 17, 2024 Annual General and Special Meeting of shareholders and High Arctic's Information Circular in respect of the January 10, 2024 Special Meeting of shareholders each of which is available under the Corporation's profile on SEDAR+ at www.sedarplus.ca.

### Business Risks and Uncertainties

In addition to the financial risks discussed above under "Financial Risk Management", below under "Forward Looking Statements" and elsewhere in this MD&A, High Arctic is exposed to a number of business risks and uncertainties that could have a material impact on the Corporation. Readers of the Corporation's MD&A should carefully consider the risks described under the heading "Risk Factors" in the Corporation's December 31, 2023 AIF, which are specifically incorporated by reference herein. The AIF 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. High Arctic 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 continuing operations before interest, taxes, depreciation, and amortization ("EBITDA from continuing operations")

EBITDA from continuing 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. EBITDA from continuing operations is defined as net loss adjusted for income taxes, interest and finance expense depreciation and amortization. Management believes that, in addition to net loss reported in the consolidated statements of loss and comprehensive loss, EBITDA from continuing operations 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 from continuing operations is not intended to represent or be construed as an alternative to net earnings (loss) calculated in accordance with IFRS. Note that EBITDA from continuing operations is inclusive of government wage subsidies and rental subsidies recorded. Refer to table in Adjusted EBITDA from continuing operations below that provides a reconciliation of net earnings (loss), as disclosed in the consolidated statements of loss and comprehensive loss, to EBITDA from continuing operations.

### Adjusted EBITDA from continuing operations

Adjusted EBITDA from continuing 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. Adjusted EBITDA from continuing operations is defined based on EBITDA from continuing operations (as defined above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, impairment charges, equity earnings from investments, other costs related to consolidating facilities, excess of insurance proceeds over costs and foreign exchange gains or losses. Note that Adjusted EBITDA from continuing operations is inclusive of the CEWS and rental subsidy programs which ended in October 2022.

Management believes the addback for these items provides a more comparable measure of the Corporation's operational financial performance between periods. Adjusted EBITDA from continuing operations 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 from continuing operations, as disclosed in the consolidated statements of loss and comprehensive loss, to EBITDA from continuing operations and Adjusted EBITDA from continuing operations for the three months ended March 31, 2024 and 2023:

| | Three months ended Mar 31, | |
|---|---|---|
| (thousands of Canadian Dollars) | 2024 | 2023 |
| Net income (loss) from continuing operations | **3,505** | (630) |
| Adjustments to net income (loss): | | |
| Interest income | **(570)** | (417) |
| Interest and finance expense | **30** | 40 |
| Income tax expense (recovery) | **394** | (473) |
| Depreciation and amortization from continuing operations | **1,714** | 2,732 |
| EBITDA from continuing operations | **5,073** | 1,252 |
| Adjustments to EBITDA: | | |
| Share-based compensation expense | **59** | 186 |
| Income from equity investments | **(490)** | (373) |
| Gain on sale of property and equipment | **-** | (130) |
| Foreign exchange (gain) loss | **(113)** | 6 |
| Adjusted EBITDA from continuing operations | **4,529** | 941 |

### 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 three months ended March 31, 2024 and 2023.

### 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 %:

| | Three months ended Mar 31, | |
|---|---|---|
| (thousands of Canadian Dollars, unless otherwise noted) | 2024 | 2023 |
| Revenue from continuing operations | 18,005 | 8,771 |
| Oilfield services expenses from continuing operations | (10,660) | (5,878) |
| Oilfield services operating margin | 7,345 | 2,893 |
| Oilfield services operating margin % | 40.8% | 33.0% |

### Operating income (loss) from continuing operations

Operating income (loss) from continuing 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. Operating income (loss) from continuing operations 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) from continuing operations is not intended to represent revenue, net earnings (loss), or other measures of financial performance calculated in accordance with IFRS. Operating income (loss) from continuing operations is calculated as revenue less oilfield services expense, general and administrative expense, depreciation, and share-based compensation. Operating income (loss) from continuing operations 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 loss and comprehensive loss to operating income (loss) from continuing operations for the three months ended March 31, 2023 and 2022:

| (thousands of Canadian Dollars) | Three months ended Mar 31, 2024 | 2023 |
|---|---|---|
| Revenue from continuing operations | 18,005 | 8,771 |
| Oilfield services expenses from continuing operations | (10,660) | (5,878) |
| G&A expenses from continuing operations | (2,816) | (1,952) |
| Depreciation from continuing operations | (1,714) | (2,732) |
| Share based compensation | (59) | (186) |
| Operating income (loss) from continuing operations | 2,756 | (1,977) |

### 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 continuing operations
Funds flow from continuing 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 continuing operations is defined as net cash generated (used in) from continuing 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 High Arctic'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) continuing operations for the three months ended March 31, 2024 and 2023:

| (thousands of Canadian Dollars) | Three months ended Mar 31, 2024 | 2023 |
|---|---|---|
| Net cash generated from continuing operating activities | 7,616 | 308 |
| Changes in non-cash working capital balances - operating | (2,817) | 983 |
| Funds flow from continuing operations | 4,799 | 1,291 |

### 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 divided 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 March 31, 2024 and December 31, 2023:

| (thousands of Canadian Dollars) | As at Mar 31, 2024 | As at Dec 31, 2023 |
|---|---|---|
| Current assets | 86,218 | 79,438 |
| Current liabilities | (18,651) | (16,453) |
| Working capital | 67,567 | 62,985 |
| Working capital ratio | 4.6:1 | 4.8:1 |

### Net cash
Net cash 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. Net cash is used by management to analyze the amount by which cash and cash equivalents

(if applicable) exceed the total amount of long-term debt and bank indebtedness, or vice versa. The amount, if any, is defined as cash and cash equivalents less total long-term debt.

The following tables provide a quantitative reconciliation of cash, as disclosed in the consolidated statements of financial position, to net cash:

| (thousands of Canadian Dollars) | As at Mar 31, 2024 | As at Dec 31, 2023 |
|---|---|---|
| Cash and cash equivalents | 57,038 | 50,331 |
| Less: Long term debt[(1)] | (3,482) | (3,527) |
| Net cash | 53,556 | 46,804 |

(1) Long-term debt includes current portion of $174 (2023: $175 and non-current portion of $3,308 (2023: $3,352)

## 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 interest rates, 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; the intended reorganization of the Corporation including spinoff of the PNG business to shareholders as a Canadian publicly listed company and the distribution of a return of capital to shareholders, and obtaining applicable regulatory and shareholder approvals; right sizing of the general and administrative infrastructure to align with the new corporate structure; expansion of Canadian oil and gas takeaway capacity to global markets; the performance of the Corporation's investment in Team Snubbing, and whether Team Snubbing can realize high utilization in it's Canadian operations and for its two snubbing packages in Alaska in 2024; strong demand for the Corporations Canadian rental equipment in 2024, Papua New Guinea being on the precipice of a new round of large-scale projects in the natural resources sector; if a final investment decision will be made on the Papua-LNG project in 2025; whether the development of the P'nyang gas field will follow Papua-LNG;Completion of Rig 103 cold stack by the end of Q2 2024; 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; future work with other exploration companies in PNG; the success in pursuing business opportunities in PNG and in the wider region; the success of any actions taken to protect the Corporation's capability to realize the future potential of the PNG business; scaling the Canadian business; executing on one or more corporate transactions; estimated credit risks and the utilization of tax losses.

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, along with the risk factors set out in the most recent Annual Information Form filed on SEDAR+ at www.sedarplus.ca.

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:

| | |
|---|---|
| AIF | - Annual information form |
| AUD | - Australian dollars |
| bbl | - Barrel |
| BPNG | - Bank of PNG |
| CAD | - Canadian dollars |
| CLS | - Canadian Light Sweet |
| DCP | - Disclosure controls and procedures |
| EBITDA | - Earnings before interest, tax, depreciation, and amortization |
| FY | - Financial Year |
| ESG | - Environmental, Social and Corporate Governance |
| ICFR | - Internal controls over financial reporting |
| IFRS | - International Financial Reporting Standards |
| IRC | - Internal Revenue Commission of PNG |
| LNG | - Liquified natural gas |
| MD&A | - Management discussion and analysis |
| Nm | - Not meaningful |
| mmbtu | - Million British thermal units |
| NCIB | - Normal course issuer bid |
| OPEC | - Organization of Petroleum Exporting Countries |
| PGK | - Papua New Guinea kina |
| PNG | - Papua New Guinea |
| US | - United States of America |
| USD | - United States dollars |
| USDCAD | - Exchange rate that represents the amount of CAD required to buy one USD |
| WCS | - West Canada Select |
| WCSB | - Western Canadian Sedimentary Basin |
| WTI | - West Texas Intermediate |