CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED
June 30, 2024 and 2023

(Unaudited)

HIGH ARCTIC ENERGY SERVICES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (thousands of Canadian Dollars)	As at June 30, 2024	As at December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	41,087	50,331
Accounts receivable (Note 4)	2,694	17,468
Inventory	74	9,378
Prepaid expenses and other assets	241	851
Current portion of notes receivable (Note 8)	1,689	745
Income tax receivable	-	665
Assets held for distribution (Note 3)	50,771	-
	96,556	79,438
Non-current assets		
Property and equipment (Note 6)	10,934	27,554
Right of use assets (Note 9(a))	1,301	2,655
Intangible assets (Note 5)	1,351	1,501
Goodwill (Note 1)	812	812
Notes receivable (Note 8)	2,257	2,995
Equity investments (Note 7)	7,782	8,182
	24,437	43,699
Total assets	120,993	123,137
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	2,307	14,134
Distribution payable (Note 20)	37,842	-
Current portion of long-term debt (Note 11)	175	175
Current portion of lease liabilities (Note 9(b))	273	959
Current portion of contingent consideration payable (Note 12)	812	812
Income tax payable	8	373
Liabilities held for distribution (Note 3)	8,884	-
	50,301	16,453
Non-current liabilities		
Long-term debt (Note 11)	3,265	3,352
Lease liabilities (Note 9(b))	1,127	1,860
Contingent consideration payable (Note 12)	2,140	2,140
	6,532	7,352
Total liabilities	56,833	23,805
Shareholders' Equity		
Share capital (Note 13)	133,153	169,992
Contributed surplus	13,135	14,550
Accumulated and other comprehensive income	28,258	26,980
Deficit	(110,386)	(112,190)
	64,160	99,332
Total liabilities and shareholders' equity	120,993	123,137

The accompanying notes are an integral part of these condensed interim consolidated financial statements.
Subsequent events (Note 20)

Approved on behalf of the Board,

(Signed) "Douglas Strong"
Douglas Strong
Director

(Signed) "Michael Binnion"
Michael Binnion
Director

HIGH ARCTIC ENERGY SERVICES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)	Three months ended June 30,		Six months ended June 30,	
(thousands of Canadian Dollars)	2024	2023	2024	2023
Revenue (Note 18)	2,533	664	5,521	1,332
Oilfield services expenses (Note 15)	1,329	355	2,792	572
General and administrative expenses (Note 15)	1,780	1,320	3,695	2,215
Depreciation and amortization expenses (Notes 5,6,9)	707	423	1,328	831
Share-based compensation expense (Note 14)	80	(34)	139	152
Operating loss	(1,363)	(1,400)	(2,433)	(2,438)
Interest and other income	467	510	1,038	927
Interest and finance expenses (Note 15)	(62)	(68)	(126)	(134)
Accretion on notes receivable	66	48	130	91
Foreign exchange gain (loss)	80	(212)	271	(227)
Gain on sale of property and equipment	-	6	-	136
Loss from equity investments (Note 7)	(889)	(430)	(399)	(57)
Income (loss) before income tax from continuing operations	(1,701)	(1,546)	(1,519)	(1,702)
Income tax expense	(8)	-	(8)	(4)
Income tax recovery (expense) from continuing operations	(8)	-	(8)	(4)
Net loss from continuing operations	(1,709)	(1,546)	(1,527)	(1,706)
Net income from discontinued operations (Note 3)	(42)	1,449	3,331	984
Total net income (loss)	(1,751)	(97)	1,804	(722)
Income (loss) per share (Note 13)				
Basic and diluted – continuing operations	(0.04)	(0.03)	(0.03)	(0.03)
Basic and diluted – discontinued operations	0.00	0.03	0.07	0.02

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Total net income (loss)	(1,751)	(97)	1,804	(722)
Other comprehensive income (loss):				
Items that may be reclassified subsequently to net income (loss):				
Foreign currency translation gain (loss) for foreign operations	413	(1,049)	1,278	(1,094)
Comprehensive income (loss) for the period	(1,338)	(1,146)	3,082	(1,816)

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

HIGH ARCTIC ENERGY SERVICES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands of Canadian Dollars, except number of common shares)	Number of Common shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balance, December 31, 2022	48,691,864	169,554	14,685	27,853	(96,861)	115,231
Share-based compensation expense (Note 14)	-	-	152	-	-	152
Purchase of common shares for cancellation	(18,296)	(64)	39	-	-	(25)
Dividends	-	-	-	-	(1,460)	(1,460)
Other comprehensive loss – foreign currency translation loss	-	-	-	(1,094)	-	(1,094)
Net loss for the period	-	-	-	-	(722)	(722)
Balance, June 30, 2023	48,673,568	169,490	14,876	26,759	(99,043)	112,082

Balance, December 31, 2023	49,122,302	169,992	14,550	26,980	(112,190)	99,332
Share-based compensation expense (Note 14)	-	-	139	-	-	139
Distribution – return of capital	-	(37,842)	-	-	-	(37,842)
Other comprehensive income – foreign currency translation gain	-	-	-	1,278	-	1,278
Exercise of performance share units	282,185	422	(422)	-	-	-
Exercise of deferred share units	388,213	581	(1,132)	-	-	(551)
Net income for the period	-	-	-	-	1,804	1,804
Balance, June 30, 2024	49,792,700	133,153	13,135	28,258	(110,386)	64,160

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

HIGH ARCTIC ENERGY SERVICES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (thousands of Canadian Dollars)	Three months ended June 30, 2024	 2023	Six months ended June 30, 2024	 2023
Cash flows from operating activities:				
Net income (loss) from continuing operations	(1,709)	(1,546)	(1,527)	(1,706)
Adjustments for:				
Depreciation and amortization expenses (Notes 5,6,9)	707	423	1,328	831
Unrealized foreign exchange (gain) loss	(177)	103	(271)	116
Share-based compensation expense (recovery) (Note 14)	80	(34)	139	152
Non-cash interest and accretion on notes receivable	(104)	(48)	(206)	(91)
Non-cash finance expense (Note 15)	21	19	42	30
Gain on sale of property and equipment	-	(6)	-	(136)
Loss from equity investments	889	430	399	57
Funds from operating activities from continuing operations	(293)	(659)	(96)	(747)
Change in non-cash working capital (Note 16)	(468)	1,285	(394)	780
Cash from operating activities from continuing operations	(761)	626	(490)	33
Cash from operating activities from discontinued operations (Note 3)	4,088	327	11,252	1,293
Net cash from operating activities	3,327	953	10,762	1,326
Cash flows from investing activities:				
Property and equipment expenditures (Note 6)	(507)	(317)	(815)	(425)
Proceeds from asset sales, net of costs	-	-	-	28,101
Change in non-cash working capital (Note 16)	-	-	-	-
Net cash from (used in) investing activities from continuing operations	(507)	(317)	(815)	27,676
Cash from investing activities from discontinued operations (Note 3)	18	(452)	(724)	(677)
Net cash from (used in) investing activities	(489)	(769)	(1,539)	26,999
Cash flows from financing activities:				
Purchase of common shares for cancellation	-	-	-	(25)
Repayment of long-term debt (Note 11)	(42)	(43)	(87)	(99)
Dividend	-	(730)	-	(1,460)
Lease obligation payments (Note 9(b))	(85)	(39)	(171)	(92)
Net cash used in financing activities from continuing operations	(127)	(812)	(258)	(1,676)
Cash used in financing activities from discontinued operations (Note 3)	(122)	(693)	(334)	(793)
Net cash used in financing activities	(249)	(1,505)	(592)	(2,469)
Effect of foreign exchange rate changes	415	(5)	1,080	4
Change in cash and cash equivalents	3,004	(1,326)	9,711	25,860
Total cash and cash equivalents, beginning of period	57,038	46,745	50,331	19,559
Total cash and cash equivalents, end of period	60,042	45,419	60,042	45,419

Total cash and cash equivalents, end of period per above	60,042
Included in cash and cash equivalents per Condensed Interim Statement of Financial Position	41,087
Included in assets held for distribution	18,955

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

HIGH ARCTIC ENERGY SERVICES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(Stated in Thousands of Canadian Dollars)

1. Nature of business

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

As of June 30, 2024, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L., representing 44.0% of the outstanding common shares. In addition, High Arctic directors and officers collectively own 3,663,318 common shares, representing 7.4% of the outstanding common shares.

On June 17, 2024, the Corporation held its Annual and Special General Meeting where the Corporation's shareholders approved, amongst other things, a special resolution approving a reorganization of the Corporation by way of a plan of arrangement ("the Arrangement") and return of capital of up to $0.76 per common share of High Arctic. The reorganization of the Corporation will see the current PNG business spun out to the current High Arctic shareholders through a new publicly listed entity High Arctic Overseas Holdings Corp. ("SpinCo") that will trade on the TSX Venture Exchange under the trading symbol HOH. On June 27, 2024, the Corporation received a final order approving the Arrangement from the Alberta Court of King's Bench. On August 1, 2024, the Corporation was able to fulfill the last major condition in the Arrangement which was the receipt of conditional approval from the TSX Venture Exchange to have the SpinCo shares trade on its exchange. All other terms and conditions to the Arrangement were satisfied subsequent to receipt of conditional approval from the TSX Venture Exchange and the Arrangement was completed on August 12, 2024.

On December 28, 2023, High Arctic completed the acquisition of all the shares of Delta Rental Services Ltd. ("Delta") for cash consideration of $3,430 and contingent consideration of $2,952 (Note 12) that includes a combination of cash and shares, payable over a three-year period. As a result of this acquisition, goodwill of $812 and intangible assets of $1,501 (Note 5) were recognized.

On June 19, 2023, High Arctic entered into an agreement to sell its Canadian Nitrogen transportation, hauling and pumping services business (the "Nitrogen Transaction") for cash consideration of $1,350. The transaction closed on July 31, 2023 (see Note 3(b)).

The following table lists the Corporation's principal subsidiaries, the jurisdiction of formation or incorporation of such subsidiaries and the percentage of shares owned, directly or indirectly, by the Corporation as at June 30, 2024:

Name of subsidiary	Jurisdiction of formation or incorporation	Percentage ownership of shares beneficially owned or controlled (in) directly by the Corporation
HAES SD Holding Corp.	Alberta	100%
Powerstroke Well Control, Inc.	United States	100%
Seh' Chene GP Inc.	Alberta	49%
Seh' Chene Well Services Limited Partnership	Alberta	49%
Team Snubbing Services Inc.	Alberta	42%
Assets held for distribution are held by the following subsidiaries:		
High Arctic Energy Services Cyprus Limited	Cyprus	100%
High Arctic Energy Services PNG Limited	PNG	100%
PNG Industry Manpower Solutions Limited	PNG	100%
High Arctic Energy Services (Singapore) PTE Ltd.	Singapore	100%
High Arctic Energy Services Australia PTY Ltd.	Australia	100%

2. Basis of Presentation

(a) Statement of compliance and approval

These unaudited condensed interim consolidated financial statements (“Financial Statements”) have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting. These Financial Statements were authorized for issuance by the Board of Directors on August 14, 2024.

(b) Basis of preparation

Unless otherwise noted, these Financial Statements follow the same accounting policies and methods of computation as described in the annual audited consolidated financial statements for the year ended December 31, 2023. Accordingly, these Financial Statements should be read in conjunction with the audited consolidated financial statements.

(c) Functional and presentation currency

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

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

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

(d) Judgments, estimates and assumptions

The interim financial statements were prepared using the same judgments, estimates and assumptions as described in the audited annual financial statements for the year ended December 31, 2023.

Reorganization and spinoff of PNG business

On May 11, 2024, the Corporation announced its plans to proceed with its intended reorganization and filed a Plan of Arrangement and other documents that were subsequently approved by the Corporation's shareholders at an Annual and Special General Meeting held on June 17, 2024.

As at June 30, 2024, the Corporation has concluded that based on the events during the three-month period ended June 30, 2024, the completion of the Arrangement and the reorganization of the Corporation as planned is highly probable and has classified the PNG business as assets and liabilities held for distribution in these interim financial statements. Also, given the PNG business represents a separate geographical area of operations, it is presented as discontinued operations (Note 3).

(e) Re-presentation of comparatives

In June 2023, the Corporation agreed to sell all of its Canadian Nitrogen transportation, hauling and pumping services business. Accordingly, and in addition to the 2024 intended Corporate reorganization that will see the spinout of the PNG business into SpinCo, certain comparative figures of these Interim Financial Statements have been re-presented to present operations of High Arctic’s PNG business and its legacy Canadian Nitrogen transportation, hauling and pumping services business as discontinued operations (Note 3).

3. Assets held for distribution and discontinued operations

(a) 2024 Spin-off of the PNG business:

At June 30, 2024, the assets and liabilities of the PNG business that comprise the disposal group held for distribution with respect to the spin-off transaction are comprised of the following:

(thousands of Canadian Dollars)	As at June 30, 2024
Current assets:	
Cash and cash equivalents	18,955
Accounts receivable	6,597
Inventory	8,317
Prepaid expenses and other assets	449
Income tax receivable	686
Non-current assets:	
Property and equipment	14,856
Right of use assets	911
Total assets held for distribution	50,771
Current liabilities:	
Accounts payable and accrued liabilities	7,575
Income tax payable	359
Current portion of lease liabilities	628
Non-current liabilities:	
Lease liabilities	322
Total liabilities held for distribution	8,884
Net assets held for distribution	41,887

The operating results of the Corporation's PNG business reported herein as discontinued operations for the three and six months ended June 30, 2024 and 2023 are as follows:

(thousands of Canadian Dollars)	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Revenue	10,431	16,570	25,448	24,673
Oilfield services expenses	(6,336)	(10,413)	(15,533)	(16,074)
General and administrative expenses	(1,967)	(733)	(2,868)	(1,790)
Depreciation and amortization expenses	(2,022)	(2,728)	(3,115)	(5,052)
Interest and finance income (expense)	66	(110)	85	(127)
Foreign exchange gain (loss)	91	(13)	13	(4)
Gain on sale of property and equipment	-	7	-	7
Pre-tax income for the period	263	2,580	4,030	1,633
Income tax expense	(305)	(945)	(699)	(468)
Net income (loss) from discontinued operations	(42)	1,635	3,331	1,165

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

(thousands of Canadian Dollars)	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Cash flow from operating activities	4,088	456	11,252	1,364
Cash from (used in) investing activities	18	(452)	(724)	(706)
Cash used in financing activities	(122)	(693)	(334)	(793)

(b) 2023 Sale of Nitrogen business:

The operating results of the Corporation's nitrogen transportation, hauling and pumping services business reported herein as discontinued operations for the three and six months ended June 30, 2023 are as follows:

(thousands of Canadian Dollars)	Three months ended June 30, 2023	Six months ended June 30, 2023
Revenue	448	1,202
Expenses:		
Oilfield services expenses	(484)	(1,059)
General and administrative expenses	(99)	(214)
Depreciation and amortization expenses	(51)	(111)
Gain on sale of property and equipment	-	1
Net income from discontinued operations	(186)	(181)

Discontinued operations from the nitrogen business reported in the condensed interim consolidated statements of cash flows are as follows:

(thousands of Canadian Dollars)	Three months ended June 30, 2023	Six months ended June 30, 2023
Cash flow used in operating activities	(129)	(72)
Cash flow from investing activities	-	29
Cash flow from financing activities	-	-

4. Accounts receivable

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

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Less than 31 days	1,438	6,680
31 days to 60 days	525	6,842
61 days to 90 days	269	2,854
Greater than 90 days	569	1,284
	2,801	17,660
Expected credit losses	(107)	(192)
	2,694	17,468

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

The details of this approach as at June 30, 2024 was as follows:

(thousands of Canadian Dollars)	Less than 31 days	31- 60 days	61 – 90 days	Over 90 days	Total
Investment grade receivables	421	56	101	11	589
Non-investment grade receivables	1,017	469	168	558	2,212
Total receivables	1,438	525	269	569	2,801
ECL for investment grade (%)	*0.04*	*0.06*	*0.10*	*0.30*	
ECL for non-investment grade (%)	*0.25*	*0.75*	*5.00*	*10.00*	
ECL provision – investment grade	-	-	-	-	-
ECL provision – non-investment grade	(3)	(4)	(3)	(22)	(32)
Specifically provided for amounts	-	-	-	(75)	(75)
Total provision for ECL	(3)	(4)	(3)	(97)	(107)

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

(thousands of Canadian Dollars)	Less than 31 days	31- 60 days	61 – 90 days	Over 90 days	Total
Investment grade receivables	5,893	6,278	2,674	541	15,386
Non-investment grade receivables	787	564	180	743	2,274
Total receivables	6,680	6,842	2,854	1,284	17,660
ECL for investment grade (%)	*0.04*	*0.06*	*0.10*	*0.30*	
ECL for non-investment grade (%)	*0.25*	*0.75*	*2.00*	*4.00*	
ECL provision – investment grade	(2)	(4)	(3)	(2)	(11)
ECL provision – non-investment grade	(2)	(4)	(4)	(31)	(41)
Specifically provided for amounts	-	-	-	(140)	(140)
Total provision for ECL	(4)	(8)	(7)	(173)	(192)

5. Intangible assets

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Intangible assets	1,501	1,501
Less amortization	(150)	-
	1,351	1,501

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

6. Property and equipment

(thousands of Canadian Dollars)	Vehicles	Oilfield equipment	Computer equipment and software	Land and building	Work-in progress	Total
Cost						
Balance, Dec 31, 2023	372	166,131	2,491	6,866	310	176,170
Additions to assets held for distribution	-	439	-	-	285	724
Effect of foreign exchange	5	5,168	8	-	13	5,194
Reclassification to assets held for distribution	(137)	(153,405)	(251)	-	(608)	(154,401)
Additions	-	513	-	-	302	815
Balance, June 30, 2024	240	18,846	2,248	6,866	302	28,502
Accumulated depreciation						
Balance, Dec 31, 2023	315	144,441	2,184	1,676	-	148,616
Depreciation and impairment, assets held for distribution	5	2,786	3	-	-	2,794
Effect of foreign exchange	3	4,659	7	1	-	4,670
Reclassification to assets held for distribution	(98)	(139,215)	(231)	(1)	-	(139,545)
Depreciation	1	796	150	86	-	1,033
Balance, June 30, 2024	226	13,467	2,113	1,762	-	17,568
Net book value, Dec 31, 2023	57	21,690	307	5,190	310	27,554
Net book value, June 30, 2024	14	5,379	135	5,104	302	10,934

7. Equity investments

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Equity investment – Team Snubbing Services Inc.	7,634	8,034
Equity investment – Seh' Chene Well Services Limited Partnership	148	148
	7,782	8,182

During 2022, High Arctic entered into an agreement with Team Snubbing Services Inc. ("Team Snubbing") to sell its snubbing assets (the "Snubbing Transaction"). Consideration received included an equity ownership investment in Team Snubbing and a note receivable (Note 8).

The Corporation noted the following unaudited financial information for Team Snubbing for three and six months ended June 30, 2024 and 2023:

	Three months ended June 30,		Six months ended June 30,	
(thousands of Canadian Dollars)	2024	2023	2024	2023
Revenue	4,719	3,161	12,179	9,363
Net loss after tax	(2,119)	(1,020)	(953)	(132)
Net loss after tax – 42% share	(889)	(430)	(399)	(57)

8. Notes receivable

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Convertible promissory note	3,365	3,365
Less: Interest accretion on convertible promissory note	(233)	(417)
Note receivable on Delta Acquisition	880	880
Less: Interest accretion on note receivable on the Delta Acquisition	(66)	(88)
	3,946	3,740
Current	1,689	745
Non-current	2,257	2,995

In 2022, as part of the consideration for the Snubbing Transaction, High Arctic received a convertible promissory note from Team Snubbing for $3,365 with a five-year term, annual interest of 4.5% accruing from January 1, 2023 and principal repayments commencing July 2024. The note receivable is being recorded at amortized cost using the effective interest rate method. In the event of default, the outstanding principal amount plus accrued interest is convertible to additional common shares of Team Snubbing.

In 2023, as part of the consideration for the Delta Acquisition, High Arctic received an interest-free note receivable for $880 with a three-year term, accruing from December 28, 2023, and principal repayments commencing December 2024. The note receivable is considered a financial asset. The carrying value of the note is determined by discounting the anticipated future cash flow impact of the note using an effective interest rate of 5.0% which approximates the credit risk associated with the principal amount outstanding of the note. Accretion of $66 was recorded to the note receivable as at June 30, 2024, which results in a carrying value balance of $814 as at June 30, 2024.

9. Right of use assets and lease liabilities

(a) Right of use assets:

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Costs:		
Opening balance	3,653	1,560
Effect of foreign exchange rate changes	(61)	(49)
Reclassification to assets held for distribution	(2,026)	-
Additions	-	1,697
Dispositions	(4)	(729)
Acquisition	-	1,174
Closing balance	1,562	3,653

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Accumulated amortization:		
Opening balance	998	186
Additions – assets held for distribution	322	-
Dispositions – assets held for distribution	(128)	-
Effect of foreign exchange rate changes	40	(21)
Reclassification to assets held for distribution	(1,115)	-
Additions	144	833
Closing balance	261	998
Net closing balance	1,301	2,655

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

(b) Lease liabilities:

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Opening balance	2,819	1,482
Lease payments – assets held for distribution	(334)	-
Lease finance expense – assets held for distribution	43	-
Effect of foreign exchange rate changes	(45)	(32)
Reclassification to liabilities held for distribution	(950)	-
Lease additions	-	1,697
Lease disposals	(4)	(550)
Acquisition	-	1,174
Lease payments	(171)	(1,148)
Lease finance expense (Note 15(c))	42	196
Closing balance	1,400	2,819
Current	273	959
Non-current	1,127	1,860

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

The undiscounted cash flows relating to the lease liabilities at June 30, 2024 are as follows:

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Less than one year	347	1,055
One year to five years	1,190	2,144
More than five years	66	-
Total undiscounted liabilities	1,603	3,199

10. Accounts payable

The nature of the Corporation's accounts payable and accrued liabilities as at June 30, 2024 and December 31, 2023 are as follows:

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Trade accounts payable	758	5,405
Accrued liabilities	1,180	7,385
Wages and payroll taxes payable	123	973
Intercompany balance due on completion of the Arrangement	169	-
Other accounts payable	77	371
Total accounts payable and accrued liabilities	2,307	14,134

11. Long-term debt

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Current	175	175
Non-current	3,265	3,352
Total	3,440	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.

12. Contingent consideration

(thousands of Canadian Dollars)	As at June 30, 2024	As at Dec 31, 2023
Current	812	812
Non-current	2,140	2,140
Total	2,952	2,952

On December 28, 2023, High Arctic completed the acquisition of all the shares of Delta for cash consideration of $3,430 and contingent consideration of $2,952. The contingent consideration payable is payable in a combination of cash and shares of the Corporation over a thirty-six-month period following the transaction's close. The contingent consideration payable is based on the acquired business acquired achieving specific profitability targets and is adjusted for capital expenditures incurred. The seller will receive a set percentage of the profitability target achieved. This percentage increases when the profitability target is exceeded by 20% and is reduced when less than 95% of the profitability target is achieved. No contingent consideration is payable when less than 50% of the profitability target is achieved. In determining the fair value of the contingent consideration payable, several profitability scenarios were considered and then given a probability rating and discounted to determine a probability-weighted contingent consideration payable amount.

Profitability and capital expenditures incurred to June 30, 2024, in the Delta business have been in line with base case scenario used to determine the contingent consideration originally recorded. Accordingly, no adjustment to the contingent consideration payable amount has been made in the three- or six-month period ended June 30, 2024.

13. Shareholders' equity

(a) Share capital

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. No preferred shares have been issued by the Corporation. The common shares do not have a par value and all issued shares are fully paid. On December 13, 2023, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 1,000,000 common shares, or approximately two 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. No shares were purchased and cancelled in the first six months of 2024 pursuant to the NCIB (2023 - 18,296 shares). On June 28, 2024, the Corporation announced a distribution to its shareholders by way of a return of capital distribution of $0.76 per common share of High Arctic. The total amount of this distribution, $37.8 million, has been reflected in current liabilities at June 30, 2024.

	Three months ended June 30, 2024		Year ended Dec 31, 2023	
Common shares issued and outstanding:	Shares	Amount	Shares	Amount
Balance, beginning of period	49,122,302	$169,992	48,691,864	$169,554
Exercise of performance share units (Note 14)	282,185	422	448,734	502
Exercise of deferred share units (Note 14)	388,213	581	-	-
Purchase of common shares for cancellation	-	-	(18,296)	(64)
Declaration of return of capital distribution	-	(37,842)	-	-
Balance, end of period	49,792,700	$133,153	49,122,302	$169,992

(b) Per share amounts

(thousands of Canadian Dollars) (except number of common shares)	Three months ended June 30, 2024	2023	Six months ended June 30, 2024	2023
Continuing Operations				
Net loss	($1,709)	($1,546)	($1,527)	($1,706)
Basic - weighted average number of common shares	49,144,403	48,673,568	49,133,353	48,690,922
Basic and diluted net loss per share [(1)]	($0.04)	($0.03)	($0.03)	($0.03)
Discontinued Operations				
Net income (loss)	($42)	$1,449	$3,331	$984
Basic - weighted average number of common shares	49,144,403	48,673,568	49,133,353	48,690,922
Basic net income (loss) per share	$0.00	$0.03	$0.07	$0.02
Diluted - weighted average number of common shares	50,373,602	50,963,017	50,435,624	51,246,867
Diluted net income (loss) per share	$0.00	$0.03	$0.07	$0.02

(1) For continuing operations all of the shares outstanding under the Corporation's equity-based compensation plans for the periods presented were excluded from the calculation of diluted weighted average number of common shares as the outstanding options and units were anti-dilutive.

14. Share-based compensation

The Corporation has four equity-based compensation plans under which up to 4,979,270 common shares (being 10% of all outstanding shares) may be issued as at June 30, 2024. The following table summarizes the Corporation's outstanding grants for each equity-based compensation plan:

(number of options)	As at June 30, 2024	As at Dec 31, 2023
Stock options	-	117,000
Performance share unit plan – restricted units	-	140,059
Performance share unit plan – performance units	38,412	180,538
Deferred share units	-	938,536
Balance, end of period	38,412	1,376,133
Common shares available for grants	4,979,270	4,912,230
Percentage used of total available	1%	28%
Remaining common shares available for grant	4,940,858	3,536,097

Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management, and certain employees. These stock options are typically exercisable over a term of five years and are subject to a three-year vesting period with 33.3 percent exercisable by the holder after the first anniversary date, another 33.3 percent after the second anniversary date and the balance after the third anniversary date.

At June 30, 2024, there were no stock options outstanding.

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

	Number of stock options	Weighted average exercise price ($)
As at December 31, 2022	250,000	1.39
Forfeited/Cancelled	(133,000)	(1.39)
As at December 31, 2023	117,000	1.39
Forfeited/Settled	(117,000)	(1.39)
As at June 30, 2024	-	-

The Corporation values all its share options using the Black-Scholes model. No stock options were granted in 2024.

Performance Share Unit Plan ("PSUP")

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

(number of options)	RSUs	PSUs	Total
As at December 31, 2022	524,965	407,945	932,910
Dividends re-invested	19,906	14,464	34,370
Exercised	(330,842)	(117,892)	(448,734)
Forfeited/Cancelled	(73,970)	(123,979)	(197,949)
As at December 31, 2023	140,059	180,538	320,597
Dividends re-invested	-	-	-
Exercised	(140,059)	(142,126)	(282,185)
As at June 30, 2024	-	38,412	38,412

There were no PSU's granted in 2024 or 2023.

Deferred Share Unit Plan ("DSU")

Details regarding the DSU and related activity are as follows:

(number of options)	For the period ended June 30, 2024	For the period ended Dec 31, 2023
Outstanding, beginning of period	938,536	1,107,970
Granted	31,481	155,547
Exercised	(388,213)	-
Settled	(368,485)	-
Forfeited	(213,319)	(364,677)
Dividends re-invested	-	39,696
Outstanding, end of period	-	938,536

All of the DSUs granted in 2023 and 2024 were granted pursuant to certain Directors' electing to have their compensation for services paid in DSUs rather than cash. The weighted average fair value of each DSU granted during 2024 was $1.09 (year ended December 31, 2023 - $1.23), equivalent to the previous 5-day weighted average share price at the time of grant.

On June 17, 2024, at the Annual and Special General Meeting of the Corporation and in conjunction with the reorganization and planned return of capital, the shareholders approved a resolution approving the redemption of all outstanding units under the Corporation's DSU plan. As a result of the redemption, 388,213 DSUs were exercised and issued as common shares to the Directors and 368,485 DSUs were settled in cash to cover the tax portion owing.

15. Supplementary expense disclosures – continuing operations

(a) Oilfield services expenses by nature:

	Three months ended June 30,		Six months ended June 30,	
(thousands of Canadian Dollars)	2024	2023	2024	2023
Personnel	428	131	814	186
Equipment operating and maintenance	270	11	646	48
Material and supplies	578	97	1,208	313
Other	53	116	124	25
Total oilfield services expenses	1,329	355	2,792	572

(b) General and administrative expenses by nature:

	Three months ended June 30,		Six months ended June 30,	
(thousands of Canadian Dollars)	2024	2023	2024	2023
Personnel	1,060	692	1,919	1,219
Professional, legal and advisory fees	496	337	1,302	469
Information technology services	87	122	157	211
Corporate	114	103	229	198
Office and warehouse	78	46	99	97
Recovery of expected credit losses	(76)	(2)	(60)	(12)
Vehicle, supplies and other	21	22	49	33
Total general and administrative expenses	1,780	1,320	3,695	2,215

(c) Interest and finance expenses:

	Three months ended June 30,		Six months ended June 30,	
(thousands of Canadian Dollars)	2024	2023	2024	2023
Interest on long-term debt and standby fees	38	45	76	93
Finance expense – lease liabilities	21	19	42	30
Other expenses	3	4	8	11
Interest and finance expenses	62	68	126	134

16. Supplementary cash flow information

Changes in non-cash working capital balances:

	Three months ended June 30,		Six months ended June 30,	
(thousands of Canadian Dollars)	2024	2023	2024	2023
Source (use) of cash:				
Accounts receivable	199	1,087	(39)	1,138
Inventory, prepaid expense and other assets	(2)	(12)	89	207
Accounts payable and accrued liabilities	(673)	210	(453)	(565)
Income taxes payable	8	-	8	-
	(468)	1,285	(394)	780
Attributable to:				
Operating activities	(468)	1,285	(394)	780
Investing activities	-	-	-	-
Financing activities	-	-	-	-
	(468)	1,285	(394)	780

17. Financial Instruments and risk management

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

At June 30, 2024, the estimated fair value of the Corporation's notes receivable was $3,946 (December 31, 2023 - $3,740). This determination of fair value is based on level 3 inputs as there are no active market valuation inputs available in order to support a different valuation for the notes receivable.

At June 30, 2024, the estimated fair value of the contingent consideration payable was calculated to total $2,952 (December 31, 2023 - $2,952, Note 3).

<u>Financial and other risks:</u>

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

<u>Market risks:</u>

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

a) Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation currently has mortgage financing with a fixed interest rate of 4.30% (Note 11). The Corporation is exposed to interest rate risk upon renewal or expiration of the initial term. The Corporation had no risk management contracts that would be affected by interest rates in place at June 30, 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 customers' activity and strategic decisions are impacted by the fluctuations of oil and gas pricing.

These prices are sensitive to not only the relationship between the Canadian and US dollar, but more importantly local, regional and world economic and geopolitical events. This includes implications from changing oil demand and supply, policy direction by OPEC, the ongoing effect of the conflicts between Russia and Ukraine and in the Middle East,, climate change driven transitions to lower emission energy sources and the impact of future pandemics upon economic activity include the emergence of variants of COVID-19.

The Corporation had no risk management contracts that would be affected by commodity prices in place at June 30, 2024 and December 31, 2023.

c) Foreign currency risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The Corporation's continuing operations have nominal USD exposure. USD expenditures are typically only made when purchasing property and equipment. Accordingly, no changes to the net loss would result if there was a $0.10 change in the exchange rate of the Canadian Dollar relative to the USD.

<u>Credit risk, customers, and economic dependence:</u>

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

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

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

The net carrying amount of accounts receivable represents the estimated maximum credit exposure on the accounts receivable balance. The Corporation has a range of customers comprised of small independent, intermediate and large multinational oil and gas producers in North America.

The Corporation's continuing operations provided services to three large customers who individually accounted for greater than 10% of its consolidated revenues during the three months ended June 30, 2024 with total sales of $846 (2023: one customer with total sales of $250).

The Corporation's continuing operations provided services to one large customer who individually accounted for greater than 10% of its consolidated revenues during the six months ended June 30, 2024 with total sales of $676 (2023: three customers with total sales of $621).

As at June 30, 2024, two customers represented a total of $1,041 or 39% of outstanding accounts receivable (December 31, 2023 and inclusive of the Corporation's discontinued operations – two customers represented a total of $15,139 or 92% of outstanding accounts receivable).

Liquidity risk:

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

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

The Corporation's future financial results and longer-term success are dependent upon its working capital, its ability to secure additional capital from debt or equity financings or completing other arrangements to fund the Corporation's activities while the Corporation attempts to generate recurring positive cash flows from operations. The Corporation will continue to monitor its liquidity position in future periods.

The following table details the remaining contractual maturities of the Company's financial liabilities as of June 30, 2024:

Payments due by period						
(thousands of Canadian Dollars)	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	>5 years	Total
Accounts payable and accrued liabilities	2,307	-	-	-	-	2,307
Distribution payable	37,842	-	-	-	-	37,842
Lease liabilities	44	229	333	728	66	1,400
Long-term debt	29	146	174	523	2,568	3,440
Contingent consideration payable	-	812	1,096	1,044	-	2,952
Income tax payable	8	-	-	-	-	8
Total	40,230	1,187	1,603	2,295	2,634	47,949

18. Segmented information

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

a) Drilling Services

This segment consists of the Corporation Drilling Services provided in PNG, including the provision of drilling personnel to assist our customer's operations. The results from this entire segment have been captured in discontinued operations (Note 3(a)).

b) Ancillary Services

Ancillary Services segment consists of High Arctic's oilfield rental equipment of pressure control and other oilfield equipment to exploration and production companies in Canada. High Arctic's oilfield rental equipment business in PNG has been captured in discontinued operations (Note 3(a)).

c) Production Services

This segment consists of the Corporation's snubbing assets in the US, its equity investment in Team Snubbing and Seh' Chene Well Services Limited Partnership.

d) Corporate

This segment provides management and administrative services to all the Corporation's operations.

Details associated with each operating segment are provided as at June 30, 2024 and December 31, 2023 and for the three and six months ended June 30, 2024 and 2023 in the tables which follow.

i. Income (loss) from reportable segments

Three months ended June 30, 2024 (thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Corporate	Total
Revenue	-	2,533	-	-	2,533
Oilfield services expenses	-	(1,329)	-	-	(1,329)
General and administrative expenses	-	(245)	(16)	(1,519)	(1,780)
Depreciation and amortization expenses	-	(254)	(83)	(370)	(707)
Share-based compensation expenses	-	-	-	(80)	(80)
Interest and other income	-	-	-	467	467
Interest and finance expenses	-	-	-	(62)	(62)
Accretion on notes receivable	-	-	-	66	66
Foreign exchange gain	-	-	-	80	80
Loss from equity investments	-	-	(889)	-	(889)
Net segment income (loss) before income tax from continued operations	-	705	(988)	(1,418)	(1,701)
Net segment income (loss) before income tax from discontinued operations	35	8	22	198	263

Three months ended June 30, 2023 (thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Corporate	Total
Revenue	-	664	-	-	664
Oilfield services expenses	-	(355)	-	-	(355)
General and administrative expenses	-	(31)	(9)	(1,280)	(1,320)
Depreciation and amortization expenses	-	(307)	(96)	(20)	(423)
Share-based compensation expenses	-	-	-	34	34
Interest and other income	-	-	-	510	510
Interest and finance expenses	-	-	-	(68)	(68)
Accretion on notes receivable	-	-	-	48	48
Foreign exchange loss	-	-	-	(212)	(212)
Gain (loss) on sale of property and equipment	-	17	-	(11)	6
Loss from equity investments	-	-	(430)	-	(430)
Net segment income (loss) before income tax from continued operations	-	(12)	(535)	(999)	(1,546)
Net segment income (loss) before income tax from discontinued operations	997	1,680	(282)	(1)	2,394

Six months ended June 30, 2024

(thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Corporate	Total
Revenue	-	5,521	-	-	5,521
Oilfield services expenses	-	(2,792)	-	-	(2,792)
General and administrative expenses	-	(519)	(25)	(3,151)	(3,695)
Depreciation and amortization expenses	-	(696)	(126)	(506)	(1,328)
Share-based compensation expenses	-	-	-	(139)	(139)
Interest and other income	-	-	-	1,038	1,038
Interest and finance expenses	-	-	-	(126)	(126)
Accretion on notes receivable	-	-	-	130	130
Foreign exchange gain	-	-	-	271	271
Loss from equity investments	-	-	(399)	-	(399)
Net segment income (loss) before income tax from continued operations	-	1,514	(550)	(2,483)	(1,519)
Net segment income (loss) before income tax from discontinued operations	2,106	1,708	(66)	282	4,030

Six months ended June 30, 2023

(thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Corporate	Total
Revenue	-	1,332	-	-	1,332
Oilfield services expenses	-	(572)	-	-	(572)
General and administrative expenses	-	(147)	(22)	(2,046)	(2,215)
Depreciation and amortization expenses	-	(505)	(280)	(46)	(831)
Share-based compensation expenses	-	-	-	(152)	(152)
Interest and other income	-	-	-	927	927
Interest and finance expenses	-	-	-	(134)	(134)
Accretion on notes receivable	-	-	-	91	91
Foreign exchange loss	-	-	-	(227)	(227)
Gain on sale of property and equipment	-	77	-	59	136
Loss from equity investments	-	-	(57)	-	(57)
Net segment income (loss) before income tax from continued operations	-	185	(359)	(1,528)	(1,702)
Net segment income (loss) before income tax from discontinued operations	(350)	2,344	(478)	(64)	1,452

ii. Asset breakdown by reportable segments

					As at June 30, 2024
(thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Corporate	Total
Property and equipment	-	6,140	596	4,198	10,934
Right of use assets	-	1,238	-	63	1,301
Assets from discontinued operations	38,336	12,435	-	-	50,771
Total assets from continued operations	-	12,309	8,389	49,524	70,222

					As at December 31, 2023
(thousands of Canadian Dollars)	Drilling Services	Ancillary Services	Production Services	Corporate	Total
Property and equipment	-	6,255	722	4,176	11,153
Right of use assets	-	1,371	-	78	1,449
Assets from discontinued operations	39,419	16,952	95	223	56,689
Total assets from continued operations	-	13,565	8,974	43,909	66,448

19. Related party transaction

Included in property and equipment additions in 2024 are consulting fees totaling $8 that were paid to a private company in which a director of the Corporation is a director. These transactions approximate fair value and have been accounted for at the exchange amount being the amount agreed to by the related parties.

20. Subsequent events

On August 1, 2024, the Corporation was able to fulfill the last major condition in the Arrangement which was the receipt of conditional approval from the TSX Venture Exchange to have the SpinCo shares trade on its exchange. All of the other terms and conditions to the Arrangement were satisfied subsequent to receipt of conditional approval from the TSX Venture Exchange and the Arrangement was completed on August 12, 2024.

Subsequent to June 30, 2024, the outstanding 38,214 outstanding performance share units were settled for cash and cancelled.