



**CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED
September 30, 2024 and 2023**

(Unaudited)

HIGH ARCTIC ENERGY SERVICES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (thousands of Canadian Dollars)	As at September 30, 2024	As at December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	4,106	50,331
Accounts receivable (Note 4)	2,947	17,468
Inventory	74	9,378
Prepaid expenses and other assets	181	851
Current portion of notes receivable (Note 8)	1,067	745
Income tax receivable	-	665
	8,375	79,438
Non-current assets		
Property and equipment (Note 6)	10,950	27,554
Right of use assets (Note 9(a))	1,279	2,655
Intangible assets (Note 5)	1,276	1,501
Goodwill (Note 1)	812	812
Notes receivable (Note 8)	2,397	2,995
Equity investments (Note 7)	7,888	8,182
	24,602	43,699
Total assets	32,977	123,137
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	2,162	14,134
Current portion of long-term debt (Note 11)	175	175
Current portion of lease liabilities (Note 9(b))	293	959
Current portion of contingent consideration payable (Note 12)	812	812
Income tax payable	-	373
	3,442	16,453
Non-current liabilities		
Long-term debt (Note 11)	3,222	3,352
Lease liabilities (Note 9(b))	1,090	1,860
Contingent consideration payable (Note 12)	2,140	2,140
	6,452	7,352
Total liabilities	9,894	23,805
Shareholders' Equity		
Share capital (Note 13(a))	133,153	169,992
Contributed surplus	13,135	14,550
Accumulated and other comprehensive income	(194)	26,980
Deficit	(123,011)	(112,190)
	23,083	99,332
Total liabilities and shareholders' equity	32,977	123,137

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

Subsequent event (Note 20).

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 ⁽¹⁾	12,172,958	169,554	14,685	27,853	(96,861)	115,231
Share-based compensation expense (Note 14)	-	-	268	-	-	268
Purchase of common shares for cancellation	(4,574)	(64)	39	-	-	(25)
Dividends	-	-	-	-	(2,190)	(2,190)
Other comprehensive loss – foreign currency translation loss	-	-	-	(97)	-	(97)
Net loss for the period from continuing operations	-	-	-	-	(1,208)	(1,208)
Net loss for the period from discontinued operations	-	-	-	-	(14,677)	(14,677)
Balance, Sept 30, 2023	12,168,384	169,490	14,992	27,756	(114,936)	97,302
Balance, December 31, 2023	12,280,568	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	-	-	-	1,512	-	1,512
Exercise of performance share units	70,545	422	(422)	-	-	-
Exercise of deferred share units	97,053	581	(1,132)	-	-	(551)
Net loss for the period from continuing operations	-	-	-	-	(1,402)	(1,402)
Reclassification of AOCI to net income from discontinued operations	-	-	-	(28,686)	-	(28,686)
Net income for the period from discontinued operations	-	-	-	-	30,428	30,428
Balances removed in relation to distribution to SpinCo	-	-	-	-	(39,847)	(39,847)
Balance, Sept 30, 2024	12,448,166	133,153	13,135	(194)	(123,011)	23,083

⁽¹⁾ Pursuant to the de facto four-to-one consolidation of the Corporation's outstanding common shares effective August 12, 2024, the number of common shares outstanding have been retroactively adjusted to effect the stock consolidation.

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)	Three months ended		Nine months ended	
(thousands of Canadian Dollars)	2024	Sept 30, 2023	2024	Sept 30, 2023
Cash flows from operating activities:				
Net income (loss) from continuing operations	125	498	(1,402)	(1,208)
Adjustments for:				
Depreciation and amortization expenses (Notes 5,6,9)	575	394	1,903	1,225
Unrealized foreign exchange loss (gain)	116	(196)	(194)	41
Share-based compensation expense (Note 14)	-	116	139	268
Non-cash interest and accretion on notes receivable	(107)	(50)	(313)	(141)
Non-cash finance expense (income)	20	(4)	62	26
Loss (gain) on sale of property and equipment	16	34	16	(102)
Gain on sale of nitrogen business (Note 3)	-	(615)	-	(615)
Share-based compensation payment (Note 14)	-	-	(551)	-
Loss (income) from equity investments	(105)	(508)	294	(451)
Funds from (used in) operating activities from continuing operations	640	(331)	(46)	(957)
Change in non-cash working capital (Note 16)	(153)	503	4	1,316
Cash from (used in) operating activities from continuing operations	487	172	(42)	359
Cash from operating activities from discontinued operations (Note 3)	2,838	2,071	14,090	3,364
Net cash from operating activities	3,325	2,243	14,048	3,723
Cash flows from investing activities:				
Property and equipment expenditures (Note 6)	(630)	(80)	(1,445)	(505)
Proceeds from asset sales, net of costs	92	1,350	92	29,451
Change in non-cash working capital (Note 16)	77	(115)	77	(148)
Net cash from (used in) investing activities from continuing operations	(461)	1,155	(1,276)	28,798
Cash used in investing activities from discontinued operations (Note 3)	(21,373)	(618)	(22,097)	(1,295)
Net cash from (used in) investing activities	(21,834)	537	(23,373)	27,503
Cash flows from financing activities:				
Purchase of common shares for cancellation	-	-	-	(25)
Payments received on notes receivable	589	-	589	-
Repayment of long-term debt (Note 11)	(43)	(544)	(130)	(643)
Dividend	-	(730)	-	(2,190)
Distribution – return of capital	(37,842)	-	(37,842)	-
Lease obligation payments (Note 9(b))	(86)	(62)	(257)	(154)
Net cash used in financing activities from continuing operations	(37,382)	(1,336)	(37,640)	(3,012)
Cash used in financing activities from discontinued operations (Note 3)	(112)	(204)	(446)	(997)
Net cash used in financing activities	(37,494)	(1,540)	(38,086)	(4,009)
Effect of foreign exchange rate changes	67	142	1,186	25
Total change in cash and cash equivalents	(55,936)	1,382	(46,225)	27,242
Total cash and cash equivalents, beginning of period	60,042	45,419	50,331	19,559
Total cash and cash equivalents, end of period	4,106	46,801	4,106	46,801

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 provides pressure control equipment and equipment supporting the high-pressure stimulation of oil and gas wells and other oilfield equipment on a rental basis to exploration and production companies in Canada. The Corporation's head office address is located at Suite 2350, 330 – 5th Ave SW Calgary, Canada T2P 0L4.

As of September 30, 2024, 5,479,159 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 870,470 common shares, representing 7.0% 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 a return of capital of \$0.76 per pre-Arrangement common share of High Arctic. The reorganization was completed on August 12, 2024, and resulted in the spin-off of the Corporation's former PNG business to High Arctic shareholders through a new publicly listed entity High Arctic Overseas Holdings Corp. ("SpinCo") that trades on the TSX Venture Exchange under the trading symbol HOH. The approved return of capital of \$0.76 per pre-Arrangement common share of High Arctic was distributed to shareholders on July 17, 2024. Finally, as part of the Arrangement, the Corporation effected a de facto four-to-one share consolidation whereby each High Arctic shareholder received one-quarter of one post-Arrangement common share for every pre-Arrangement common share held prior to 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 September 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%

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 November 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 one of the Corporation's subsidiaries.

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 spin-off of PNG business

On May 11, 2024, the Corporation announced its plans to proceed with its intended reorganization and filed the 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.

On August 12, 2024, the Corporation completed its intended reorganization and as a result the assets and liabilities of the legacy High Arctic PNG business have been removed from the Corporation's interim consolidated statement of financial position and distributed to SpinCo. Details of the legacy High Arctic PNG business' operating results and resultant cashflows for the period of 2024 July 1, 2024 to August 12, 2024 and for the period January 1, 2024 to August 12, 2024 are presented as discontinued operations in the Corporation's interim consolidated statements of comprehensive income (loss) and cashflows and further detailed in Note 3(a).

(e) Re-presentation of comparatives

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

3. Discontinued operations

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

The operating results of the Corporation's PNG business reported herein as discontinued operations are as follows:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2024 ⁽¹⁾	2023	2024 ⁽¹⁾	2023
Revenue	1,904	16,799	27,352	41,472
Oilfield services expenses	(1,357)	(11,577)	(16,890)	(27,651)
General and administrative expenses	(1,324)	(1,213)	(4,192)	(3,003)
Depreciation and amortization expenses	(479)	(2,384)	(2,713)	(7,436)
Interest and finance expense	(150)	(40)	(65)	(167)
Foreign exchange loss	(22)	(37)	(12)	(41)
Gain on sale of property and equipment	-	-	-	7
Asset impairment loss	-	(20,500)	(878)	(20,500)
Reclassification of cumulative foreign currency translation gain on distribution to SpinCo	28,686	-	28,686	-
Pre-tax income (loss) for the period	27,258	(18,952)	31,288	(17,319)
Income tax recovery (expense)	(161)	3,415	(860)	2,947
Net income (loss) from discontinued operations	27,097	(15,537)	30,428	(14,372)

⁽¹⁾ The 2024 operating results of the Corporation's PNG business for the three- and nine-month periods ended September 30, 2024 includes operating results from July 1, 2024 and January 1, 2024 to August 12, 2024 respectively.

The cashflows from the Corporation's PNG business reported herein as discontinued operations are as follows:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2024 ⁽¹⁾	2023	2024 ⁽¹⁾	2023
Cash flow from operating activities	2,838	2,177	14,090	3,542
Cash from (used in) investing activities ⁽¹⁾	(21,373)	(618)	(22,097)	(1,324)
Cash used in financing activities	(112)	(204)	(446)	(997)

⁽¹⁾ The 2024 cash flows from the Corporation's PNG business for the three- and nine-month periods ended September 30, 2024 includes cash flows from July 1, 2024 and January 1, 2024 to August 12, 2024 respectively.

⁽²⁾ Included in cash used in investing activities is \$21,287 of cash retained by SpinCo as per the Arrangement (Note 1)

(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 nine months ended September 30, 2023 are as follows:

(thousands of Canadian Dollars)	Three months ended Sept 30, 2023	Nine months ended Sept 30, 2023
Revenue	105	1,307
Expenses:		
Oilfield services expenses	(132)	(1,191)
General and administrative expenses	(79)	(292)
Depreciation and amortization expenses	(18)	(129)
Net loss from discontinued operations	(124)	(305)

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 Sept 30, 2023	Nine months ended Sept 30, 2023
Cash flow used in operating activities	(106)	(178)
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 Sept 30, 2024	As at Dec 31, 2023
Less than 31 days	1,636	6,680
31 days to 60 days	417	6,842
61 days to 90 days	168	2,854
Greater than 90 days	838	1,284
	3,059	17,660
Expected credit losses	(112)	(192)
	2,947	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 September 30, 2024 was as follows:

(thousands of Canadian Dollars)	Less than 31				Total
	days	31- 60 days	61 – 90 days	Over 90 days	
Investment grade receivables	475	66	37	121	699
Non-investment grade receivables	1,161	351	131	717	2,360
Total receivables	1,636	417	168	838	3,059
<i>ECL for investment grade (%)</i>	<i>0.04</i>	<i>0.06</i>	<i>0.10</i>	<i>0.30</i>	
<i>ECL for non-investment grade (%)</i>	<i>0.25</i>	<i>0.75</i>	<i>2.00</i>	<i>4.00</i>	
ECL provision – investment grade	-	-	-	-	-
ECL provision – non-investment grade	(3)	(3)	(3)	(28)	(37)
Specifically provided for amounts	-	-	-	(75)	(75)
Total provision for ECL	(3)	(3)	(3)	(103)	(112)

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

(thousands of Canadian Dollars)	Less than 31				Total
	days	31- 60 days	61 – 90 days	Over 90 days	
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
<i>ECL for investment grade (%)</i>	<i>0.04</i>	<i>0.06</i>	<i>0.10</i>	<i>0.30</i>	
<i>ECL for non-investment grade (%)</i>	<i>0.25</i>	<i>0.75</i>	<i>2.00</i>	<i>4.00</i>	
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 Sept 30, 2024	As at Dec 31, 2023
Intangible assets	1,501	1,501
Less amortization	(225)	-
	1,276	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	Office & computer and software	Land and building	Work-in progress	Total
<i>Costs</i>						
Balance, December 31, 2023	372	166,131	2,491	6,866	310	176,170
Distributed to SpinCo as per the Arrangement	(132)	(148,675)	(243)	-	(310)	(149,360)
Additions	-	1,123	322	-	-	1,445
Dispositions	(58)	(503)	-	-	-	(561)
Balance, September 30, 2024	182	18,076	2,570	6,866	-	27,694
<i>Accumulated depreciation</i>						
Balance, December 31, 2023	315	144,441	2,184	1,676	-	148,616
Distributed to SpinCo as per the Arrangement	(89)	(132,648)	(220)	-	-	(132,957)
Depreciation	1	1,164	168	130	-	1,463
Dispositions	(47)	(331)	-	-	-	(378)
Balance, September 30, 2024	180	12,626	2,132	1,806	-	16,744
Net book value, December 31, 2023	57	21,690	307	5,190	310	27,554
Net book value, September 30, 2024	2	5,450	438	5,060	-	10,950

7. Equity investments

(thousands of Canadian Dollars)	As at Sept 30, 2024	As at Dec 31, 2023
Equity investment – Team Snubbing Services Inc.	7,740	8,034
Equity investment – Seh' Chene Well Services Limited Partnership	148	148
	7,888	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 nine months ended September 30, 2024 and 2023:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2024	2023	2024	2023
Revenue	6,070	5,385	18,249	14,747
Net income (loss) after tax	252	1,189	(701)	1,057
Net income (loss) after tax – 42% share	105	508	(294)	451

8. Notes receivable

(thousands of Canadian Dollars)	As at Sept 30, 2024	As at Dec 31, 2023
Convertible promissory note	2,772	3,365
Less: Interest accretion on convertible promissory note	(133)	(417)
Note receivable on Delta Acquisition	880	880
Less: Interest accretion on note receivable on Delta Acquisition	(55)	(88)
Total notes receivable	3,464	3,740
Current	1,067	745
Non-current	2,397	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 which commenced in 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. Note repayments totaling \$589 were received between July 1, 2024 and September 30, 2024.

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 \$55 was recorded to the note receivable as at September 30, 2024, which results in a carrying value balance of \$825 as at September 30, 2024.

9. Right of use assets and lease liabilities

(a) Right of use assets:

(thousands of Canadian Dollars)	As at Sept 30, 2024	As at Dec 31, 2023
<i>Costs</i>		
Opening balance	3,653	1,560
Distributed to SpinCo as per the Arrangement	(2,087)	-
Effect of foreign exchange rate changes	-	(49)
Additions	49	1,697
Dispositions	(4)	(729)
Acquisition	-	1,174
Closing balance	1,611	3,653
<i>Accumulated amortization</i>		
Opening balance	998	186
Distributed to SpinCo as per the Arrangement	(881)	-
Effect of foreign exchange rate changes	-	(21)
Amortization	215	833
Closing balance	332	998
Net closing balance	1,279	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 Sept 30, 2024	As at Dec 31, 2023
Opening balance	2,819	1,482
Distributed to SpinCo as per the Arrangement	(1,286)	-
Effect of foreign exchange rate changes	49	(32)
Lease additions	-	1,697
Lease disposals	(4)	(550)
Acquisition	-	1,174
Lease payments	(257)	(1,148)
Lease finance expense (Note 15(c))	62	196
Closing balance	1,383	2,819
Current	293	959
Non-current	1,090	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 September 30, 2024 and December 31, 2023 are as follows:

(thousands of Canadian Dollars)	As at Sept 30, 2024	As at Dec 31, 2023
Less than one year	365	1,055
One year to five years	1,208	2,144
More than five years	-	-
Total undiscounted liabilities	1,573	3,199

10. Accounts payable and accrued liabilities

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

(thousands of Canadian Dollars)	As at Sept 30, 2024	As at Dec 31, 2023
Trade accounts payable	1,162	5,405
Accrued liabilities	794	7,385
Wages and payroll taxes payable	150	973
Other accounts payable	56	371
Total accounts payable and accrued liabilities	2,162	14,134

11. Long-term debt

(thousands of Canadian Dollars)	As at Sept 30, 2024	As at Dec 31, 2023
Current	175	175
Non-current	3,222	3,352
Total	3,397	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 payable

(thousands of Canadian Dollars)	As at Sept 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 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 September 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 nine-month periods ended September 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 250,000 common shares, or approximately two percent of the Corporation's outstanding shares, under a Normal Course Issuer Bid ("NCIB"). Upon completion of the Arrangement, the NCIB was terminated on August 12, 2024. No shares were purchased and cancelled pursuant to the NCIB prior to its termination (2023 – 4,574 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, was paid on July 17, 2024.

	Nine months ended Sept 30, 2024		Year ended Dec 31, 2023	
	Shares ⁽¹⁾	Amount	Shares ⁽¹⁾	Amount
Common shares issued and outstanding:				
Balance, beginning of period	12,280,568	\$169,992	12,172,958	\$169,554
Exercise of performance share units (Note 14)	70,545	422	112,184	502
Exercise of deferred share units (Note 14)	97,053	581	-	-
Purchase of common shares for cancellation	-	-	(4,574)	(64)
Return of capital distribution	-	(37,842)	-	-
Balance, end of period	12,448,166	\$133,153	12,280,568	\$169,992

⁽¹⁾ Pursuant to the de facto four-to-one consolidation of the Corporation's outstanding common shares effective August 12, 2024, the number of common shares outstanding and all per-share amounts have been retroactively adjusted to effect the stock consolidation.

(b) Per share amounts

(thousands of Canadian Dollars)	Three months ended		Nine months ended	
(except number of common shares)	2024	Sept 30, 2023	2024	Sept 30, 2023
Continuing Operations:				
Net income (loss)	\$125	\$498	(\$1,402)	(\$1,208)
Basic - weighted average number of common shares	12,448,166	12,168,392	12,338,676	12,169,779
Basic net income (loss) per share	\$0.01	\$0.04	(\$0.11)	(\$0.10)
Diluted - weighted average number of common shares	12,448,270	12,710,310	12,498,699	12,725,198
Diluted net income (loss) per share ⁽²⁾	\$0.01	\$0.04	(\$0.11)	(\$0.10)
Discontinued Operations:				
Net income (loss)	\$27,097	(\$15,661)	\$30,428	(\$14,677)
Basic - weighted average number of common shares	12,448,166	12,168,392	12,338,676	12,169,779
Basic net income (loss) per share	\$2.18	(\$1.29)	\$2.47	(\$1.21)
Diluted - weighted average number of common shares	12,448,270	12,710,310	12,498,699	12,725,198
Diluted net income (loss) per share ⁽²⁾	\$2.18	(\$1.29)	\$2.43	(\$1.21)

⁽¹⁾ Pursuant to the de facto four-to-one consolidation of the Corporation's outstanding common shares effective August 12, 2024, the number of common shares outstanding and all per-share amounts have been retroactively adjusted to effect the stock consolidation.

⁽²⁾ For periods when the Corporation incurred a net loss from either continuing or discontinued operations, 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 expense

The Corporation has four equity-based compensation plans under which up to 1,244,817 common shares (being 10% of all outstanding shares) may be issued as at September 30, 2024. The following table summarizes the Corporation's outstanding grants for each equity-based compensation plan:

(number of stock options and share units) ⁽¹⁾	As at Sept 30, 2024	As at Dec 31, 2023
Stock options	-	29,250
Performance share unit plan ("PSUP")- restricted units ("RSUs")	-	35,014
PSUP - performance units ("PSUs")	-	45,134
Deferred share units ("DSUs")	-	234,634
Balance, end of period	-	344,032
Common shares available for grants	1,244,817	1,228,057
Percentage used of total available	0%	28%
Remaining common shares available for grant	1,244,817	884,025

⁽¹⁾ Pursuant to the de facto four-to-one consolidation of the Corporation's outstanding common shares effective August 12, 2024, the number of stock options, performance share units and deferred share units outstanding have been retroactively adjusted to effect the stock consolidation.

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 September 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 ⁽¹⁾	Weighted average exercise price (\$) ⁽¹⁾
As at December 31, 2022	62,500	1.39
Forfeited/cancelled	(33,250)	(1.39)
As at December 31, 2023	29,250	1.39
Forfeited/settled	(29,250)	(1.39)
As at September 30, 2024	-	-

⁽¹⁾ Pursuant to the de facto four-to-one consolidation of the Corporation's outstanding common shares effective August 12, 2024, the number of stock options and average exercise prices have been retroactively adjusted to effect the stock consolidation.

No stock options were granted during the nine-month period ended September 30, 2024. See Note 20 for stock option grants after September 30, 2024.

Performance Share Unit Plan

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

(number of share units) ⁽¹⁾	RSUs	PSUs	Total
As at December 31, 2022	131,241	101,986	233,227
Dividends re-invested	4,977	3,616	8,593
Exercised	(82,711)	(29,473)	(112,184)
Forfeited/cancelled	(18,493)	(30,995)	(49,488)
As at December 31, 2023	35,014	45,134	80,148
Exercised	(35,014)	(35,531)	(70,545)
Forfeited/cancelled	-	(9,603)	(9,603)
As at September 30, 2024	-	-	-

⁽¹⁾ Pursuant to the de facto four-to-one consolidation of the Corporation's outstanding common shares effective August 12, 2024, the number of performance share units have been retroactively adjusted to effect the stock consolidation.

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

Deferred Share Unit Plan

Details regarding the DSU units and related activity are as follows:

(number of share units) ⁽¹⁾	For the nine months ended Sept 30, 2024	For the year ended Dec 31, 2023
Outstanding, beginning of period	234,634	276,993
Granted	7,870	38,887
Exercised	(97,053)	-
Settled	(92,121)	-
Forfeited	(53,330)	(91,169)
Dividends re-invested	-	9,923
Outstanding, end of period	-	234,634

⁽¹⁾ Pursuant to the de facto four-to-one consolidation of the Corporation's outstanding common shares effective August 12, 2024, the number of performance share units have been retroactively adjusted to effect the stock consolidation.

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, 97,053 DSUs were exercised and issued as common shares to the Directors and 92,121 DSUs were settled in cash to cover the tax portion owing.

15. Supplementary expense disclosures – continuing operations

(a) Oilfield services expenses by nature:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2024	2023	2024	2023
Personnel	399	174	1,213	360
Equipment operating and maintenance	263	65	909	113
Material and supplies	463	114	1,671	427
Other	46	28	170	53
Total oilfield services expenses	1,171	381	3,963	953

(b) General and administrative expenses by nature:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2024	2023	2024	2023
Personnel	422	901	2,341	2,120
Professional, legal and advisory fees	34	314	1,336	783
Information technology services	136	156	293	367
Corporate	96	98	325	296
Office and warehouse	49	31	148	128
Expected credit losses (recovery)	5	(15)	(55)	(27)
Vehicle, supplies and other	17	(44)	66	(11)
Total general and administrative expenses	759	1,441	4,454	3,656

(c) Interest and finance expenses:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2024	2023	2024	2023
Interest on long-term debt and standby fees	38	41	114	134
Finance expense – lease liabilities	20	16	62	27
Other expenses	3	-	11	30
Interest and finance expenses	61	57	187	191

16. Supplementary cash flow information

Changes in non-cash working capital balances:

(thousands of Canadian Dollars)	Three months ended Sept 30,		Nine months ended Sept 30,	
	2024	2023	2024	2023
Source (use) of cash:				
Accounts receivable	(254)	40	(293)	1,178
Inventory, prepaid expense and other assets	60	66	149	273
Accounts payable and accrued liabilities	126	282	225	(283)
Income taxes payable	(8)	-	-	-
	(76)	388	81	1,168

<u>Attributable to:</u>				
Operating activities	(153)	503	4	1,316
Investing activities	77	(115)	77	(148)
Financing activities	-	-	-	-
	(76)	388	81	1,168

17. Financial Instruments and risk management

Financial instrument measurement and classification:

The Corporation's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, notes 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 September 30, 2024, the estimated fair value of the Corporation's notes receivable was \$3,464 (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 September 30, 2024, the estimated fair value of the contingent consideration payable was calculated to total \$2,952 (December 31, 2023 - \$2,952).

Market risks:

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

a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation currently has mortgage financing with a fixed interest rate of 4.30% (Note 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 September 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 September 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.

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 are primarily comprised of balances from customers operating in the oil and natural gas industry, whose revenues may be affected by fluctuations in oil and natural gas prices and are subject to credit risk consistent with the industry.

The Corporation manages credit risk by assessing the creditworthiness of its customers on an ongoing basis and continuously reviews individual customer trade receivables, taking into consideration payment history and the aging of the account receivable, to assess collectability.

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 one large customer who individually accounted for greater than 10% of its consolidated revenues during the three months ended September 30, 2024 with total sales of \$323 (2023: two customers with total sales of \$548).

The Corporation's continuing operations provided services to one large customer who individually accounted for greater than 10% of its consolidated revenues during the nine months ended September 30, 2024 with total sales of \$1,099 (2023: five customers with total sales of \$1,952).

As at September 30, 2024, one customer represented a total of \$774 or 26% 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 September 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	2,162	-	-	-	-	2,162
Lease liabilities	72	221	327	763	-	1,383
Long-term debt	80	239	311	889	3,336	4,855
Contingent consideration payable	812	1,096	1,044	-	-	2,952
Total	3,126	1,556	1,682	1,652	3,336	11,352

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's Drilling Services provided in PNG, including the provision of drilling personnel to assist our customer's operations. As per the Arrangement (Note 1) this segment was distributed to SpinCo on August 12, 2024. The results from this entire segment have been captured in discontinued operations (Note 3(a)).

b) *Rental services*

Rental services segment (previously reported as "Ancillary services") consists of High Arctic's oilfield rental equipment of pressure control and other oilfield equipment to exploration and production companies in Canada. As per the Arrangement (Note 1), the Rental services segment that comprised the oilfield rental equipment business in PNG was distributed to SpinCo on August 12, 2024. The results of the Rental services segment 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 September 30, 2024 and December 31, 2023 and for the three and nine months ended September 30, 2024 and 2023 in the tables which follow.

i. *Income (loss) from reportable segments*

Three months ended September 30, 2024					
(thousands of Canadian Dollars)	Drilling services	Rental services	Production services	Corporate	Total
Revenue	-	2,506	-	-	2,506
Oilfield services expenses	-	(1,171)	-	-	(1,171)
General and administrative expenses	-	(226)	(14)	(519)	(759)
Depreciation and amortization expenses	-	(317)	(56)	(202)	(575)
Interest and other income	-	-	-	165	165
Interest and finance expenses	-	-	-	(61)	(61)
Accretion on notes receivable	-	-	-	69	69
Foreign exchange loss	-	-	-	(137)	(137)
Loss on sale of property and equipment	-	-	(16)	-	(16)
Income from equity investments	-	-	105	-	105
Net segment income (loss) before income tax expense from continued operations	-	792	19	(685)	126
Net segment income (loss) before income tax expense from discontinued operations ⁽¹⁾	(1,040)	1	(17)	28,314	27,258

⁽¹⁾ Represents income (loss) from discontinued operations to August 12, 2024.

Three months ended September 30, 2023					
(thousands of Canadian Dollars)	Drilling services	Rental services	Production services	Corporate	Total
Revenue	-	1,015	-	-	1,015
Oilfield services expenses	-	(381)	-	-	(381)
General and administrative expenses	-	(476)	(11)	(954)	(1,441)
Depreciation and amortization expenses	-	(156)	(106)	(132)	(394)
Share-based compensation expenses	-	-	-	(116)	(116)
Interest and other income	-	-	-	538	538
Interest and finance expenses	-	-	-	(57)	(57)
Accretion on notes receivable	-	-	-	50	50
Foreign exchange gain	-	-	-	196	196
Gain (loss) on sale of property and equipment	-	1	-	(35)	(34)
Gain on sale of Nitrogen business	-	615	-	-	615
Income from equity investments	-	-	508	-	508
Net segment income (loss) before income tax expense from continued operations	-	618	391	(510)	499
Net segment income (loss) before income tax expense from discontinued operations	(18,275)	1,251	(2,075)	23	(19,076)

Nine months ended September 30, 2024

(thousands of Canadian Dollars)	Drilling services	Rental services	Production services	Corporate	Total
Revenue	-	8,027	-	-	8,027
Oilfield services expenses	-	(3,963)	-	-	(3,963)
General and administrative expenses	-	(745)	(39)	(3,670)	(4,454)
Depreciation and amortization expenses	-	(1,013)	(182)	(708)	(1,903)
Share-based compensation expenses	-	-	-	(139)	(139)
Interest and other income	-	-	-	1,203	1,203
Interest and finance expenses	-	-	-	(187)	(187)
Accretion on notes receivable	-	-	-	199	199
Foreign exchange gain	-	-	-	134	134
Loss on sale of property and equipment	-	-	(16)	-	(16)
Loss from equity investments	-	-	(294)	-	(294)
Net segment income (loss) before income tax expense from continued operations	-	2,306	(531)	(3,168)	(1,393)
Net segment income (loss) before income tax expense from discontinued operations	1,066	1,709	(83)	28,596	31,288

⁽¹⁾ Represents income (loss) from discontinued operations to Aug 12, 2024.

Nine months ended September 30, 2023

(thousands of Canadian Dollars)	Drilling services	Rental services	Production services	Corporate	Total
Revenue	-	2,347	-	-	2,347
Oilfield services expenses	-	(953)	-	-	(953)
General and administrative expenses	-	(623)	(33)	(3,000)	(3,656)
Depreciation and amortization expenses	-	(661)	(386)	(178)	(1,225)
Share-based compensation expenses	-	-	-	(268)	(268)
Interest and other income	-	-	-	1,465	1,465
Interest and finance expenses	-	-	-	(191)	(191)
Accretion on notes receivable	-	-	-	141	141
Foreign exchange loss	-	-	-	(31)	(31)
Gain on sale of property and equipment	-	78	-	24	102
Gain on sale of Nitrogen business	-	615	-	-	615
Income from equity investments	-	-	451	-	451
Net segment income (loss) before income tax expense from continued operations	-	803	32	(2,038)	(1,203)
Net segment income (loss) before income tax expense from discontinued operations	(18,625)	3,595	(2,553)	(41)	(17,624)

ii. Asset breakdown by reportable segments

	As at September 30, 2024				
(thousands of Canadian Dollars)	Drilling services	Rental services	Production services	Corporate	Total
Property and equipment	-	6,286	446	4,218	10,950
Right of use assets	-	1,221	-	58	1,279
Equity investments	-	-	7,888	-	7,888
Total assets	-	12,616	8,339	12,022	32,977

	As at December 31, 2023				
(thousands of Canadian Dollars)	Drilling services	Rental services	Production services	Corporate	Total
Property and equipment	-	6,255	722	4,176	11,153
Right of use assets	-	1,371	-	78	1,449
Equity investments	-	-	8,182	-	8,182
Total assets from continued operations	-	13,565	8,974	43,909	66,448
Assets from discontinued operations	39,419	16,952	95	223	56,689

19. Related party transaction

Included in general and administrative expenses and property and equipment additions in 2024 are consulting fees totaling \$24 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.

Included in the accounts payable balance at September 30, 2024, is a balance of \$707 owing to a subsidiary of SpinCo for management fees incurred by High Arctic prior to the reorganization of the Corporation on August 12, 2024. High Arctic and the SpinCo subsidiary are deemed to be related parties given the common senior management in their CEO and CFO positions. This payable was settled in full subsequent to September 30, 2024.

20. Subsequent event

Subsequent to September 30, 2024, the Board of Directors of High Arctic approved the issuance of 575,000 stock options to directors, officers and management of the Corporation.