Unaudited Condensed Consolidated Interim Financial Statements of

Stampede Drilling Inc.

For the three and nine month periods ended September 30, 2022 and 2021

(Expressed in Canadian Dollars)

Stampede Drilling Inc.

Condensed Consolidated Statements of Financial Position

(Unaudited, stated in thousands of Canadian dollars)	Note	September 30, 2022	December 31, 2021
Assets			
Current Assets			
Cash and cash equivalents		680	665
Trade and other receivables	12	15,074	6,773
Prepaid expenses and deposits		195	213
Total Current Assets		15,949	7,651
Non-Current Assets			
Property and equipment	8	83,839	42,289
Investment in equity securities	7	4,000	-
Right-of-use assets	3	1,956	354
Goodwill		461	461
Total Non-Current Assets		90,256	43,104
Total Assets		106,205	50,755
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12	8,961	2,574
Demand Facility	9	7,272	6,998
BDC Loan	9	1,600	400
Term Loan	9	1,000	-
Lease liabilities	4	430	157
Other liabilities		40	40
Total Current Liabilities		19,303	10,169
Non-Current Liabilities			
Convertible debentures	9	2,467	2,532
BDC Loan	9	-	1,500
Term Loan	9	8,822	-
Lease liabilities	4	1,507	234
Other liabilities	12	104	141
Total Non-Current Liabilities		12,900	4,406
Total Liabilities		32,203	14,576
Shareholders' Equity			
Share capital	10	87,075	62,220
Contributed surplus		7,259	4,688
Equity component of convertible debentures	9	45	46
Accumulated other comprehensive income		933	908
Accumulated deficit		(26,956)	(31,683)
Total Shareholders' Equity		68,356	36,179
Non-controlling interest	6	5,646	-
Total Equity		74,002	36,179
Total Liabilities and Equity		106,205	50,755

Note 15 Commitments and Contractual Obligations

Note 17 Subsequent Event

See accompanying notes to these condensed consolidated interim financial statements

Stampede Drilling Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, stated in thousands of Canadian dollars, except per share amounts)	Note	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Revenue	16	20,722	6,482	43,642	22,983
Cost of sales:					
Direct operating expenses		13,932	4,107	29,497	14,124
Depreciation of property and equipment	8	1,108	1,012	3,172	3,124
		15,040	5,119	32,669	17,248
Income from operations		5,682	1,363	10,973	5,735
Expenses					
Administrative		696	408	1,885	1,014
Salaries and benefits		1,111	698	2,692	1,433
Share based payments	11	29	52	144	328
Depreciation of right-of-use assets	3	61	80	153	240
		1,897	1,238	4,874	3,015
Income before finance costs and other income (expense)		3,785	125	6,099	2,720
(Loss) Gain on asset disposals		(3)	262	(3)	301
Finance costs	13	(387)	(165)	(796)	(509)
Other income		2	-	9	8
Foreign exchange gain (loss)		37	3	13	(40)
Transaction costs		(569)	-	(595)	-
Net income		2,865	225	4,727	2,480
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Foreign currency translation adjustment		(2)	-	25	26
Total comprehensive income		2,863	225	4,752	2,506
Basic earnings per share	5	$0.02	$0.00	$0.03	$0.02
Diluted earnings per share	5	$0.02	$0.00	$0.03	$0.02

See accompanying notes to these condensed consolidated interim financial statements

Stampede Drilling Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited, stated in thousands of Canadian dollars)	Note	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Cash flows from (used in) the following activities:					
Operating activities					
Net income		2,865	225	4,727	2,480
Adjustments for:					
Share based payments	11	29	52	144	328
Depreciation	3,8	1,169	1,092	3,325	3,364
Loss (Gain) on asset disposals		3	(262)	3	(301)
Finance costs	13	387	165	796	509
Unrealized foreign exchange (gain) loss		(37)	(3)	(13)	40
Change in other liabilities		(12)	(13)	(37)	(37)
Changes in non-cash working capital items	14	(4,068)	(1,163)	(4,176)	(2,572)
Net cash flows from operating activities		336	93	4,769	3,811
Financing activities					
Proceeds from issuance of common shares	10	26,625	-	26,625	-
Share issue costs	10	(2,100)	-	(2,100)	-
Interest on BDC loan	13	(27)	(23)	(71)	(69)
BDC principal payments		(100)	-	(300)	-
Interest on convertible debentures	13	-	-	(130)	-
Proceeds of Term Loan, net of issuance costs		3,161	-	10,036	-
Term Loan principal payments		(117)	-	(233)	-
Interest on Term Loan	13	(130)	-	(184)	-
Proceeds (repayment) of demand facility		(1,038)	914	274	(1,218)
Interest on demand facility	13	(126)	(59)	(276)	(185)
Stock options exercised	11	103	-	117	14
Lease liability payments	4	(66)	(89)	(192)	(237)
Net cash flows from (used in) financing activities		26,185	743	33,566	(1,695)
Investing activities					
Additions to property and equipment	8	(24,933)	(1,362)	(36,602)	(2,781)
Proceeds from the disposition of property and equipment		63	300	63	381
Investment in equity securities	7	(1,000)	-	(4,000)	-
Changes in non-cash working capital balances	14	(594)	202	2,231	247
Net cash flows used in investing activities		(26,464)	(860)	(38,308)	(2,153)
Change in cash and cash equivalents		57	(24)	27	(37)
Effect of foreign exchange rate changes on cash		3	2	(12)	(17)
Cash and cash equivalents, beginning of period		626	652	665	684
Cash and cash equivalents, end of the period		686	630	680	630
Supplementary cash flow disclosure information:					
Interest paid during the period		153	82	477	254

See accompanying notes to these condensed consolidated interim financial statements

Stampede Drilling Inc.
Condensed Consolidated Statements of Changes in Equity
(Unaudited, stated in thousands of Canadian dollars)

	Note	Share Capital Shares (000's)	Share Capital Amount $	Contributed Surplus $	Equity Component of Convertible Debenture $	Accumulated Other Comprehensive Income $	Non-Controlling Interest $	Deficit $	Total Equity $
Balance as at January 1, 2021		**132,091**	**62,194**	**4,184**	**46**	**882**	**-**	**(34,535)**	**32,771**
Share based payments expense	11	-	-	328	-	-	-	-	328
Stock options exercised		75	14	-	-	-	-	-	14
Stock option value of exercised options			11	(11)	-	-	-	-	-
Comprehensive income for the period		-	-	-	-	26	-	2,480	2,506
September 30, 2021		**132,166**	**62,219**	**4,501**	**46**	**908**	**-**	**(32,055)**	**35,619**
Balance as at January 1, 2022		**132,171**	**62,220**	**4,688**	**46**	**908**	**-**	**(31,683)**	**36,179**
Share based payments expense	11	-	-	144	-	-	-	-	144
Adjustment to carrying amount of non-controlling interest	6	-	-	2,540	-	-	5,646	-	8,186
Stock options exercised	10	558	117	-	-	-	-	-	117
Stock option value of exercised options	10	-	113	(113)	-	-	-	-	-
Issuance of common shares pursuant to prospectus offering	10	83,202	26,625	-	-	-	-	-	26,625
Share issuance costs	10	-	(2,100)	-	-	-	-	-	(2,100)
Convertible debenture conversion	9	476	100	-	(1)	-	-	-	99
Comprehensive income for the period		-	-	-	-	25	-	4,727	4,752
Balance as at September 30, 2022		**216,407**	**87,075**	**7,259**	**45**	**933**	**5,646**	**(26,956)**	**74,002**

See accompanying notes to these condensed consolidated interim financial statements

1. REPORTING ENTITY

Stampede Drilling Inc. (the "Corporation") was incorporated pursuant to the provisions of the Canada Business Corporations Act on January 7, 2011 and maintains its head office at Western Canadian Place (South Tower), Suite 2600, 700 – 9th Ave SW, Calgary, Alberta, T2P 3V4. The Corporation is a publicly traded company listed on the TSX Venture Exchange ("the Exchange") under the symbol "SDI". The Corporation offers oilfield services to the oil and natural gas industry in the Western Canadian Sedimentary Basin ("WCSB").

The condensed consolidated interim financial statements of the Corporation are comprised of the Corporation, its wholly owned subsidiary Stampede Drilling (US) Inc and its 50% owned subsidiary 2391764 Alberta Ltd. (Note 6) and the 19% held in equity investments in two unlisted private Alberta companies.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC). They should be read in conjunction with the audited annual financial statements for the year ended December 31, 2021. Unless otherwise noted, the Corporation has consistently applied the same accounting policies throughout all periods presented, as if these policies were always in effect.

These condensed consolidated interim financial statements have been prepared on the historical cost basis, except as disclosed in the significant accounting policies in the audited annual financial statements for the year ended December 31, 2021, and are presented in Canadian dollars, which is the Corporation's functional and reporting currency. The Corporation's US subsidiary uses US dollars as its functional currency.

These condensed consolidated interim financial statements were approved and authorized for issue by the Corporation's Board of Directors on November 10, 2022.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

<u>Recent developments and impact on estimation uncertainty</u>

For the period ended September 30, 2022, the Corporation assessed the impact of the uncertainties around the outbreak of the novel strain of the coronavirus ("COVID-19"), specifically identified as the COVID-19 pandemic, the Russian invasion of Ukraine, and the current commodity price volatility on its balance sheet carrying amounts. This review required the use of judgements and estimates that resulted in no material impacts.

The current market conditions have increased the complexity of estimates and assumptions used to prepare the consolidated financial statements, particularly related to recoverable amounts.

In addition, the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels could result in a change in assumptions used in determining the recoverable amount and could affect the carrying value of the related assets. The timing in which global energy markets transition from carbon-based sources to alternative energy is highly uncertain.

Changes to assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

A full list of the key sources of estimation uncertainty can be found in the Corporation's annual consolidated financial statements for the year ended December 31, 2021. The current market conditions have increased the complexity of estimates and assumptions used to prepare the condensed consolidated interim financial statements, particularly related to the following key sources of estimation uncertainty:

Recoverable amounts:

Determining the recoverable amount of a cash-generating unit ("CGU") or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. Commodity price uncertainty, due to reasons noted above, has increased volatility in determining the recoverable amount of the Corporation's CGU, especially estimating future drilling activity levels and estimating forecast cash flows.

IAS 20, Government grants

Grants from the government are recognized at their fair value where there is reasonable assurance that the grant will be received, and the Corporation will meet the attached conditions. When the grant relates to an expense item, the Corporation recognizes it as income over the period necessary to match the grant with the costs that it is intended to compensate. The Corporation presents such grants in the consolidated statements of comprehensive income as a deduction in reporting the related expense. The presentation approach is applied consistently to all similar grants.

In 2021, the Corporation qualified for the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS"). This assistance was offered by the Canadian Federal Government for qualifying entities impacted by the consequences of the COVID-19 pandemic to keep or rehire their employees and to reduce eligible operating expenses such as rent. Government assistance is recognized when there is reasonable assurance that the assistance will be received, and that the Corporation will comply with the relevant conditions. Government assistance related to current expenses is recorded by the Corporation as a reduction of the related expenses that the assistance is intended to compensate. Both the CEWS and CERS subsidy programs ended in late Q4 2021, and therefore the Corporation did not record any government grants for the three and nine months ended September 30, 2022.

Canada Emergency Wage Subsidy ("CEWS"):

The Corporation did not record any CEWS against direct operating expenses for the three and nine month periods ended September 30, 2022. The Corporation recorded $417 and $2,012 against direct operating expenses for the three and nine month periods ended September 30, 2021.

The Corporation did not record any CEWS against salaries and benefits expense for the three and nine month periods ended September 30, 2022. The Corporation recorded $59 and $254 against salaries and benefits expense, respectively, for the three and nine month periods ended September 30, 2021.

Canada Emergency Rent Subsidy ("CERS"):

The Corporation did not record any CERS against administrative expenses for the three and nine month periods ended September 30, 2022. The Corporation recorded $41 and $131 against administrative expenses for the three and nine month periods ended September 30, 2021.

Seasonality

An assessment or comparison of the Corporation's results, at any given time, requires consideration of crude oil and natural gas commodity prices and the seasonal nature of the oil and gas industry in Western Canada. Commodity prices ultimately drive the level of exploration and development activities carried out by the Corporation's customers and associated demand for the oilfield services provided by the Corporation. Results are impacted by the gain or loss of key customers and levels of customer capital expenditure. As contracts are short-term in nature, gains or losses of key customers can fluctuate. From a seasonality perspective, the Corporation operates all its drilling rigs in Western Canada; therefore, operations are impacted by weather and seasonal factors. The winter season, which incorporates the first quarter, is generally a higher activity period as oil and gas companies take advantage of frozen ground conditions to move heavy equipment and operate in regions which might otherwise be inaccessible due to ground conditions during warmer periods. The second quarter normally encompasses a slow period in Canada referred to as spring break-up. During this period, melting conditions result in temporary municipal road bans that effectively prohibit the movement of drilling rigs and other heavy equipment. The third and fourth quarters in Western Canada are usually representative of average activity levels.

(b) Critical accounting estimates and judgements

Other than as outlined below, critical accounting estimates and judgements are consistent with the audited annual financial statements for the year ended December 31, 2021.

Consolidation of 50% owned subsidiary

The Corporation has applied judgment in determining that its new subsidiary, 2391764 Alberta Ltd., should be consolidated with a 50% ownership interest (Note 6).

Investment in equity securities

The Corporation applies judgement in determining the fair value of investments in equity securities of two unlisted private companies (level 3), where quoted prices are unavailable and other valuation techniques must be applied (Note 6). In performing its valuation, the Company may consider and assess the financial position of the entities it is invested in, future cash flows, qualitative factors, and other unobservable information. Future cash flows are subject to significant estimates regarding such issues as timing, magnitude of cash flows and appropriate discount rates.

(c) Significant accounting policies

Other than as outlined below, significant accounting policies are consistent with the audited annual financial statements for the year ended December 31, 2021.

Business combinations and goodwill

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Corporation, liabilities incurred by the Corporation to the former owners of the acquiree and the entity interests issued by the Corporation in exchange for control of the acquiree. Acquisition-related costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are recognized in profit or loss as incurred.

The Corporation measures goodwill as the fair value of the consideration transferred plus the recognized amount of any noncontrolling interest in the acquiree, less the net recognized fair value of the identifiable assets acquired and liabilities assumed, all measures as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income or loss.

The acquired assets and assumed liabilities are recognized at fair value on the date the Corporation effectively obtains control. The measurement of the assets and liabilities acquire in each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets (including goodwill), property and equipment and other assets and the liabilities assumed at the date of the acquisition as well as the useful lives of the acquired intangible assets and property and equipment are based on assumptions estimating the fair value of these items.

The optional concentration test under IFRS 3 permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. The Corporation may elect to apply, or not apply, the test. The Corporation may make an election separately for each transaction or other event. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

(In thousands of Canadian dollars except for per share amounts)

3. RIGHT-OF-USE ASSETS

	Total
Cost	
Balance at January 1, 2022	1,357
Additions	1,755
Balance at September 30, 2022	3,112
Accumulated depreciation	
Balance at January 1, 2022	1,003
Depreciation	153
Balance at September 30, 2022	1,156
Carrying amounts	
Balance at January 1, 2022	354
Balance at September 30, 2022	1,956

4. LEASE LIABILITIES

The Corporation incurs lease payments related to corporate and field offices, entered into in coordination with specific business requirements which includes the assessment of the appropriate duration of the related leased assets. The Corporation has recognized lease liabilities measured at the present value of the remaining lease payments, except for leases of low-value assets which have been charged to direct operating and administrative expenses in the condensed consolidated statements of comprehensive income.

Balance at January 1, 2022	391
Additions	1,718
Interest expense	20
Lease payments	(192)
Balance at September 30, 2022	1,937
Less: current portion	430
Ending balance - non-current portion	1,507

5. EARNINGS PER SHARE

Basic and diluted earnings per share have been calculated based on the net income divided by the weighted average number of common shares outstanding for the three and nine month periods ended September 30, 2022 and 2021 based on the following data:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income	2,865	225	4,727	2,480
Effect of finance cost savings on convertible debentures	56	-	169	176
Net income used in diluted income per common share	2,921	225	4,896	2,656
Weighted average common shares (,000's)	168,187	132,166	144,313	132,138
Effect of stock options	2,946	733	2,956	329
Effect of convertible debentures	11,962	-	11,962	12,438
Diluted balance, end of period	183,095	132,899	159,231	144,905
Basic earnings per common share	$0.02	$0.00	$0.03	$0.02
Diluted earnings per common share	$0.02	$0.00	$0.03	$0.02

(In thousands of Canadian dollars except for per share amounts)

6. NON-CONTROLLING INTEREST

On January 4, 2022, the Corporation created a new subsidiary 2391764 Alberta Ltd., by entering into an agreement with a private Alberta company ("AlbertaCo"). 2391764 Alberta Ltd.'s principal place of business and incorporation is within the province of Alberta, Canada. The Corporation owns 50% and has 66.7% voting rights of the Board of Directors of 2391764 Alberta Ltd. The Corporation has accounted for it's 50% share of 2391764 Alberta Ltd. using the consolidation method. The consolidated financial statements include 100% of the assets and liabilities related to 2391764 Alberta Ltd. and include a 50% non-controlling interest representing the net assets attributable to the non-controlling shareholders. The subsidiary specializes in the engineering, manufacturing and supply of fully integrated under balanced coil drilling rigs and corresponding support equipment for the oil and gas industry.

The Corporation and AlbertaCo made initial contributions of $3,107 (comprised of property and equipment) and $8,186 respectively for 50% ownership each of 2391764 Alberta Ltd. Non-controlling interest of $5,646 was recognized by the Corporation in addition to an adjustment of $2,540 to contributed surplus related to the difference in contribution values.

The summarized financial information for 2391764 Alberta Ltd., before inter-company eliminations, is provided below.

	September 30, 2022	December 31, 2021
Consolidated Statements of Financial Position		
Current assets	-	-
Non-current assets	11,792	-
Current liabilities	-	-
Non-current liabilities	302	-
Net Assets	11,490	-
Attributable to NCI[1]	5,646	-

[1] Differences in amounts attributable to NCI and 50% of net assets due to fair value adjustments recorded on initial contribution.

For the three and nine months ended September 30, 2022, 2391764 Alberta Ltd. did not have earnings (loss) or comprehensive income (loss) attributed to the subsidiary or corresponding non-controlling interest.

For the three and nine months ended September 30, 2022, 2391764 Alberta Ltd. did not have cash flows attributed to the subsidiary or corresponding non-controlling interest.

No dividends were paid out to the non-controlling interest for the three and nine months ended September 30, 2022.

7. INVESTMENT IN EQUITY SECURITIES

On January 4, 2022, the Corporation paid $3,000 in cash consideration for an equity investment in two unlisted private Alberta companies, which are controlled by AlbertaCo. The two individual investments of $1,500 was made in two separate subsidiaries of AlbertaCo. represented a 15% ownership stake in each subsidiary. During the three months ended September 30, 2022 the Corporation made an additional investment of $1,000. The combination of the $4,000 investments represents a 19% current ownership stake in each subsidiary. Both individual investments have been designated by the Corporation to be measured at fair value through other comprehensive income ("FVOCI") as they are not publicly traded and are fair valued based on unobservable inputs (level 3). AlbertaCo provides technology for it's coil tubing drilling operations.

As at September 30, 2022, the estimated fair value of investment in equity securities is $4,000. No dividends were declared or paid out to the Corporation for the three and nine months ended September 30, 2022.

(In thousands of Canadian dollars except for per share amounts)

8. PROPERTY AND EQUIPMENT

	Rigs and related equipment	Machinery and other equipment	Office furniture and equipment	Total
Cost				
Balance at December 31, 2021	57,198	918	2	58,118
Additions[(1)]	44,788	-	-	44,788
Transfer	-	-	-	-
Disposals	(63)	-	-	(63)
Balance at September 30, 2022	101,923	918	2	102,843
Accumulated depreciation and impairment				
Balance at December 31, 2021	15,254	573	2	15,829
Depreciation for the period	3,062	110	-	3,172
Disposals	3	-	-	3
Balance at September 30, 2022	18,319	683	2	19,004
Carrying amounts				
Balance at December 31, 2021	41,944	345	-	42,289
Balance at September 30, 2022	83,604	235	-	83,839

(1) Additions of $44,788 include $8,186 in non-cash amounts related to the creation of 2391764 Alberta Ltd. Please refer to Note 6 for further details.

On August 23, 2022, the Corporation acquired six drilling rigs and related capital equipment for total consideration of $21,500. The Corporation applied the optional IFRS 3 concentration test, which resulted in acquired assets being accounted for as asset acquisitions.

The Corporation reviews the carrying value of its assets at each reporting period for indicators of impairment in accordance with the accounting policy discussed in the December 31, 2021 annual financial statements. As at September 30, 2022, the Corporation determined there were no impairment indicators in the contract drilling CGU.

(In thousands of Canadian dollars except for per share amounts)

9. LOANS AND BORROWINGS

Demand Operating Revolving Loan Facility ("Demand Facility")

On August 23, 2022, the Corporation amended the Demand Facility with HSBC Bank of Canada ("HSBC") which provides for a total credit capacity of up to, but not exceeding, a maximum of $22,500 comprised of the following margin requirements:

(i) 75% of Acceptable Receivables from Non-Investment Grade Customers; plus
(ii) 85% of Acceptable Receivables from Investment Grade Customers and Major Customers; plus
(iii) The lesser of (a) 50% of net book value of the capital assets of the Credit Parties, subject to the limitations, and (b) 50% of the net orderly liquidation value of the capital assets and equipment for the Credit Parties located in Canada and the United States of America; less
(iv) Potential Prior Ranking Claims: less
(v) Accounts Receivables of the Corporation that have been sold or factored, whether to the Bank or another third party.

The Demand Facility bears interest at the lender's prime rate plus the applicable margin. The applicable margin is based on a pricing grid based on the Corporation's Net Funded Debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") and ranges from 0.50% to 1.75% for prime rate loans and 1.50% to 2.75% for banker acceptance advances, and is secured by a general first ranking security agreement on all assets, property, and undertakings of the Corporation.

As at September 30, 2022, the Demand Facility was subject to the following financial covenants:

	Covenant	September 30, 2022	December 31, 2021
Fixed Charge Coverage Ratio (1)	1.50:1.00 or more	3.23:1.00	11.14:1.00
Net Funded Debt to EBITDA Ratio (2)	3.00:1.00 or less	1.55:1.00	0.88:1.00

EBITDA is calculated as net income plus interest expense, income taxes, depreciation and amortization, other non-cash charges, transaction costs not to exceed $1,500, cash dividends, and losses attributable to minority equity investments, less non-cash gains, and income attributable to minority equity investments. EBITDA shall be calculated on a trailing twelve-month basis:

1. Fixed Charge Coverage Ratio is the ratio of (a) EBITDA less cash taxes, including those related to any discretionary management bonus, as at such date to (b) Interest Expense plus the total of all payments of principal on debt, capital leases and obligations under the Credit Facilities including, in each case, payments under leases and off-balance Sheet arrangements and with respect to the BDC Loan.
2. Net Funded Debt to EBITDA ratio is calculated as total interest-bearing indebtedness on a consolidated basis excluding cash and cash equivalents held by the bank and loans which have been subordinated and postponed in favour of the bank to EBITDA.

As at September 30, 2022, $7,272 (December 31, 2021 - $6,998) was drawn on the Demand Facility and the Corporation was in compliance with all covenants.

Term Loan ("Term Loan")

In conjunction with amending the Demand Facility on August 23, 2022, the Corporation entered into a loan facility in an amount of to $10,000 with HSBC. The Term Loan has an interest rate equal to the lenders prime rate plus the applicable margin rate, and monthly principal repayments of $83.

The Term Loan matures on April 19, 2025, and bears interest at the lender's prime rate plus the applicable margin. The applicable margin is based on a pricing grid based on the Corporation's Net Funded Debt to EBITDA and ranges from 0.50% to

(In thousands of Canadian dollars except for per share amounts)

1.75% for prime rate loans and 1.50% to 2.75% for banker acceptance advances, and is secured by a general first ranking security agreement on all assets, property, and undertakings of the Corporation. The Term Loan is subject to the same covenants as described for the Demand Facility above.

As at September 30, 2022, the balance of the Term Loan is as follows and the Corporation was in compliance with all covenants.

	September 30, 2022	December 31, 2021
Term Loan	10,000	-
Unamortized debt issuance costs	(178)	-
Total Term Loan	9,822	-
Current portion	(1,000)	
Non-current portion	8,822	

Business Development Bank of Canada (“BDC Loan”).

In conjunction with the amending credit agreement on November 30, 2020, the Corporation entered into a loan facility in an amount of up to $2,000 with the BDC Loan. The BDC Loan has an interest rate equal to BDC’s floating base rate, currently at 7.55% and a maturity date of September 1, 2023. The Corporation granted BDC a security interest in all present and after-acquired property, except consumer goods, accounts receivable and inventory. BDC, HSBC and the Corporation have also entered into a priority agreement, whereby the BDC security interest is postponed and subordinated to the security interests held by HSBC in the personal property of the Corporation in connection with the BDC Loan.

As at September 30, 2022, the Corporation had drawn $1,600 of the BDC Loan and the Corporation was in compliance with all covenants related to its BDC Loan. All amounts are due within 12 months, and have therefore been classified as a current liability.

Convertible Debentures

	Number of convertible debentures	Liability component	Equity component
Balance at January 1, 2021	2,612	2,482	46
Accretion of discount	-	50	-
Balance at December 31, 2021	2,612	2,532	46
Balance at January 1, 2022	2,612	2,532	46
Accretion of discount	-	32	-
Conversion of convertible debentures	(100)	(97)	(1)
Balance at September 30, 2022	2,512	2,467	45

During the three months ended September 30, 2022, $100 of convertible debentures at a conversion price of $0.21 were redeemed for 476 common shares of the Corporation.

(In thousands of Canadian dollars except for per share amounts)

10. SHARE CAPITAL

Authorized

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, none of which are issued or outstanding as of September 30, 2022.

Authorized and Issued Common Shares

	Number	Amount ($)
Balance as at December 31, 2021	132,171	62,220
Issued shares pursuant to prospectus offering	83,202	26,625
Issuance costs	-	(2,100)
Issued shares pursuant to convertible debenture conversion	476	100
Issued shares pursuant to the exercise of stock options	558	117
Stock option value of exercised options	-	113
Balance at September 30, 2022	216,407	87,075

11. STOCK BASED COMPENSATION

Stock options

The Corporation has adopted an incentive stock option plan, which provides that the Board of Directors of the Corporation from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Corporation, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares.

A summary of the Corporation's outstanding stock options as at September 30, 2022 and December 31, 2021 and the changes for the period then ended, is as follows:

Stock Options (,000's)	Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2020	5,643	$ 0.22
Options granted to employees and directors	3,855	$ 0.21
Options exercised	(81)	$ 0.18
Options forfeited	(600)	$ 0.22
Outstanding at December 31, 2021	8,817	$ 0.22
Options granted to employees and directors	100	$ 0.21
Options exercised	(558)	$ 0.22
Options forfeited	(141)	$ 0.23
Outstanding at September 30, 2022	8,218	$ 0.22

	Total Outstanding		
Range of Exercise Prices	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Employees and directors			
$0.18 to $0.185	3,460	$ 0.18	1.54
$0.20 to $0.27	3,658	$ 0.21	3.30
$0.30 to $0.41	1,100	$ 0.35	0.30
	8,218	$ 0.22	2.12

(In thousands of Canadian dollars except for per share amounts)

	Exercisable			
Range of Exercise Prices	Outstanding	Weighted Average Exercise Price		Weighted Average Remaining Contractual Life (Years)
Employees and directors				
$0.18 to $0.185	2,520	$	0.18	1.52
$0.21 to $0.27	1,951	$	0.22	2.91
$0.30 to $0.41	1,000	$	0.35	0.19
	5,471	$	0.22	1.78

	2022	2021
Risk-free interest rate range	0.97%	0.97% - 1.40%
Expected term	5.00	5.00
Annualized volatility	138%	136-138%
Dividend rate	-	-
Forfeiture rate	10%	10%
Average fair value per option granted	$0.21	$0.21

For the three month period ended September 30, 2022, the Corporation recorded share-based payment expense of $29 (2021 - $52). For the nine months ended September 30, 2022, the Corporation recorded share-based payment expense of $144 (2021 - $328).

12. FINANCIAL INSTRUMENTS

Capital management

The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern so that it can provide adequate returns for shareholders. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Corporation's management to sustain future development of the business. The Corporation defines capital as share capital, convertible debentures and working capital, which was $86,233 as at September 30, 2022 (December 31, 2021 - $62,320).

The Corporation's risk exposures and the impact on the Corporation's financial instruments are summarized below:

Credit risk

IFRS 9 requires an entity to estimate its expected credit loss for all trade accounts receivable even when they are not past due based on the expectation that certain receivables will be uncollectible. Based on the Corporation's assessment, an increase in the allowance for doubtful accounts was recorded, using the lifetime expected credit loss model. The expected credit loss rates are based on actual credit loss experience since inception.

The loss allowance provision for trade accounts receivable as at September 30, 2022 reconciles to the opening loss allowance provision as follows:

At January 1, 2022	125
Increase in credit loss allowance	166
As at September 30, 2022	291

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. The Corporation is normally exposed to credit risk through its accounts receivable balances. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing services and on an ongoing basis, as well as monitoring the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry.

Substantially all of the Corporation's cash and cash equivalents are held by high credit quality financial institutions.

(In thousands of Canadian dollars except for per share amounts)

For the three month period ended September 30, 2022, the Corporation had four customers that comprised 11%, 11%, 10% and 10% of total revenue, compared to four customers that comprised 29%, 15%, 14% and 12% of total revenue for the period ended September 30, 2021.

For the nine months ended September 30, 2022, the Corporation had four customers that comprised 14%, 11%, 10% and 10% of total revenue, compared to three customers that comprised 23%, 19%, and 10% of total revenue for the period ended September 30, 2021.

For the accounts receivable balances outstanding as at September 30, 2022, the Corporation had three customers that comprised 16%, 14%, and 11% of the total balance as compared to four customers that comprised 30%, 12%, 11% and 10% of the total balance as at December 31, 2021.

The Corporation's trade and other receivables aging is as follows:

	September 30, 2022	December 31, 2021
Within 30 days	7,165	3,628
31 to 60 days	5,258	1,549
61 to 90 days	1,374	577
Over 90 days	45	-
Accrued accounts receivable	1,523	926
Other receivables	-	218
Allowance for doubtful accounts	(291)	(125)
Accounts receivable	15,074	6,773

Liquidity risk

The Corporation's objective in managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due by maintaining sufficient cash to settle current liabilities and meet its anticipated working capital requirements. As at September 30, 2022, the Corporation had negative working capital of $3,354 (December 31, 2021 - negative $2,478). The Corporation's principal sources of liquidity are operating cash flows and its Demand Facility. The Corporation monitors its liquidity position on an ongoing basis and manages liquidity risk by regularly evaluating capital and operating budgets, forecasting cash flows and maintaining a sufficient credit facility to meet financing requirements.

On April 19th, 2022, the Corporation entered into a new $18,000 Demand Facility with HSBC Bank of Canada increasing the Corporation's liquidity. The demand facility was amended on August 23rd, 2022 increasing the available facility to $22,500.

The Corporation's trade payables, accrued liabilities and other liabilities were as follows:

Depending on the credit terms of the trade payable, interest will be charged after a predetermined number of days from the date of the invoice. The Corporation has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

	September 30, 2022	December 31, 2021
Accounts payable	5,719	1,729
Accrued liabilities	3,242	845
Other liabilities	40	40
Total current accounts payables, accrued liabilities and other liabilities	9,001	2,614
Other liabilities	104	141
Total accounts payable, accrued liabilities and other liabilities	9,105	2,755

(In thousands of Canadian dollars except for per share amounts)

a) Interest Rate Risk:

The Corporation is exposed to interest rate fluctuations on its operating Demand Facility, Term Loan and BDC Loan which bears interest at floating market rates. For the three month period ended September 30, 2022, if the prime interest rate increased/decreased by 1%, with all other variables held constant, the Corporation's net income would have increased/decreased by $45. For the nine months ended September 30, 2022, if the prime interest rate increased/decreased by 1% with all other variables held constant, the Corporation's net income would have increased/decreased by $111. The Corporation has not entered into any interest rate swaps or other financial arrangements that mitigate the Corporation's exposure to interest rate fluctuations.

b) Foreign Currency Risk:

The Corporation is exposed to foreign currency fluctuations on its financial instruments in relation to its U.S. dollar-denominated cash, accounts receivable and accounts payable. The Corporation monitors its foreign currency exposure and attempts to minimize the effect of fluctuations in the U.S. dollar by maintaining appropriate levels of cash and accounts receivable to offset corresponding U.S. dollar denominated accounts payable.

c) Fair Value:

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments depending on the observable nature of inputs employed in the measurement:

Level 1: fair value measurements are based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. Level 2 valuations are based on inputs including quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument.

Level 3: fair value measurements are based on unobservable information or where the observable data does not support a significant portion of the instrument's fair value.

The carrying amount of cash and cash equivalents, trade and other receivables, Demand Facility, and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. The fair value of the BDC Loan approximates it carrying amount as the BDC Loan has a floating interest rate. The fair value of the Term Loan approximates its carrying amount as the Term Loan has a floating interest rate. At September 30, 2022, the Corporation valued its cash and cash equivalents using Level 1 inputs. The Corporation does not have any Level 2 instruments. The fair value of the convertible debentures liability was recorded based on an estimated fair value interest rate and is considered a Level 3 fair value instrument. The fair value of the investment in equity securities are based on unobservable inputs and are considered a Level 3 fair value instrument.

As at September 30, 2022 and 2021, the fair value of the debentures and investment in equity securities approximates their carrying value.

13. FINANCE COSTS

Finance costs recognized in the consolidated statements of comprehensive income are comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Interest on lease liabilities	10	7	20	20
Interest on Demand Facility	126	59	276	185
Interest on BDC Loan	27	23	71	69
Interest on Term Loan	130	-	184	-
Interest on convertible debentures	63	65	193	195
Amortization of deferred financing costs	20	-	20	-
Accretion on debentures	11	11	32	40
Finance costs	387	165	796	509

(In thousands of Canadian dollars except for per share amounts)

14. SUPPLEMENTAL CASH FLOW INFORMATION

The following is a summary of net change in non-cash working capital items for the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Trade and other receivables	(6,508)	(1,640)	(8,301)	(3,585)
Prepaid expenses and deposits	(19)	21	19	23
Accounts payable and accrued liabilities	1,865	658	6,337	1,237
	(4,662)	(961)	(1,945)	(2,325)
Operating activities	(4,068)	(1,163)	(4,176)	(2,572)
Investing activities	(594)	202	2,231	247
	(4,662)	(961)	(1,945)	(2,325)

15. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table reflects the Corporation's commitments and contractual obligations as of September 30, 2022:

(000's CAD $)	2022	2023	2024	2025	2026	2027
Demand Facility	7,272	-	-	-	-	-
Convertible debenture repayment	-	2,512	-	-	-	-
Convertible debenture interest	63	209	-	-		
BDC Loan	100	1,500	-	-	-	-
BDC Loan interest	18	47	-	-	-	-
Term Loan	250	1,000	1,000	7,750		
Term Loan interest	165	600	529	162		
Lease liabilities	125	494	485	391	379	291
Accounts payable and accrued liabilities	8,961	-	-	-	-	-
Other liabilities	10	40	39	22	22	10
Total	16,964	6,402	2,053	8,325	401	301

As of September 30, 2022, the Corporation has committed approximately $1,600 related to capital expenditures.

16. REVENUE RECOGNITION

	Three months ended September 30, 2022		Nine month ended September 30, 2022	
	2022	2021	2022	2021
Contract drilling rig services	10,573	3,336	21,799	11,650
Contract drilling rig lease revenue	10,149	3,146	21,843	11,333
Total revenue	20,722	6,482	43,642	22,983

The Corporation's contracts contain both a lease and a service element. IFRS 15 requires revenue from both the service and lease elements related to customer contracts to be presented separately. Revenue from subleases is presented as other income in the consolidated statements of comprehensive income. A portion of the Corporation's revenue is lease revenue and not within the scope of IFRS 15, as such portions of revenue received represents the customers' ability to direct the use of an asset belonging to the Corporation.

17. SUBSEQUENT EVENT

Subsequent to September 30, 2022, the Corporation granted 6,365 stock options to purchase common shares of the Corporation to certain directors and officers. An additional 2,700 stock options were also issued to certain employees. The stock options carry a five-year term and are subject to vesting as to one quarter on the day of the grant and one quarter on each of the first, second and third anniversaries of the date of the grant at an exercise price of $0.32 per share.