



HIGH ARCTIC ENERGY SERVICES INC.

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED
March 31, 2021 and 2020**

(Unaudited)

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(Stated in Millions of Canadian Dollars)

	Note	As at March 31 2021	As at December 31 2020
Assets			
Current assets			
Cash		\$ 21.0	\$ 32.6
Accounts receivable	3	15.3	12.9
Inventory		9.1	9.3
Income tax receivable		0.2	0.3
Prepaid expenses		0.6	0.7
		46.2	55.8
Non-current assets			
Property and equipment	4	135.0	141.7
Right-of-use assets	5(a)	5.8	6.1
Income tax receivable		3.0	3.0
Deferred tax asset		7.6	7.6
Total Assets		\$ 197.6	\$ 214.2
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 9.8	\$ 9.1
Income tax payable		0.5	0.5
Current portion of lease liabilities	5(b)	1.2	1.4
		11.5	11.0
Non-current liabilities			
Long-term debt	6	-	10.0
Lease liabilities	5(b)	7.7	7.8
Deferred tax liability		7.1	8.1
Total liabilities		26.3	36.9
Shareholders' equity			
Share capital	7(a)	169.6	169.3
Contributed surplus		13.5	13.7
Accumulated other comprehensive income		23.1	24.0
Deficit		(34.9)	(29.7)
		171.3	177.3
Total Liabilities and Shareholders' Equity		\$ 197.6	\$ 214.2

Commitments and contingencies (Note 15)

Approved on behalf of the Corporation by:

(signed) "Doug Strong" Director

(signed) "Michael Binnion" Director

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

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Stated in Millions of Canadian Dollars, except per share amounts)

For the three months ended March 31		2021	2020
	Note		
Revenue	9	\$ 17.8	\$ 39.6
Expenses			
Oilfield services	10	14.5	32.3
General and administrative	10	2.5	4.6
Depreciation		6.9	7.3
Share-based compensation	8	0.1	0.1
Total expenses		24.0	44.3
		(6.2)	(4.7)
Foreign exchange gain		-	(0.1)
Gain on sale of property and equipment		(0.5)	(2.8)
Interest and finance expense	10	0.2	0.3
Loss before income taxes		(5.9)	(2.1)
		0.2	0.4
Current income tax expense		(0.9)	(0.3)
Deferred income tax recovery		(0.7)	0.1
Net loss for the period		\$ (5.2)	\$ (2.2)
Net loss per share – basic and diluted	7(b)	\$ (0.11)	\$ (0.04)

For the three months ended March 31		2021	2020
Net loss for the period		\$ (5.2)	\$ (2.2)
Other comprehensive income (loss):			
<i>Item that may be reclassified</i>			
<i>subsequently to net income (loss):</i>			
Foreign currency translation gain (loss)		(0.9)	8.5
for foreign operations			
Comprehensive income (loss) for the period		\$ (6.1)	\$ 6.3

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

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Stated in Millions of Canadian Dollars)

	Note	Share capital Note 7(a)	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance at December 31, 2020		\$ 169.3	\$ 13.7	\$ 24.0	\$ (29.7)	\$ 177.3
Net loss for the period		-	-	-	(5.2)	(5.2)
Other comprehensive loss – foreign currency translation loss		-	-	(0.9)	-	(0.9)
Share-based compensation	8	-	0.1	-	-	0.1
Exercise of performance share units	8	0.3	(0.3)	-	-	-
Balance at March 31, 2021		\$ 169.6	\$ 13.5	\$ 23.1	\$ (34.9)	\$ 171.3
Balance at December 31, 2019		\$ 173.1	\$ 9.9	\$ 24.8	\$ (2.2)	\$ 205.6
Net loss for the period		-	-	-	(2.2)	(2.2)
Dividends		-	-	-	(1.6)	(1.6)
Other comprehensive income – foreign currency translation gain		-	-	8.5	-	8.5
Share-based compensation	8	-	0.1	-	-	0.1
Balance at March 31, 2020		\$ 173.1	\$ 10.0	\$ 33.3	\$ (6.0)	\$ 210.4

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

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Stated in Millions of Canadian Dollars)

For the three months ended March 31		2021	2020
	Note		
Net loss for the period		\$ (5.2)	\$ (2.2)
Adjustments for:			
Depreciation		6.9	7.3
Share-based compensation	8	0.1	0.1
Gain on sale of property and equipment	4	(0.5)	(2.8)
Foreign exchange gain		-	(0.1)
Deferred income tax recovery		(0.9)	(0.3)
Funds flow from operations		0.4	2.0
Changes in non-cash working capital balances	11	(1.7)	6.6
Cash flows from (used in) operating activities		(1.3)	8.6
Investing activities			
Purchase of property and equipment	4	(0.8)	(1.9)
Proceeds from disposal of property and equipment	4	0.6	4.9
Changes in non-cash working capital balances	11	0.3	(1.1)
Cash flows from investing activities		0.1	1.9
Financing activities			
Cash dividends		-	(1.6)
Proceeds from long-term debt	6	-	10.0
Repayment of long-term debt	6	(10.0)	-
Lease obligation principal repayments	5(b)	(0.3)	(0.5)
Changes in non-cash working capital balances	11	-	(0.8)
Cash flows from (used in) financing activities		(10.3)	7.1
Effect of foreign exchange rate changes on cash		(0.1)	1.4
Increase (decrease) in cash		(11.6)	19.0
Cash, beginning of period		32.6	9.3
Cash, end of period		\$ 21.0	\$ 28.3

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

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2021 and 2020

(Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

1. Nature of Business

High Arctic Energy Services Inc. (“High Arctic” or the “Corporation”) is incorporated under the laws of Alberta, Canada and is a publicly traded corporation listed on the Toronto Stock Exchange under the symbol “HWO”. High Arctic is engaged in contract drilling, production and completion services, equipment rentals and other oilfield services to the oil and natural gas industry in Canada, Papua New Guinea (“PNG”), and the United States (“US”).

The Corporation’s head office address is located at Suite 500, 700 – 2nd Street SW, Calgary, Alberta, Canada T2P 2W1.

As of March 31, 2021, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L., representing 44.9% of the outstanding common shares.

2. Basis of Presentation

(a) Statement of compliance and approval

These unaudited interim condensed consolidated financial statements (“Condensed Consolidated Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, including International Accounting Standard 34 – Interim Financial Reporting.

The Condensed Consolidated Financial Statements were authorized for issuance by the Board of Directors on May 13, 2021.

(b) Basis of preparation

Unless otherwise noted, the Condensed Consolidated 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, 2020.

The disclosures provided below are incremental to those included as part of the annual audited consolidated financial statements for the year ended December 31, 2020. Certain information and disclosures normally included in the notes to the annual audited consolidated financial statements have been condensed or have been/will be disclosed on an annual basis only. Accordingly, these Condensed Consolidated Financial Statements should be read in conjunction with the annual audited consolidated financial statements.

(c) Judgments, estimates and assumptions

The Condensed Consolidated Financial Statements were prepared using the same judgments, estimates and assumptions as described in the annual audited consolidated financial statements for the year ended December 31, 2020.

As described in Note 2(d) of the annual audited consolidated financial statements for the year ended December 31, 2020, due to the outbreak of the novel coronavirus (“COVID-19”) and the resulting impacts on the global economy and in particular the demand for and prices of oil and natural gas, the estimates and judgements used to prepare these Condensed Consolidated Financial Statements were subject to a higher degree of measurement uncertainty.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

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3. Accounts receivable

The aging and provision for expected credit losses associated with accounts receivable was as follows:

	As at March 31, 2021		As at December 31, 2020	
Less than 31 days	\$	10.0	\$	8.1
31 to 60 days		4.5		3.1
61 to 90 days		0.6		1.2
Greater than 90 days		0.9		1.3
Provision for expected credit losses		(0.7)		(0.8)
Total	\$	15.3	\$	12.9

The Corporation's accounts receivable are denominated in the following functional currencies:

	As at March 31, 2021		As at December 31, 2020	
Canadian dollars	\$	13.9	\$	11.6
US dollars ("USD")				
(2021 – USD \$1.1; 2020 - \$1.0)		1.4		1.3
Total	\$	15.3	\$	12.9

High Arctic determined the expected credit loss 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 expected credit losses also incorporate forward looking information.

The details of this approach as at March 31, 2021 was as follows:

<i>(\$ millions, unless otherwise noted)</i>	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	\$ 6.8	\$ 3.9	\$ 0.4	\$ 0.2	\$ 11.3
Non-investment grade receivables	3.2	0.6	0.2	0.7	4.7
Total receivables	\$ 10.0	\$ 4.5	\$ 0.6	\$ 0.9	\$ 16.0
<i>Expected credit loss for investment grade (%)</i>	0.04	0.06	0.10	0.30	-
<i>Expected credit loss for non-investment grade (%)</i>	0.75	5.00	10.00	10.00	-
Investment grade expected credit loss provision	\$ -	\$ -	\$ -	\$ -	\$ -
Non-investment grade expected credit loss provision	(0.02)	(0.03)	(0.02)	(0.02)	(0.09)
Specifically provided for amounts	-	-	-	(0.63)	(0.63)
Total allowance for doubtful accounts	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ (0.65)	\$ (0.72)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2021 and 2020

(Unaudited)

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The comparative details of this approach as at December 31, 2020 was as follows:

<i>(\$ millions, unless otherwise noted)</i>	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	\$ 4.4	\$ 2.2	\$ 0.6	\$ 0.4	\$ 7.6
Non-investment grade receivables	3.7	0.9	0.6	0.9	6.1
Total receivables	\$ 8.1	\$ 3.1	\$ 1.2	\$ 1.3	\$ 13.7
<i>Expected credit loss for investment grade (%)</i>	<i>0.04</i>	<i>0.06</i>	<i>0.10</i>	<i>0.30</i>	-
<i>Expected credit loss for non-investment grade (%)</i>	<i>0.75</i>	<i>5.00</i>	<i>10.00</i>	<i>10.00</i>	-
Investment grade expected credit loss provision	\$ -	\$ -	\$ -	\$ -	\$ -
Non-investment grade expected credit loss provision	(0.03)	(0.04)	(0.06)	(0.09)	(0.22)
Specifically provided for amounts	-	-	-	(0.62)	(0.62)
Total allowance for doubtful accounts	\$ (0.03)	\$ (0.04)	\$ (0.06)	\$ (0.71)	\$ (0.84)

4. Property and equipment

Cost	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in- progress	Total
At December 31, 2020	\$ 9.4	\$ 346.6	\$ 4.3	\$ 10.8	\$ 3.7	\$ 374.8
Additions	-	-	-	-	0.8	0.8
Dispositions	(0.8)	(1.3)	-	-	-	(2.1)
Transfers	-	0.8	-	-	(0.8)	-
Effect of foreign exchange	-	(2.1)	-	-	-	(2.1)
At March 31, 2021	\$ 8.6	\$ 344.0	\$ 4.3	\$ 10.8	\$ 3.7	\$ 371.4
Accumulated depreciation	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in- progress	Total
At December 31, 2020	\$ 8.6	\$ 219.3	\$ 3.7	\$ 1.5	\$ -	\$ 233.1
Depreciation	-	6.4	0.1	0.1	-	6.6
Dispositions	(0.8)	(1.2)	-	-	-	(2.0)
Effect of foreign exchange	-	(1.3)	-	-	-	(1.3)
At March 31, 2021	\$ 7.8	\$ 223.2	\$ 3.8	\$ 1.6	\$ -	\$ 236.4
Net book value						
At December 31, 2020	0.8	127.3	0.6	9.3	3.7	141.7
At March 31, 2021	\$ 0.8	\$ 120.8	\$ 0.5	\$ 9.2	\$ 3.7	\$ 135.0

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

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(Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

For the three-month period ended March 31, 2021, High Arctic disposed of property and equipment and received proceeds of \$0.6 million (2020 - \$4.9 million), resulting in a gain on disposal of \$0.5 million (March 31, 2020 – gain of \$2.8 million).

No indicators of impairment were identified relating to property and equipment at March 31, 2021.

5. Right-of-use assets and lease liabilities

a) Right-of-use assets

Cost		Total
At December 31, 2020	\$	8.2
Additions		-
Transfers		-
At March 31, 2021	\$	8.2
Accumulated depreciation		Total
At December 31, 2020	\$	2.1
Depreciation		0.3
At March 31, 2021	\$	2.4
Net book value		
December 31, 2020	\$	6.1
At March 31, 2021	\$	5.8

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

b) Lease liabilities

		Total
At December 31, 2020	\$	9.2
Additions		-
Lease payments		(0.4)
Finance expense (Note 10)		0.1
At March 31, 2021	\$	8.9
		Total
Current	\$	1.2
Non-current		7.7
At March 31, 2021	\$	8.9

The lease liabilities relate to various types of real estate assets and vehicles which are recorded as right-of-use assets in 5a). Government of Canada rent subsidies under CERS amounting to approximately \$0.1 million at March 31, 2021 (2020 – \$Nil) have been recorded as a reduction to Oilfield expenses, taking into consideration both IFRS accounting for government assistance as well as the practical expedient elected by the Corporation, and \$0.1 million has been recorded in Accounts receivable as at March 31, 2021 (December 31, 2020 – \$0.1 million). There was therefore no accounting impact relating to the lease liability accounting under IFRS 16 as a result of CERS, as the impact is recorded in other parts of the Condensed Consolidated Financial Statements.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2021 and 2020

(Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

The undiscounted cash flows relating to the lease liabilities at March 31, 2021 are as follows:

Net book value		Total
Less than one year	\$	1.2
One to five years		3.4
More than five years		6.2
Total undiscounted liabilities	\$	10.8

6. Long-term debt

	Three months ended March 31, 2021	Year ended December 31, 2020
Revolving loan	\$ -	\$ 10.0

The Corporation has a \$45.0 million revolving facility which has a maturity date of August 31, 2023, is renewable with the lender's consent, and is secured by a general security agreement over the Corporation's assets. The \$45 million revolving facility includes a \$5.0 million overdraft component.

The total amount advanced under the revolving facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for bank facility defined investment grade receivables), and 90% of insured receivables, less priority payables, and receivables that have been sold or factored, whether to the lender or another third party as defined in the loan agreement ("Margin Requirement").

Interest on the facility, which is independent of standby fees, is charged monthly at the lender's prime rate plus an applicable margin which fluctuates based on the Funded Debt to EBITDA ratio (defined below). The applicable margin can range between 0.75% – 1.75%. Standby fees also fluctuate based on the Funded Debt to EBITDA ratio and range between 0.40% – 0.60% of the undrawn balance.

The facility is subject to two financial covenants which are reported to the lender on a quarterly basis. The first covenant requires the Funded Debt to EBITDA ratio to be under 3.0 to 1 and the second covenant requires EBITDA to Interest Expense ratio (defined below) to be a minimum of 3.0 to 1. Both are calculated on the last day of each fiscal quarter on a rolling four quarter basis. As at March 31, 2021, the Corporation was in compliance with these two covenants.

Funded Debt to EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing four quarters. Funded Debt is the amount of debt provided and outstanding at the date of the covenant calculation. Interest Expense excludes any impact related to lease liabilities (note 5). EBITDA for the purposes of calculating the covenants is defined as a trailing 12-month net income (loss) plus interest expense, current tax expense, deferred income tax expense (recovery), depreciation, amortization, share-based compensation expense, and up to \$1 million of restructuring costs in a twelve month trailing period, less gains from foreign exchange and sale or purchase of assets.

The facility contains additional non-financial covenants and conditions impacting availability and repayment of borrowings under the facility. Events of default, which include material adverse change conditions, at the reasonable discretion of the lender, may result in facility indebtedness being immediately due and payable.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2021 and 2020

(Unaudited)

(Tabular amounts are stated in millions of Canadian Dollars, except per share amounts and/or unless otherwise stated)

7. 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.

	Three months ended March 31, 2021		Year ended December 31, 2020	
	Shares	Amount	Shares	Amount
Common shares issued and outstanding:				
Balance, beginning of period	48,759,660	\$ 169.3	49,623,432	\$ 173.1
Exercise of performance share units (Note 8)	52,289	0.3	273,328	0.1
Normal course issuer bid	-	-	(1,137,100)	(3.9)
Balance, end of period	48,811,949	\$ 169.6	48,759,660	\$ 169.3

The common shares do not have a par value and all issued shares are fully paid.

On December 8, 2020, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,437,983 common shares, representing approximately 10 percent of the Corporation's public float at the date of approval, under a Normal Course Issuer Bid ("NCIB"). The NCIB is valid for one year, commencing on December 11, 2020 and terminates on December 10, 2021. No common shares have been purchased under this NCIB.

b) Per common share amounts

The following table summarizes the weighted average number of common shares used in calculating basic and diluted net loss per share. All potentially dilutive instruments such as stock options and units under the Performance Share Unit Plan and Deferred Share Unit Plan are considered in this calculation.

There is no dilutive impact to the weighted average number of common shares outstanding for the three months ended March 31, 2021 and 2020, as the effects of all stock options and units are anti-dilutive.

	Three months ended Months Ended			
	March 31, 2021		March 31, 2020	
	Number of common shares	Net loss per common share	Number of common shares	Net loss per common share
Weighted average number of common shares used in basic and diluted net loss per share	48,767,213	\$ (0.11)	49,623,432	\$ (0.04)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

As at and for the three months ended March 31, 2021 and 2020

(Unaudited)

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8. Share-based compensation

The Corporation has various equity-based compensation plans under which up to 4,881,195 common shares (being 10% of all outstanding shares) may be issued as at March 31, 2021.

The following table summarizes the Corporation's outstanding grants for each equity-based compensation plan:

	Three months ended March 31, 2021	Year ended December 31, 2020
Stock options	165,000	265,500
Performance share unit plan – restricted units	360,000	422,181
Performance share unit plan – performance units	306,866	376,053
Deferred share units	567,558	523,117
Balance, end of period	1,399,424	1,586,851
Common shares available for grants	4,881,195	4,875,966
Percentage used of total available	29%	33%
Remaining common shares available for grants	3,481,771	3,289,115

Share-based compensation expense associated with each of the equity-based compensation plans amounted to:

	Three months ended March 31, 2021	March 31, 2020
Stock options	\$ -	\$ -
Performance share unit plan – restricted units	-	0.1
Performance share unit plan – performance units	-	-
Deferred share units	0.1	-
Total expense	\$ 0.1	\$ 0.1

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. At March 31, 2021, a total of 165,000 stock options are outstanding and expire at various dates up to 2022, at exercise prices that range from \$3.67 to \$3.75 per share.

These stock options are exercisable over a term of 5 years and are generally subject to a three-year vesting period with 40% exercisable by the holder after the first anniversary date, another 30% after the second anniversary date and the balance after the third anniversary date. The stock options have an average remaining contractual life of 1.5 years and 165,000 stock options are currently vested and eligible to be exercised.

HIGH ARCTIC ENERGY SERVICES INC.

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

	Number of Stock Options	Weighted Average Exercise Price (\$)
At December 31, 2020	265,500	3.72
Expired	(50,000)	3.46
Forfeited/Cancelled	(50,500)	3.94
At March 31, 2021	165,000	3.73

Exercise price ranges	Outstanding number of options	Weighted average remaining life of those options outstanding (years)	Weighted average exercise price of outstanding options (\$)	Exercisable number of options	Weighted average exercise price of options that are exercisable (\$)
\$3.58 - \$3.71	35,000	0.44	3.67	35,000	3.67
\$3.72 - \$4.41	130,000	1.74	3.75	130,000	3.75
At March 31, 2021	165,000	1.46	3.73	165,000	3.73

Performance Share Unit Plan ("PSUP")

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

	RSUs	PSUs	Total
At December 31, 2020	422,181	376,053	798,234
Exercised	(62,181)	(28,751)	(90,932)
Forfeited/Cancelled	-	(40,436)	(40,436)
At March 31, 2021	360,000	306,866	666,866

During the three months ended March 31, 2021, 90,932 PSUP Units were exercised, of which 52,289 were settled through the issuance of common shares (note 7(a)), and 38,643 were settled in cash and remitted as statutory withholdings on behalf of the recipients.

Deferred Share Units ("DSUs")

Details regarding the DSUs and related activity is as follows:

	Three months ended March 31, 2021	Year ended December 31, 2020
Outstanding, beginning of period	523,117	161,729
Granted	44,441	364,615
Exercised	-	(8,622)
Dividends re-invested	-	5,395
Outstanding, end of period	567,558	523,117

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As at and for the three months ended March 31, 2021 and 2020

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9. Revenue

The following table includes a reconciliation of disaggregated revenue by reportable segment (Note 13). Revenue has been disaggregated by primary geographic location, type of service provided and the amount that relates to lease revenue.

Three months ended March 31, 2021	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	Total
Revenue from contracts with customers:					
Canada	\$ -	\$ 14.1	\$ 0.5	\$ -	\$ 14.6
US	-	-	-	-	-
PNG	0.7	-	-	-	0.7
	0.7	14.1	0.5	-	15.3
Operating rental revenue:					
Canada	-	1.3	1.3	(0.6)	2.0
PNG	0.1	-	0.4	-	0.5
	0.1	1.3	1.7	(0.6)	2.5
Total revenue	\$ 0.8	\$ 15.4	\$ 2.2	\$ (0.6)	\$ 17.8

Three months ended March 31, 2020	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	Total
Revenue from contracts with customers:					
Canada	\$ -	\$ 18.9	\$ 0.7	\$ -	\$ 19.6
US	-	1.5	-	-	1.5
PNG	11.0	-	-	-	11.0
	11.0	20.4	0.7	-	32.1
Operating rental revenue:					
Canada	-	1.4	1.6	(0.6)	2.4
PNG	2.9	-	2.2	-	5.1
	2.9	1.4	3.8	(0.6)	7.5
Total revenue	\$ 13.9	\$ 21.8	\$ 4.5	\$ (0.6)	\$ 39.6

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10. Supplementary expense disclosure

Oilfield services expenses by nature	Three months ended March 31	
	2021	2020
Personnel costs ⁽¹⁾	\$ 9.8	\$ 19.4
Drilling rig rental costs	-	2.1
Material and supplies costs	1.0	4.2
Equipment operating and maintenance costs	2.6	4.5
Other	1.1	2.1
	\$ 14.5	\$ 32.3

(1) Costs presented net of government assistance as described below.

General and administrative expenses by nature	Three months ended March 31	
	2021	2020
Personnel costs ⁽¹⁾	\$ 1.7	\$ 3.3
Professional, legal and consulting fees	0.3	0.5
Facility costs ⁽¹⁾	0.1	0.1
Provision for expected credit losses	-	0.2
Information technology services	0.2	0.2
Rentals	0.1	0.1
Other	0.1	0.2
	\$ 2.5	\$ 4.6

(1) Costs presented net of government assistance as described below.

Interest and finance expense	Three months ended March 31	
	2021	2020
Interest on facility & standby fees (Note 6)	\$ 0.1	\$ 0.1
Finance expense (Note 5(b))	0.1	0.1
Other	-	0.1
	\$ 0.2	\$ 0.3

As a result of the Canada Emergency Wage Subsidy program (“CEWS”), the resulting reduction of wages amounted to \$0.9 million for the three months ended March 31, 2021 (2020 – \$Nil), with \$0.8 million allocated to Oilfield service expenses, and \$0.1 million allocated to General and administrative expenses. Amounts recorded as Accounts Receivable are \$1.1 million at March 31, 2021 (December 31, 2020 – \$1.4 million).

As a result of Canada Emergency Rent Subsidy (“CERS”), the resulting government rental subsidy of \$0.1 million for the three months ended March 31, 2021 (2020 – \$Nil) has been recorded as a reduction in Oilfield expenses for the same amount. Amounts recorded as Accounts Receivable are \$0.1 million at March 31, 2021 (December 31, 2020 - \$0.1 million).

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For the three months ended March 31, 2020, \$0.8 million of restructuring costs are included in Personnel costs, with \$0.5 million recorded as part of Oilfield services and \$0.3 million recorded as part of General and administrative expenses. No such amounts were incurred in 2021.

11. Supplementary cash flow information

Changes in non-cash working capital balances:

	Three months ended March 31	
	2021	2020
Source (use) of cash:		
Accounts receivable	\$ (2.4)	\$ 6.7
Inventory and prepaid expenses	0.3	(1.2)
Accounts payable and accrued liabilities	0.7	(1.6)
Dividend payable	-	(0.8)
Income taxes payable	-	(0.1)
Income taxes receivable	0.1	(0.1)
Deferred revenue	-	0.1
Impact of foreign exchange on working capital	(0.1)	1.7
	\$ (1.4)	\$ 4.7
Attributable to:		
Operating activities	\$ (1.7)	\$ 6.6
Investing activities	0.3	(1.1)
Financing activities	-	(0.8)
	\$ (1.4)	\$ 4.7

Interest amounting to \$0.1 million was paid during the three months ended March 31, 2021 (2020 - \$0.1).

Taxes paid during the three months ended March 31, 2021 amounted to \$Nil (2020 - \$0.4 million).

12. Financial instruments and risk management

Financial and other risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes the risk associated with the developments relating to COVID-19, as outlined below, and other such pandemics and endemics in the future.

Outside of a pandemic risk, financial risks include market risk, commodity price risk, interest rate risk, foreign currency risk, risks associated with foreign currency restrictions and operations, credit risk and liquidity risk.

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Market and other related risk

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

- a) Interest;
- b) commodity prices;
- c) foreign currency exchange rates; and
- d) PNG foreign currency restrictions.

Pandemic and/or endemic risk is the risk that operations and/or administration are forced to run at less than full capacity due to an absence or reduction of members of the workforce, either through forced closures by government both within countries and also across national borders, by internally imposed rotational schedules and/or quarantine or illness of the workforce. Further, cyber-security risks increase as employees work from home. Such restrictions could significantly impact the ability for the Corporation to operate, and therefore impact financial results.

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 is exposed to interest rate risk as the long-term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. The Corporation had no risk management contracts that would be affected by interest rates in place at March 31, 2021.

b) Commodity price risk

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

These prices are sensitive to not only the relationship between the Canadian and US dollar, but more importantly local, regional and world economic events. This includes implications from declining oil demand and over supply, climate change driven transitions to lower emission energy sources, the current COVID-19 pandemic which creates a scenario of both downward and fluctuating price pressure as well as the implications of changes to government and government policy including the policy directions that will be taken by the new US President and ongoing negotiations in PNG to build LNG expansion with industry.

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

The Corporation had no risk management contracts that would be affected by commodity prices in place at March 31, 2021.

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 majority of the Corporation's international revenue and expenses are effectively transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the three months ended March 31, 2021, a \$0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in change in net loss amounting to \$0.2 million as a result of changes in foreign exchange (2020 - \$0.1 million).

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d) PNG foreign currency restrictions

The Corporation's ability to repatriate funds from PNG is controlled by the PNG government through their central bank.

There are currently a number of monetary and currency exchange control measures in PNG that can impact the ability to repatriate funds, as well as establish requirements to transact in the local PNG currency (Kina or "PGK").

As at March 31, 2021 USD \$0.4 million (December 31, 2020 - \$0.9 million) was on deposit with a large international bank in PNG. The Bank of PNG ("BPNG") has provided approval for High Arctic to maintain a USD bank account in accordance with the BPNG currency regulations. The Corporation has received approval from the BPNG for its existing drilling services contracts with its key customers in PNG to be denominated and settled in USD. However, if such approval is withdrawn in the future, these funds may be converted into PGK and the Corporation would be required to access the foreign currency market in PNG to meet its foreign currency obligations, thus exposing the Corporation to greater foreign exchange exposure for the PGK.

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

Credit risk, customers, and economic dependence

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

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

In providing for expected credit losses, 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 wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to four large multinational/regional customers which individually accounted for greater than 10% of its consolidated revenues during the three-month period ended March 31, 2021 (March 31, 2020 – two customers). Sales to these four customers were approximately \$4.2 million, \$2.4 million, \$2.3 million, and \$2.1 million, respectively, for the three-month period ended March 31, 2021 (three-month period ended March 31, 2020 – two customers, with revenue of \$11.8 million and \$5.7 million, respectively).

As at March 31, 2021, these four customers represented a total of \$7.8 million or 51% of outstanding accounts receivable (December 31, 2020 – two customers represented a total of \$2.2 million or 17% of outstanding accounts receivable).

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As a result of the economic pressures currently faced by the oil and gas industry, together with the implications of the COVID-19 pandemic, a more thorough assessment of accounts receivable continues to be undertaken to take this changing environment into consideration.

Liquidity risk

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

Liquidity risk is currently being impacted by uncertainty within capital markets given the COVID-19 pandemic on global economies, economic recession possibilities, contraction of available capital and reliance on continued fiscal stimulus by governments around the world.

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

Further, the Corporation currently has up to \$45.0 million in remaining availability under its credit facility, subject to the bank stipulated Margin Requirement (note 6), to enable execution of strategic direction.

13. Operating segments

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. Up to March 31, 2021, the Corporation operated in three geographic areas, Canada, the US and PNG, where the US operations, due to poor market conditions, were idled during the third quarter of 2020.

The Corporation has four operating segments as follows:

Drilling Services

This segment currently consists of the Corporation's drilling services provided in PNG, including the provision of drilling personnel to assist our customer's operations.

Production Services

This segment currently consists of the Corporation's well servicing and snubbing services provided in Canada, the US, and well servicing in PNG with its heli-portable workover rig.

Ancillary Services

Ancillary services segment consists of High Arctic's oilfield rental equipment in Canada and PNG as well as its Canadian nitrogen services.

Corporate

The Corporate segment provides management and administrative services to the Corporation's operations.

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Details associated with each geographic and operating segment are provided for the three months ended March 31, 2021 and 2020 in the tables which follow.

2021	PNG	Canada	US	Total
Revenue ⁽¹⁾	\$ 1.2	\$ 16.6	\$ -	\$ 17.8
Total assets excluding deferred tax assets ⁽¹⁾	\$ 80.0	\$ 109.8	\$ 0.2	\$ 190.0

(1) Revenue represents balances for the three months ended March 31, 2021. Total assets excluding deferred tax assets represents balances as at March 31, 2021.

2020	PNG	Canada	US	Total
Revenue ⁽²⁾	\$ 16.1	\$ 21.9	\$ 1.6	\$ 39.6
Total assets excluding deferred tax assets ⁽²⁾	\$ 85.8	\$ 120.6	\$ 0.2	\$ 206.6

(2) Revenue represents balances for the three months ended March 31, 2020. Total assets excluding deferred tax assets represents balances as at December 31, 2020.

Three months ended/As at March 31, 2021	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	\$ 0.8	\$ 15.4	\$ 2.2	\$ -	\$ (0.6)	\$ 17.8
Expenses						
Oilfield Services	0.8	13.2	1.1	-	(0.6)	14.5
General and administrative	0.6	0.9	0.1	0.9	-	2.5
Depreciation	2.4	3.1	1.4	-	-	6.9
Share-based compensation	-	-	-	0.1	-	0.1
	3.8	17.2	2.6	1.0	(0.6)	24.0
	(3.0)	(1.8)	(0.4)	(1.0)	-	(6.2)
Foreign exchange gain	-	-	-	-	-	-
(Gain) Loss on sale of property and equipment	-	(0.6)	0.1	-	-	(0.5)
Interest and finance expense	-	-	-	0.2	-	0.2
Earnings (Loss) before income taxes	(3.0)	(1.2)	(0.5)	(1.2)	-	(5.9)
Property and equipment	38.1	74.9	22.0	-	-	135.0
Right-of-use assets	0.2	5.2	0.4	-	-	5.8
Total assets less deferred tax assets	\$ 52.2	\$ 101.2	\$ 36.6	\$ -	\$ -	\$ 190.0

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Three months ended March 31, 2020	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	\$ 13.9	\$ 21.8	\$ 4.5	\$ -	\$ (0.6)	\$ 39.6
Expenses						
Oilfield Services	10.7	20.3	1.9	-	(0.6)	32.3
General and administrative	0.8	1.9	0.2	1.7	-	4.6
Depreciation	2.6	3.3	1.4	-	-	7.3
Share-based compensation	-	-	-	0.1	-	0.1
	14.1	25.5	3.5	1.8	(0.6)	44.3
	(0.2)	(3.7)	1.0	(1.8)	-	(4.7)
Foreign exchange gain	-	-	-	(0.1)	-	(0.1)
Gain on sale of property and equipment	-	-	(2.8)	-	-	(2.8)
Interest and finance expense	-	-	-	0.3	-	0.3
Earnings (Loss) before income taxes	(0.2)	(3.7)	3.8	(2.0)	-	(2.1)
Property and equipment ⁽³⁾	41.0	77.4	23.3	-	-	141.7
Right-of-use assets ⁽³⁾	0.3	5.3	0.5	-	-	6.1
Total assets less deferred tax assets ⁽³⁾	\$ 56.6	\$ 111.4	\$ 38.6	\$ -	-	\$ 206.6

(3) Represents balances as at December 31, 2020.

14. Related party transactions

During the three months ended March 31, 2021, the Corporation made a donation of \$25 thousand (Q1 -2020 - \$Nil) to an organization where one of High Arctic Board members is also a director of the organization to which the donation was made.

15. Commitments and contingencies

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied an inventory of spare parts with a total value of \$7.9 million (December 31, 2020 - \$7.9 million) by a customer for the Corporation's operations in PNG. The inventory is owned by this party and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must make a payment to the customer equivalent to any inventory shortfall, and return the balance of inventory on hand.