



**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE-MONTHS ENDED
September 30, 2021 and 2020**

(Unaudited)

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(Stated in Thousands of Canadian Dollars)

	Note	As at September 30 2021	As at December 31 2020
Assets			
Current assets			
Cash		\$ 20,210	\$ 32,598
Accounts receivable	3	12,816	12,886
Inventory		9,472	9,356
Prepaid expenses and other assets		1,306	749
		43,804	55,589
Non-current assets			
Property and equipment	4	128,384	141,676
Right-of-use assets	5(a)	5,423	6,067
Income tax receivable		3,012	3,258
Deferred tax asset		7,569	7,569
Total Assets		\$ 188,192	\$ 214,159
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 9,132	\$ 9,080
Income taxes payable		584	481
Current portion of lease liabilities	5(b)	1,225	1,451
		10,941	11,012
Non-current liabilities			
Long-term debt	6	-	10,000
Lease liabilities	5(b)	7,310	7,782
Deferred tax liability		6,674	8,144
Total Liabilities		24,925	36,938
Shareholders' Equity			
Share capital	7(a)	169,697	169,220
Contributed surplus		13,405	13,741
Accumulated other comprehensive income		23,895	23,991
Deficit		(43,730)	(29,731)
		163,267	177,221
Total Liabilities and Shareholders' Equity		\$ 188,192	\$ 214,159

Commitments and contingencies (Note 14)

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 LOSS

(Unaudited)

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

	Note	Three-months ended September 30		Nine-months ended September 30	
		2021	2020	2021	2020
Revenue	9	\$ 18,654	\$ 18,529	\$ 52,798	\$ 74,250
Expenses					
Oilfield services	10(a)	14,768	12,612	42,282	56,749
General and administrative	10(b)	2,474	2,441	7,434	10,126
Depreciation and amortization		5,876	8,200	17,634	23,023
Share-based compensation	8	133	173	296	249
		23,251	23,426	67,646	90,147
		(4,597)	(4,897)	(14,848)	(15,897)
Foreign exchange (loss) gain		103	(117)	47	79
(Loss) Gain on sale of property and equipment		(88)	(238)	421	2,555
Interest and finance expense	10(f)	(151)	(226)	(513)	(810)
Loss before income taxes		(4,733)	(5,478)	(14,893)	(14,073)
Current income tax expense		(280)	(1003)	(557)	(1,448)
Deferred income tax recovery		229	402	1,451	1,132
		(51)	(601)	894	(316)
Net loss for the period		\$ (4,784)	\$ (6,079)	\$ (13,999)	\$ (14,389)
Net loss per share – basic and diluted	7(b)	\$ (0.10)	\$ (0.12)	\$ (0.29)	\$ (0.29)

	Three-months ended September 30		Nine-months ended September 30	
	2021	2020	2021	2020
Net loss for the period	\$ (4,784)	\$ (6,079)	\$ (13,999)	\$ (14,389)
Other comprehensive (loss) income:				
<i>Item that may be reclassified subsequently to net (loss) income:</i>				
Foreign currency translation (loss) gain for foreign operations	1,921	(1,756)	(96)	2,832
Comprehensive loss for the period	\$ (2,863)	\$ (7,835)	\$ (14,095)	\$ (11,557)

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 Thousands of Canadian Dollars)

	Note	Share capital Note 7(a)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balance at December 31, 2020		\$ 169,220	\$ 13,741	\$ 23,991	\$(29,731)	\$ 177,221
Net loss for the period		-	-	-	(13,999)	(13,999)
Other comprehensive loss – foreign currency translation loss		-	-	(96)	-	(96)
Purchase of common shares for cancellation		(274)	172	-	-	(102)
Share-based compensation	8	-	296	-	-	296
Exercise of share-based compensation	8	751	(804)	-	-	(53)
Balance at September 30, 2021		\$ 169,697	\$ 13,405	\$ 23,895	\$(43,730)	\$ 163,267
Balance at December 31, 2019		\$ 173,071	\$ 9,792	\$ 24,831	\$ (2,108)	\$ 205,586
Net loss for the period		-	-	-	(14,389)	(14,389)
Dividends		-	-	-	(1,638)	(1,638)
Other comprehensive income – foreign currency translation gain		-	-	2,832	-	2,832
Purchase of common shares for cancellation		(507)	416	-	-	(91)
Share based compensation		-	249	-	-	249
Exercise of share-based compensation	8	101	273	-	-	374
Balance at September 30, 2020		\$ 172,665	\$ 10,730	\$ 27,663	\$(18,135)	\$ 192,923

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 Thousands of Canadian Dollars)

	Note	Three-months ended September 30		Nine-months ended September 30	
		2021	2020	2021	2020
Operating activities					
Net loss for the period		\$ (4,784)	\$ (6,079)	\$ (13,999)	\$ (14,389)
Adjustments for:					
Depreciation and amortization		5,876	8,200	17,634	23,023
Share-based compensation expense	8	133	173	296	249
Non-cash finance expense		96	110	295	344
Loss (gain) on sale of property and equipment	4	88	238	(421)	(2,555)
Foreign exchange (gain) loss		(103)	117	(47)	(79)
Deferred income tax recovery		(229)	(402)	(1,451)	(1,132)
Funds flow from operations		1,077	2,357	2,307	5,461
Changes in non-cash working capital	11	(340)	(1,165)	(632)	12,302
Cash flow from operating activities		737	1,192	1,675	17,763
Investing activities					
Purchase of property and equipment	4	(2,658)	(590)	(4,108)	(3,824)
Proceeds from disposal of property and equipment	4	152	44	983	4,952
Changes in non-cash working capital	11	315	(143)	275	(1,375)
Cash flow used in investing activities		(2,191)	(689)	(2,850)	(247)
Financing activities					
Cash dividends paid		-	-	-	(1,638)
(Repayment of) proceeds from long-term debt	6	-	-	(10,000)	10,000
Purchase of common shares for cancellation		(102)	(91)	(102)	(91)
Lease obligation payments	5(b)	(407)	(551)	(1,199)	(1,545)
Changes in non-cash working capital	11	-	-	-	(819)
Cash flow (used in) from financing activities		(509)	(642)	(11,301)	5,907
Effect of foreign exchange rate changes		445	(121)	88	516
Increase (decrease) in cash		(1,518)	(260)	(12,388)	23,939
Cash, beginning of period		21,728	33,508	32,598	9,309
Cash, end of period		\$ 20,210	\$ 33,248	\$ 20,210	\$ 33,248

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 and nine-months ended September 30, 2021 and 2020

(Unaudited)

(Amounts are stated in thousands 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, and Papua New Guinea (“PNG”).

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

As of September 30, 2021, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L., representing 45.0% 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 November 10, 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.

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3. Accounts receivable

The aging and allowance for doubtful accounts associated with accounts receivable was as follows:

	As at September 30, 2021		As at December 31, 2020	
Less than 31 days	\$	8,621	\$	8,045
31 to 60 days		2,620		3,131
61 to 90 days		1,128		1,208
Greater than 90 days		1,092		1,272
Provision for expected credit losses		(645)		(770)
Total	\$	12,816	\$	12,886

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

	As at September 30, 2021		As at December 31, 2020	
Canadian dollars	\$	10,821	\$	11,551
US dollars ("USD") (2021 – USD \$1,534; 2020 – USD \$1,049)		1,955		1,335
Total	\$	12,816	\$	12,886

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 groups' credit risk. The ECL also incorporates forward looking information.

The details of this approach as at September 30, 2021 was as follows:

(\$ thousands, unless otherwise noted)	Less than	31-60	61-90	Over 90	Total
	31 days	days	days	days	
Investment grade receivables	\$ 6,892	\$ 1,934	\$ 971	\$ 435	\$ 10,232
Non-investment grade receivables	1,729	686	157	657	3,229
Total receivables	\$ 8,621	\$ 2,620	\$ 1,128	\$ 1,092	\$ 13,461
<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>5.00</i>	<i>10.00</i>	-
Investment grade ECL provision	\$ -	\$ -	\$ -	\$ -	\$ -
Non-investment grade ECL provision	(4)	(4)	(7)	(3)	(18)
Specifically provided for amounts	-	-	-	(627)	(627)
Total provision for ECL	\$ (4)	\$ (4)	\$ (7)	\$ (630)	\$ (645)

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

<i>(\$ thousands, unless otherwise noted)</i>	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	\$ 4,400	\$ 2,235	\$ 643	\$ 416	\$ 7,694
Non-investment grade receivables	3,645	896	565	856	5,962
Total receivables	\$ 8,045	\$ 3,131	\$ 1,208	\$ 1,272	\$ 13,656
<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>0.75</i>	<i>5.00</i>	<i>10.00</i>	<i>10.00</i>	-
Investment grade ECL provision	\$ -	\$ -	\$ -	\$ -	\$ -
Non-investment grade ECL provision	(27)	(45)	(56)	(86)	(214)
Specifically provided for amounts	-	-	-	(556)	(556)
Total provision for ECL	\$ (27)	\$ (45)	\$ (56)	\$ (642)	\$ (770)

4. Property and equipment

Cost	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in- progress	Total
At December 31, 2020	\$ 9,382	\$ 346,511	\$ 4,277	\$ 10,782	\$ 3,714	\$ 374,666
Additions	-	-	-	-	4,108	4,108
Dispositions	(900)	(3,987)	-	-	-	(4,887)
Transfers	28	2,547	233	-	(2,808)	-
Effect of foreign exchange	-	123	1	-	21	145
At September 30, 2021	\$ 8,510	\$ 345,194	\$ 4,511	\$ 10,782	\$ 5,035	\$ 374,032
Accumulated depreciation	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in- progress	Total
At December 31, 2020	\$ 8,515	\$219,404	\$ 3,587	\$ 1,484	\$ -	\$ 232,990
Depreciation	142	16,202	244	186	-	16,774
Dispositions	(849)	(3,476)	-	-	-	(4,325)
Effect of foreign exchange	-	206	3	-	-	209
At September 30, 2021	\$ 7,808	\$ 232,336	\$ 3,834	\$ 1,670	\$ -	\$ 245,648
Net book value	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in- progress	Total
At December 31, 2020	867	127,107	690	9,298	3,714	141,676
At September 30, 2021	\$ 702	\$112,858	\$ 677	\$ 9,112	\$ 5,035	\$ 128,384

For the three and nine-month periods ended September 30, 2021, High Arctic disposed of property and equipment and received proceeds of \$152 and \$983, respectively (September 30, 2020 - \$44 and \$4,952,

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respectively), resulting in a loss on sale of \$88 in the quarter, and a gain on sale for nine-months period ended September 30, 2021 of \$421 (September 30, 2020: loss of \$238 and a gain of \$2,555, respectively).

5. Right-of-use assets and lease liabilities

a) Right-of-use assets

Cost		Total
At December 31, 2020	\$	8,238
Additions		226
Disposals		(666)
Effect of foreign exchange rate changes		(24)
At September 30, 2021	\$	7,774
Accumulated amortization		Total
At December 31, 2020	\$	2,171
Amortization		860
Disposals		(666)
Effect of foreign exchange rate changes		(14)
At September 30, 2021	\$	2,351
Net book value		
At December 31, 2020	\$	6,067
At September 30, 2021	\$	5,423

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

b) Lease liabilities

		Total
At December 31, 2020	\$	9,233
Lease additions		226
Lease payments		(1,199)
Lease finance expense (Note 10)		295
Effect of foreign exchange rate changes		(20)
At September 30, 2021	\$	8,535
		Total
Current	\$	1,225
Non-current		7,310
At September 30, 2021	\$	8,535

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 have been recorded as a reduction to Oilfield services expenses, taking into consideration both IFRS accounting for government assistance as well as the practical expedient elected by the Corporation. Refer to Note 10 Supplementary expense disclosure for movement details. There was no accounting impact relating to the lease liability accounting and under IFRS 16 due to CERS.

HIGH ARCTIC ENERGY SERVICES INC.

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The undiscounted cash flows relating to the lease liabilities at September 30, 2021 are as follows:

		Total
Less than one year	\$	1,575
One to five years		3,550
More than five years		5,526
Total undiscounted liabilities	\$	10,651

6. Long-term debt

	As at, September 30, 2021	As at, December 31, 2020
Revolving loan	\$ -	\$ 10,000

The Corporation has a \$45,000 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.

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% depending on the level of principal outstanding. 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 less than 3.0 to 1 and the second covenant requires the 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 September 30, 2021, the Corporation was in compliance with these two financial covenants.

Ratio	Covenant	September 30, 2021
Funded Debt to EBITDA ¹	< 3.0x	-
EBITDA to Interest Expense ¹	>3.0x	7.0

⁽¹⁾ As at September 30, 2021 the Corporation had access to \$8.7 million of the revolving facility.

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 and amortization, share-based compensation expense, restructuring costs in the 2020-year, and non-cash inventory write-downs, less gains from foreign exchange and sale or purchase of assets and lease payments.

7. Shareholders' equity

a) Share capital

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

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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.

	Nine-months ended September 30, 2021		Year ended December 31, 2020	
	Shares	Amount	Shares	Amount
Common shares issued and outstanding:				
Balance, beginning of period	48,759,660	\$ 169,220	49,623,432	\$ 173,070
Exercise of performance share units (Note 8)	52,289	751	273,328	99
Normal course issuer bid	(78,304)	(274)	(1,137,100)	(3,949)
Balance, end of period	48,733,645	\$ 169,697	48,759,660	\$ 169,220

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. Pursuant to the NCIB, in total 78,304 shares were purchase and cancelled in the third quarter of 2021.

The Corporation's previous NCIB commenced on December 2, 2019 and terminated on December 1, 2020. Pursuant to the previous NCIB, in total 1,137,100 common shares have been purchased and cancelled.

b) Per common share amounts

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings 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 and nine-months ended September 30, 2021 and 2020, as the effects of all stock options and units are anti-dilutive.

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	Three-months ended September 30			
	2021		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	48,800,114	\$ (0.10)	49,642,286	\$ (0.12)

	Nine-months ended September 30			
	2021		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	48,793,187	\$ (0.29)	49,630,837	\$ (0.29)

8. Share-based compensation

The Corporation has various equity-based compensation plans under which up to 4,873,364 common shares (being 10% of all outstanding shares) may be issued as at September 30, 2021.

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

	Nine-months ended September 30, 2021	Year ended December 31, 2020
Stock options	751,500	265,500
Performance share unit plan – restricted units	306,666	422,181
Performance share unit plan – performance units	334,366	376,053
Deferred share units	637,497	523,117
Balance, end of period	2,030,029	1,586,851
Common shares available for grants	4,873,364	4,875,966
Percentage used of total available	42%	33%
Remaining common shares available for grants	2,843,335	3,289,115

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

	Three-months ended	
	September 30, 2021	September 30, 2020
Stock options	\$ 34	\$ 12
Performance share unit plan – restricted units	17	54
Performance share unit plan – performance units	26	65
Deferred share units	56	42
Total expense	\$ 133	\$ 173

	Nine-months ended	
	September 30, 2021	September 30, 2020
Stock options	\$ 38	\$ 12
Performance share unit plan – restricted units	67	130
Performance share unit plan – performance units	35	65
Deferred share units	156	42
Total expense	\$ 296	\$ 249

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 September 30, 2021, a total of 751,500 stock options are outstanding and expire at various dates up to 2026, at exercise prices that range from \$1.30 to \$3.75 per share.

These stock options are typically exercisable over a term of 5 years and subject to a three-year vesting period with 33.3% exercisable by the holder after the first anniversary date, another 33.3% after the second anniversary date and the balance after the third anniversary date.

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
Granted	621,500	1.42
Expired	(85,000)	3.55
Forfeited/Cancelled	(50,500)	3.94
At September 30, 2021	751,500	2.01

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Exercise prices	Outstanding number of options	Weighted average remaining life of outstanding options (years)	Weighted average exercise price of outstanding options (\$)	Exercisable number of options	Weighted average exercise price of options that are exercisable (\$)
\$1.30	27,000	5.21	1.30	-	-
\$1.37	100,000	5.21	1.37	-	-
\$1.44	494,500	5.21	1.44	-	-
\$3.75	130,000	1.24	3.75	130,000	3.75
At September 30, 2021	751,500	4.52	2.01	130,000	3.75

The Corporation values all its share options using the Black-Scholes model. The number of options granted during the 2021-year was 621,500. The weighted average fair value of stock options granted was \$0.64 and was estimated at the grant date using the following weighted average assumptions:

Expected volatility	54%
Risk-free rate	0.7%
Expected term	3.6 years
Expected dividends	-
Share price	\$1.52
Exercise price	\$1.42

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
Granted	-	62,500	62,500
Exercised	(62,181)	(28,751)	(90,932)
Forfeited/Cancelled	(53,334)	(75,436)	(128,770)
At September 30, 2021	306,666	334,366	641,032

During the nine-months period ended September 30, 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 statutory withholdings on behalf of the recipients.

The fair value of each PSU granted in the 2021-year was \$1.56, equivalent to the share price at the time of grant. The estimated fair value using the Black-Scholes valuation model is equal to the share price at the time of grant, due to the PSUs granted having an exercise price of nil.

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Deferred Share Unit Plan ("DSU")

Details regarding the DSUs and related activity is as follows:

	Nine-months ended September 30, 2021	Year ended December 31, 2020
Outstanding, beginning of period	523,117	161,729
Granted	114,380	364,615
Exercised	-	(8,622)
Dividends re-invested	-	5,395
Outstanding, end of period	637,497	523,117

DSU units vest immediately, and the fair value of each unit is equivalent to the share price at the time of grant.

9. Revenue

The following tables includes a reconciliation of disaggregated revenue by reportable segment. Revenue has been disaggregated by primary geographic location and type of service provided.

Three-months ended September 30, 2021	Drilling Services	Production Services	Ancillary Services	Inter- Segment Elimination	Total
Service revenue:					
Canada	\$ -	\$ 12,187	\$ 722	\$ -	\$12,909
PNG	2,718	-	-	-	2,718
	2,718	12,187	722	-	15,627
Equipment rental revenue:					
Canada	-	913	1,225	(444)	1,694
PNG	-	-	1,333	-	1,333
	-	913	2,558	(444)	3,027
Total revenue	\$ 2,718	\$13,100	\$3,280	\$ (444)	\$18,654

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Three-months ended September 30, 2020	Drilling Services	Production Services	Ancillary Services	Inter- Segment Elimination	Total
Service revenue:					
Canada	\$ -	\$ 8,645	\$ 294	\$ -	\$ 8,939
US	-	726	-	-	726
PNG	4,607	-	-	-	4,607
	4,607	9,371	294	-	14,272
Equipment rental revenue:					
Canada	-	3,225	912	(370)	3,767
US	-	-	-	-	-
PNG	143	-	347	-	490
	143	3,225	1,259	(370)	4,257
Total revenue	\$ 4,750	\$12,596	\$ 1,553	\$ (370)	\$ 18,529

Nine-months ended September 30, 2021	Drilling Services	Production Services	Ancillary Services	Inter- Segment Elimination	Total
Service revenue:					
Canada	\$ -	\$38,683	\$ 1,835	\$ -	\$ 40,518
PNG	4,318	-	-	-	4,318
	4,318	38,683	1,835	-	44,836
Equipment rental revenue:					
Canada	-	3,119	4,060	(1,415)	5,764
PNG	44	-	2,154	-	2,198
	44	3,119	6,214	(1,415)	7,962
Total revenue	\$ 4,362	\$41,802	\$ 8,049	\$ (1,415)	\$ 52,798

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Nine-months ended September 30, 2020	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	Total
Service revenue:					
Canada	\$ -	\$ 34,575	\$ 1,211	\$ -	\$35,786
US	-	2,934	-	-	2,934
PNG	20,705	-	-	-	20,705
	20,705	37,509	1,211	-	59,425
Equipment rental revenue:					
Canada	-	6,445	3,363	(1,250)	8,558
US	-	30	-	-	30
PNG	3,174	-	3,063	-	6,237
	3,174	6,475	6,426	(1,250)	14,825
Total revenue	\$23,879	\$ 43,984	\$ 7,637	\$(1,250)	\$74,250

High Arctic has a 49% ownership interest in the Seh' Chene Well Services Limited Partnership (the "Partnership") and is one of two participants in the Partnership whose mission is to execute dependable high-quality energy services, focused on environmental stewardship, while creating opportunity for local Indigenous communities and individuals. The Partnership is governed by a Limited Partnership Agreement, which requires that unanimous consent be obtained from the participants for all significant operating and financing decisions. High Arctic has been appointed as manager to oversee the day-to-day operations of the Partnership, which includes providing drilling, well completion, well reclamation and abandonment, production workover and equipment rental services to third parties on behalf of the Partnership. High Arctic has recorded Production services revenue for the three and nine-month periods ended September 30, 2021 from the Partnership of \$448 and \$1,368, respectively (2020: nil for both periods).

10. Supplementary expense disclosure

a) Oilfield services expenses by nature

	Three-months ended September 30		Nine-months ended September 30	
	2021	2020	2021	2020
Personnel ^{(1) (2)}	\$ 8,465	\$ 8,518	\$26,711	\$ 35,495
Drilling rig rental	18	163	102	2,434
Material and supplies	1,654	1,204	4,015	6,654
Equipment operating and maintenance costs	3,971	1,912	9,428	8,310
Other ⁽¹⁾	660	815	2,026	3,856
	\$ 14,768	\$ 12,612	\$42,282	\$ 56,749

b) General and administrative expenses by nature

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	Three-months ended		Nine-months ended	
	September 30		September 30	
	2021	2020	2021	2020
Personnel ^{(1) (2)}	\$ 1,759	\$ 1,655	\$ 5,027	\$ 6,605
Professional, legal, and consulting fees	250	289	841	1,177
Facility costs	97	146	295	487
(Recovery of) Provision for ECL	(4)	(34)	(64)	660
Information technology services	245	234	637	669
Rentals	63	68	190	208
Other ⁽¹⁾	64	83	508	320
	\$ 2,474	\$ 2,441	\$ 7,434	\$ 10,126

(1) Costs presented for 2020 and 2021 periods are net of government assistance as described below.

(2) Costs presented for the 2020 periods include restructuring costs described below

c) Government assistance: Canada Emergency Wage Subsidy (CEWS) program

As a result of the CEWS, the resulting reduction of personnel costs amounted to \$893 and \$2,748 for the three and nine-month periods ended September 30, 2021, respectively (2020: \$2,824 and \$ 4,956, respectively). For the three and nine-months ended September 30, 2021, \$800 and \$2,460, respectively, were allocated to Oilfield service expenses (2020: \$2,444 and \$4,246, respectively) , and \$93 and \$288, respectively, were allocated to General and administrative expenses (2020: \$380 and \$710, respectively).

d) Government assistance: Canada Emergency Rent Subsidy (CERS) program

As a result of the CERS, the resulting reduction of other costs amounted to \$84 and \$266 for the three and nine-month periods ended September 30, 2021, respectively (2020: nil for both periods). These amounts have been recorded as a reduction to Oilfield services expenses and General and administrative expenses, taking into consideration both IFRS accounting for government assistance as well as the practical expedient elected by the Corporation. Accounts receivable outstanding as at September 30, 2021 was \$41 related to CERS (December 31, 2020: \$105).

e) Restructuring costs

For the three and nine-month periods ended September 30, 2020, \$201 and \$1,064, respectively, of restructuring costs are included in Personnel costs, with \$197 and \$580, respectively, recorded as part of Oilfield services and \$4 and \$484, respectively, recorded as part of General and administrative expenses. No such amounts were incurred in 2021.

f) Interest and finance expense

	Three-months ended		Nine-months ended	
	September 30		September 30	
	2021	2020	2021	2020
Interest on debt and standby fees (Note 6)	\$ 45	\$ 105	\$ 195	\$ 309
Finance expense (Note 5(b))	96	176	295	403
Other	10	(55)	23	98
	\$ 151	\$ 226	\$ 513	\$ 810

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11. Supplementary cash flow information

Changes in non-cash working capital balances:

	Three-months ended September 30		Nine-months ended September 30	
	2021	2020	2021	2020
(Use) source of cash:				
Accounts receivable	\$ 75	\$ 868	\$ 70	\$ 25,050
Inventory, prepaid expenses and other assets	141	432	(673)	(1,174)
Accounts payable and accrued liabilities	(618)	(2,347)	52	(12,787)
Dividend payable	-	-	-	(819)
Income taxes payable	107	(20)	103	(51)
Income taxes receivable	-	59	-	(134)
Deferred revenue	-	-	-	(682)
Impact of foreign exchange on working capital	270	(300)	91	705
	\$ (25)	\$ (1,308)	\$ (357)	\$ 10,108
Attributable to:				
Operating activities	\$ (340)	\$ (1,165)	\$ (632)	\$ 12,302
Investing activities	315	(143)	275	(1,375)
Financing activities	-	-	-	(819)
	\$ (25)	\$ (1,308)	\$ (357)	\$ 10,108

For the three and nine-months ended September 30, 2021, interest amounting to \$45 and \$195 was paid, respectively (September 2020: \$105 and \$309, respectively).

For the three and nine-months ended September 30, 2021, income taxes paid amounted to nil (September 2020: \$1,000 and \$1,669, respectively).

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. 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 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.

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:

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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 September 30, 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 US government and ongoing negotiations in PNG to build LNG expansion with industry.

While the Corporation recognizes it will be impacted by these risks, the Corporation also strongly believes that there is a significant role for the energy services industry in the current, 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 September 30, 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 and nine-months ended September 30, 2021, a \$0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in a change to the net loss amounting to \$144 and \$517, respectively (September 30, 2020: \$189 and \$331, respectively).

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 September 30, 2021 USD \$218 (December 31, 2020: \$894) 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

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settled in USD. However, if such approval is withdrawn in the future, or new contracts do not receive BPNG approval, funds may be converted into PGK and the Corporation would be required to access the foreign currency market in PNG to meet its foreign currency obligations, thus exposing the Corporation to greater foreign exchange exposure for the PGK.

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

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 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 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 3 large multinational/regional customers which individually accounted for greater than 10% of its consolidated revenues during the nine-months periods ended September 30, 2021 with sales of \$8,655, \$4,305, and \$4,218, respectively (2020: two customers with revenues of \$18,627 and \$15,456, respectively).

As at September 30, 2021, these 3 customers represented a total of \$4,252 or 33% of outstanding accounts receivable (December 31, 2020: two customers represented a total of \$2,158 or 17% of outstanding accounts receivable).

For the three-months period ended September 30, 2021, the Corporation provided services to 1 large multinational/ regional customer which individually accounted for greater than 10% of its consolidated revenues in the period with sales of \$4,056 (2020: one customer with revenues of \$4,645).

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

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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 \$45,000 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. The Corporation operates in Canada and PNG. The Corporation has paused operations in the USA with no revenues in the 2021-year. 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 all of the Corporation's operations.

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Details associated with each geographic and operating segment are provided for the three and nine-months ended and as at September 30, 2021 and 2020 in the tables which follow.

2021	PNG ⁽¹⁾	Canada	Total
Revenue – three-months ended ⁽²⁾	\$ 4,051	\$ 14,603	\$ 18,654
Revenue – nine-months ended ⁽²⁾	6,517	46,281	52,798
Total assets excluding deferred tax assets ⁽²⁾	\$ 77,009	\$ 103,614	\$ 180,623

⁽¹⁾ Includes US geographic segment assets as at September 30, 2021 of \$108. No US segment revenues in 2021.

⁽²⁾ Revenue represents balances for the three and nine-month periods ended September 30, 2021. Total assets excluding deferred tax asset represents balances as at September 30, 2021.

2020	PNG ⁽¹⁾	Canada	Total
Revenue – three-months ended ⁽²⁾	\$ 5,822	\$ 12,707	\$ 18,529
Revenue – nine-months ended ⁽²⁾	29,908	44,342	74,250
Total assets excluding deferred tax assets ⁽²⁾	\$ 85,931	\$ 120,659	\$ 206,590

⁽¹⁾ Includes US geographic segment revenues of \$725 and \$2,965 for the three and nine-month periods ended September 30, 2020, respectively. Includes US segment assets as at December 31, 2020 of \$234.

⁽²⁾ Revenue represents balances for the three and six-month periods ended September 30, 2020. Total assets excluding deferred tax assets represents balances as at December 31, 2020.

Three-months ended September 30, 2021	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- segment eliminations	Total
Revenue	\$2,718	\$ 13,100	\$ 3,280	\$ -	\$ (444)	\$ 18,654
Expenses						
Oilfield Services	2,430	11,140	1,642	-	(444)	14,768
General and administrative	717	830	156	771	-	2,474
Depreciation and amortization	1,882	2,749	1,209	36	-	5,876
Share-based compensation	-	-	-	133	-	133
	5,029	14,719	3,007	940	(444)	23,251
	(2,311)	(1,619)	273	(940)	-	(4,597)
Foreign exchange loss	-	-	-	103	-	103
(Loss) Gain on sale of property and equipment	-	(132)	44	-	-	(88)
Interest and finance expense	-	-	-	(151)	-	(151)
Loss before income taxes	\$ (2,311)	\$ (1,751)	\$ 317	\$ (988)	\$ -	\$ (4,733)

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Three-months ended September 30, 2020	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- segment eliminations	Total
Revenue	\$ 4,751	\$ 12,596	\$1,552	\$ -	\$ (370)	\$ 18,529
Expenses						
Oilfield Services	3,162	8,806	1,014	-	(370)	12,612
General and administrative	448	414	95	1,484	-	2,441
Depreciation and amortization	2,534	4,309	1,405	(48)	-	8,200
Share-based compensation	-	-	-	173	-	173
	<u>6,144</u>	<u>13,529</u>	<u>2,514</u>	<u>1,609</u>	<u>(370)</u>	<u>23,426</u>
	(1,393)	(933)	(962)	(1,609)	-	(4,897)
Foreign exchange gain	-	-	-	(117)	-	(117)
Gain on sale of property and equipment	-	(118)	(120)	-	-	(238)
Interest and finance expense	-	-	-	(226)	-	(226)
Earnings (Loss) before income tax	\$ (1,393)	\$ (1,051)	\$ (1,082)	\$ (1,952)	\$ -	\$ (5,478)

Nine-months ended/As at September 30, 2021	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	\$ 4,362	\$ 41,803	\$ 8,048	\$ -	\$ (1,415)	\$ 52,798
Expenses						
Oilfield Services	4,159	35,236	4,302	-	(1,415)	42,282
General and administrative	2,080	2,729	434	2,191	-	7,434
Depreciation and amortization	5,141	8,576	3,799	118	-	17,634
Share-based compensation	-	-	-	296	-	296
	<u>11,380</u>	<u>46,541</u>	<u>8,535</u>	<u>2,605</u>	<u>(1,415)</u>	<u>67,646</u>
	(7,018)	(4,738)	(487)	(2,605)	-	(14,848)
Foreign exchange loss	-	-	-	47	-	47
Gain on sale of property and equipment	5	286	115	15	-	421
Interest and finance expense	-	-	-	(513)	-	(513)
Loss before income tax	\$ (7,013)	\$ (4,452)	\$ (372)	\$ (3,056)	\$ -	\$ (14,893)
Property and equipment	36,688	69,754	21,445	497	-	128,384
Right-of-use assets	268	4,859	296	-	-	5,423
Total assets less deferred tax assets	\$ 49,153	\$ 93,920	\$ 37,052	\$ 498	\$ -	\$ 180,623

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Nine-months ended September 30, 2020	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	\$23,880	\$43,985	\$ 7,637	\$ -	\$ (1,252)	\$74,250
Expenses						
Oilfield Services	17,606	36,462	3,933	-	(1,252)	56,749
General and administrative	1,884	3,577	375	4,290	-	10,126
Depreciation and amortization	7,820	10,844	4,328	31	-	23,023
Share-based compensation	-	-	-	249	-	249
	27,310	50,883	8,636	4,570	(1,252)	90,147
	(3,430)	(6,898)	(999)	(4,570)	-	(15,897)
Foreign exchange gain	-	-	-	79	-	79
Gain on sale of property and equipment	-	(118)	2,673	-	-	2,555
Interest and finance expense	-	-	-	(810)	-	(810)
Earnings (Loss) before income tax	(3,430)	(7,016)	1,674	(5,301)	-	(14,073)
Property and equipment ⁽¹⁾	40,980	76,898	23,285	513	-	141,676
Right-of-use assets ⁽¹⁾	333	5,447	287	-	-	6,067
Total assets less deferred tax assets ⁽¹⁾	\$ 56,570	\$ 110,940	\$ 38,567	\$ 513	\$ -	\$ 206,590

⁽¹⁾ Represents balances as at December 31, 2020

14. 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 \$7,280 at September 30, 2021 (December 31, 2020: \$7,857) 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.

15. Subsequent event

On October 20, 2021, the Corporation announced a special one-time dividend payment of \$0.20 per share to holders of common shares. The dividend in the total of \$9,747 was paid on November 5, 2021 to holders of High Arctic common shares of record at the close of business on October 27, 2021. The dividend is designated as an "eligible dividend" for Canadian Income Tax purposes.