HIGH ARCTIC
ENERGY SERVICES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
December 31, 2021 and 2020

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of High Arctic Energy Services Inc.

Opinion

We have audited the consolidated financial statements of High Arctic Energy Services Inc. (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2021
- the consolidated statement of loss and comprehensive loss for the year then ended
- the consolidated statement of changes in shareholders' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of indicators of impairment for the Entity's cash generating units ("CGUs")

Description of the matter

We draw attention to note 2, note 3 and note 6 to the financial statements. The carrying amounts of the Entity's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. The assessment of impairment indicators is based on significant judgment of whether there are internal and external factors that would indicate that a CGU and specifically the non-financial assets within the CGU, are impaired. These factors include revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") forecasts, expected industry activity levels, commodity price developments and market capitalization. The Entity determined that there were no indicators of impairment at December 31, 2021 for all CGUs.

Why the matter is a key audit matter

We identified the assessment of indicators of impairment for the Entity's CGUs as a key audit matter. Significant auditor judgment was required in evaluating the internal and external factors included in the Entity's indicators of impairment analysis.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We compared the Entity's 2021 actual revenues and EBITDAs for the CGUs to the 2021 budgeted revenues and EBITDAs to assess the Entity's ability to accurately forecast.

We evaluated the Entity's assessment of impairment indicators by:

- comparing internal and external factors, including expected industry activity levels and commodity price developments analyzed by the Entity to relevant external market data or internal source documents
- comparing the Entity's budgeted 2022 revenues and EBITDAs for the CGUs to actual 2021 revenues and EBITDAs and considering the impact of changes in conditions and events affecting the CGUs
- evaluating the changes in market capitalization over the year and its impact on the Entity's impairment indicator analysis.

Other Matter – Comparative Information

The financial statements for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 11, 2021.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is David Yung.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
March 10, 2022

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in Thousands of Canadian Dollars)

	Note		**As at December 31 2021**		As at December 31 2020
Assets					
Current assets					
Cash		**$**	**12,037**	$	32,598
Accounts receivable	4		**20,714**		12,886
Inventory	5		**9,136**		9,356
Prepaid expenses and other assets			**2,239**		749
Current portion of income tax receivable	13 (f)		**1,006**		-
			45,132		55,589
Non-current assets					
Property and equipment	6		**125,309**		141,676
Deferred tax asset	13 (b)		**7,743**		7,569
Right-of-use assets	7(a)		**5,268**		6,067
Income tax receivable	13 (f)		**2,000**		3,258
Total Assets		**$**	**185,452**	$	214,159
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**13,367**	$	9,080
Current portion of lease liabilities	7(b)		**1,081**		1,451
Income taxes payable			**664**		481
Current portion of Long-term debt	8		**296**		-
			15,408		11,012
Non-current liabilities					
Long-term debt	8		**7,779**		10,000
Lease liabilities	7(b)		**7,364**		7,782
Deferred tax liability	13 (b)		**6,050**		8,144
Total Liabilities			**36,601**		36,938
Shareholders' Equity					
Share capital	9(a)		**169,697**		169,220
Contributed surplus			**13,818**		13,741
Accumulated other comprehensive income			**23,421**		23,991
Deficit			**(58,085)**		(29,731)
			148,851		177,221
Total Liabilities and Shareholders' Equity		**$**	**185,452**	$	214,159

Commitments and contingencies (Note 19)

Approved on behalf of the Corporation by:

(signed) "Doug Strong"____
Chairman of the Audit Committee
and Director

(signed) "Michael Binnion"_
Executive Chairman of the Board
and Director

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

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

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

For the years ended December 31	Note		2021		2020
Revenue	11	**$**	**76,442**	$	90,834
Expenses					
Oilfield services	12(a)		**61,226**		69,523
General and administrative	12(b)		**10,298**		12,782
Depreciation			**23,639**		35,484
Share-based compensation	10		**709**		555
			95,872		118,344
Foreign exchange loss			**(197)**		(159)
Gain on sale of property and equipment			**417**		2,589
Interest and finance expense	12(f)		**(706)**		(1,110)
Loss before income taxes			**(19,916)**		(26,190)
Current income tax expense	13(a)		**(905)**		(1,549)
Deferred income tax recovery	13(a)		**2,214**		1,754
			1,309		205
Net loss for the year		**$**	**(18,607)**	$	(25,985)
Net loss per common share – basic and diluted	9(b)	**$**	**(0.38)**	$	(0.52)

For the years ended December 31		2021		2020
Net loss for the year	**$**	**(18,607)**	$	(25,985)
Other comprehensive loss:				
Items that may be reclassified subsequently to net loss				
Foreign currency translation loss for foreign operations		**(570)**		(840)
Comprehensive loss for the year	**$**	**(19,177)**	$	(26,825)

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

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Stated in Thousands of Canadian Dollars)

	Note	Share capital Note 9(a)	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance at December 31, 2020		**$ 169,220**	**$ 13,741**	**$ 23,991**	**$(29,731)**	**$ 177,221**
Net loss for the year		**-**	**-**	**-**	**(18,607)**	**(18,607)**
Dividends		**-**	**-**	**-**	**(9,747)**	**(9,747)**
Other comprehensive loss – foreign currency translation loss		**-**	**-**	**(570)**	**-**	**(570)**
Purchase of common shares for cancellation		**(274)**	**172**	**-**	**-**	**(102)**
Share-based compensation	10	**-**	**709**	**-**	**-**	**709**
Exercise of share-based compensation	10	**751**	**(804)**	**-**	**-**	**(53)**
Balance at December 31, 2021		**$ 169,697**	**$ 13,818**	**$ 23,421**	**$(58,085)**	**$ 148,851**

Balance at December 31, 2019		$ 173,071	$ 9,792	$ 24,831	$ (2,108)	$ 205,586
Net loss for the year		-	-	-	(25,985)	(25,985)
Dividends		-	-	-	(1,638)	(1,638)
Other comprehensive income – foreign currency translation loss		-	-	(840)	-	(840)
Purchase of common shares for cancellation		(3,952)	3,127	-	-	(825)
Share based compensation	10		555			555
Exercise of share-based compensation	10	101	267	-	-	368
Balance at December 31, 2020		$ 169,220	$ 13,741	$ 23,991	$ (29,731)	$ 177,221

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

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in Thousands of Canadian Dollars)

For the years ended December 31	Note	2021	2020
Operating activities			
Net loss for the year		**$ (18,607)**	$ (25,985)
Adjustments for:			
Depreciation		**23,639**	35,484
Share-based compensation	10	**709**	555
Non-cash finance expense		**390**	450
Gain on sale of property and equipment	6	**(417)**	(2,589)
Foreign exchange loss		**197**	159
Deferred income tax recovery		**(2,214)**	(1,754)
Funds flow from operations		**3,697**	6,320
Changes in non-cash working capital	15	**(5,494)**	13,832
Cash flow (used in) from operating activities		**(1,797)**	20,152
Investing activities			
Purchase of property and equipment	6	**(7,242)**	(4,874)
Proceeds from disposal of property and equipment	6	**1,196**	5,134
Changes in non-cash working capital	15	**474**	(1,360)
Cash flow (used in) investing activities		**(5,572)**	(1,100)
Financing activities			
Dividends paid		**(9,747)**	(1,638)
Repayment of long-term debt	8	**(10,000)**	10,000
Lease obligation payments	7(b)	**(1,615)**	(2,121)
Purchase of common shares for cancellation		**(102)**	(822)
Proceeds from long-term debt	8	**8,075**	-
Changes in non-cash working capital	15	**-**	(819)
Cash flow (used in) from financing activities		**(13,389)**	4,600
Effect of foreign exchange rate changes on cash		**197**	(363)
(Decrease) increase in cash		**(20,561)**	23,289
Cash, beginning of year		**32,598**	9,309
Cash, end of year		**$ 12,037**	$ 32,598

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

(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 following table lists the Corporation's principal subsidiaries, the jurisdiction of formation or incorporation of such subsidiaries and the percentage of share owned, directly or indirectly, by the Corporation as at December 31, 2021:

Name of Subsidiary	Jurisdiction of formation or incorporation	Percentage ownership of shares beneficially owned or controlled (in)directly by the Corporation
High Arctic Energy Services Cyprus Limited	Cyprus	100%
High Arctic Energy Services PNG Limited	PNG	100%
High Arctic Energy Services (Singapore) PTE Ltd.	Singapore	100%
High Arctic Energy Services Australia PTY Ltd.	Australia	100%
HAES SD Holding Corp.	Alberta	100%
Powerstroke Well Control Inc.	United States	100%
Seh' Chene GP Inc.	Alberta	49%
Seh' Chene Well Services Limited Partnership	Alberta	49%

The Corporation's head office address is located at Suite 2350, 330 – 5th Ave SW Calgary, Alberta, Canada T2P 0L4.

As of December 31, 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 consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Financial Statements were authorized for issuance by the Board of Directors on March 10, 2022.

(b) Basis of preparation

These Financial Statements have been prepared on the historical cost basis, except for investments (excluding investments accounted for using the equity method).

(c) Functional and presentation currency

The Financial Statements are presented in Canadian dollars, which is also the currency of the primary economic operating environment ("functional currency") of the parent company.

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

(d) Use of Judgements and estimates

The preparation of the Corporation's Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities as at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The accounting policies and practices that involve the use of estimates and judgements that have a significant impact on the Corporation's financial results include depreciation, share-based compensation, business acquisitions, impairment of property and equipment, expected credit loss, income taxes, inventory obsolescence provision, functional currency and identification of Cash Generating Units ("CGUs").

Critical accounting judgements and estimates:

Significant judgements and estimates are used in the application of accounting policies that have been identified as being complex and involving subjective judgements and assessments. They include:

i) Expected credit loss

The Corporation estimates the amount of expected credit losses for trade receivables with no financing component using a provision matrix. The provision matrix is based on historical loss experience and is adjusted for forward looking estimates based on current and future economic conditions using internal and externally sourced data. Judgement is required when applying this information to the expected credit loss and any adjustments as a result of this new information.

The Corporation uses the simplified approach of the expected credit loss model for lease and trade receivables with no significant financing component which requires measuring the loss allowance at an amount equal to the lifetime expected credit losses at initial recognition and throughout its life.

ii) Deferred income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases.

The Corporation's calculation of income taxes involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations and estimations of future taxable profits. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the existing estimated temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are increased or reduced depending on the probability that the related tax benefit will be realized in the future.

iii) Functional currency

The determination of functional currency is based on the primary economic environment (including monetary policy) in which an entity operates. The functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity.

Factors that the Corporation considers when determining the functional currency of its subsidiaries include:

(a) the currency that the delivery of goods and services are contracted in,
(b) the currency used to conduct business in the region,
(c) the currency that mainly influences labour, material and other costs of providing goods or services, and;
(d) the currency in which receipts from operating activities are usually retained in.

When the indicators are mixed and the functional currency of an entity is not obvious, management uses its judgement to determine the functional currency that most appropriately represents the economic effects of the underlying transactions, events and conditions. Judgement was applied in determining the functional currency of the operations in PNG to be United States dollars ("USD") due to a history of drilling services contracts being negotiated and settled in USD, as well as most of the expenses quoted and paid in USD, including lease expenses.

iv) Identification of CGUs & Impairment of property and equipment

Property and equipment are tested for impairment when events and or changes in circumstances indicate that the carrying amount may not be recoverable which involves both judgement and estimation. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, defined as CGUs.

The classification of assets and allocation of corporate assets in CGUs requires significant judgement and interpretation. Further, the factors considered in CGU classification include the integration between assets, shared infrastructures, the existence of common sales points, geography and the way Management monitors and makes decisions about its operations. As such, the determination of a CGU involves considerable judgement and could have a significant impact on impairment losses and reversals.

The assessment of impairment or impairment reversal indicators is based on significant judgment of whether there are internal and external factors that would indicate that a cash generating unit and specifically the non-financial assets within the cash generating unit, are impaired. These factors include revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") forecasts, expected industry activity levels, commodity price developments and market capitalization.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant CGU). Estimates of future cash flows used in the evaluation of impairment of assets are made using management's current operating forecasts, expected utilization, rates and costs of available equipment (margin), terminal values and discount rates. An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its expected recoverable amount.

v) Business acquisitions

In accordance with *IFRS 3* – Business Combinations, the Corporation measures the assets, liabilities and contingent liabilities acquired through a business combination at fair value. Where possible, fair value determinations are based on external appraisals or valuation models. The Corporation is often required to make judgements and estimates in relation to the fair value allocation of the purchase price. Changes in any of these judgements or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (or gain from a bargain purchase) in the acquisition equation. If any unallocated portion is positive, it is recognized as goodwill and if negative, it is recognized as a gain in the consolidated statement of loss and comprehensive loss.

vi) Joint arrangements

Judgement is required to assess whether joint arrangements incorporate joint rights to the assets and obligations of the arrangement and/or how the details of the arrangement suggest that a joint venture or joint operation results.

vii) Inventory obsolescence provision

The Corporation measures inventories at the lower of the cost and net realizable value. The cost of inventories may not be recoverable if inventories are damaged, or can no longer be used in the field and therefore obsolete. Judgement is required when determining which inventory requires a provision for obsolescence.

The Corporation inspects inventory throughout the year and adjusts provisions for obsolete inventory each reporting period. Inventory that is identified as damaged or obsolete is eventually scrapped and removed from the inventory listing.

Critical accounting estimates

Key sources of estimation uncertainty, not already discussed above include:

i) Depreciation

Depreciation of the Corporation's property and equipment incorporates estimates of useful lives, salvage values and depreciation methodology that is estimated to best reflect usage. Equipment under construction is not depreciated until it is available for use. All equipment is depreciated based on the straight-line method over the asset's useful life in years. Estimate details are presented in Note 3.

ii) Share-based compensation

The fair value of stock options, performance and deferred share units are estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, dividend yield, estimated forfeitures and estimated volatility of the Corporation's shares.

Political and pandemic developments and impact on estimation uncertainty

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("Covid-19"). In 2021, the pandemic continued to impact global commercial activity. However, a significant improvement in worldwide demand for energy through the year drove an improvement in oil and gas demand, as a result oil prices have recovered in 2021, closing the year at levels above pre-pandemic pricing. Also in 2021, global restrictions on travel have eased with the global rollout of the Covid-19 vaccine. A number of new Covid-19 variants such as the Delta variant and Omicron variant have presented headwinds to global economic recovery throughout 2021. Both variants having the capacity to spread more easily than other Covid-19 variants. There still remains uncertainty around the ongoing impact of Covid-19 including, the expected impact of the Omicron variant, future variants to come, the administration of booster shots for the Covid-19 vaccine, and the impact of other antiviral treatments.

Emissions, carbon and other regulations impacting climate and climate related matters are constantly evolving. With respect to Environmental Social Governance (ESG) and climate reporting, the International Sustainability Standards Board has issued a IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the

Canadian Securities Administrators have issued a proposed national instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed, has not yet been quantified.

There remains significant uncertainty around the expected policies to be enforced by large governmental bodies in regard to oil and gas production. While the recovery trend is encouraging and a continuing focus on supply balance for oil and gas producers is warranted, there are significant headwinds surrounding policies to meet climate change emission targets.

These political and pandemic developments impact High Arctic as the Corporation pursues its strategy and allocates resources to support its principal markets in Canada driven by customers' oil and natural gas production and in PNG where its customers are restarting drilling operations, and new LNG supply is being contemplated. In addition, the global focus to address climate change has created a rotation of investment capital away from the oil and gas industry in certain markets with the potential to increase High Arctic's cost of capital and reduce access to growth funding. The direct and indirect costs of climate change relating to High Arctic and its customers is uncertain. Climate change may have an adverse impact on High Arctic and its customers, and creates uncertainty surrounding the estimated useful life and impairment of property and equipment.

3. Significant Accounting Policies

(a) Basis of Consolidation

The Financial Statements include the accounts of High Arctic and its subsidiaries. Intercompany balances and transactions, including unrealized gains or losses between subsidiaries are eliminated upon consolidation.

Subsidiaries are entities controlled by the Corporation. Control exists when High Arctic has the ability to govern the financial and operating policies of an entity to enable the receipt of the benefits from its activities. In assessing control, potential voting rights currently exercisable are considered.

The financial statements of subsidiaries are included in the Financial Statements from the date that control commences until the date that control ceases.

(b) Business Combinations

Acquisitions of subsidiaries and assets that meet the definition of a business under IFRS are accounted for using the acquisition method. The consideration for each acquisition is measured at the date of exchange as the aggregate of the fair value of assets acquired, liabilities assumed, and cash payments or equity instruments issued by the Corporation. The identifiable assets acquired, and liabilities assumed that meet the conditions for recognition under *IFRS 3* - Business Combinations are recognized at their fair value with the exception of deferred income taxes and assets held for sale, which are measured in accordance with their applicable IFRS. Any deficiency of the fair value of the identifiable net assets below the consideration paid is recognized as goodwill and any surplus of the fair value of the identifiable net assets relative to the consideration paid is recorded as gain on acquisition. Transaction costs associated with an acquisition are expensed as incurred.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date, that if known, would have materially affected the amounts recognized as of that date. The measurement period can be up to a maximum of one year and is the period from the date of acquisition to the date the Corporation obtains complete information about facts and circumstances that existed as of the acquisition date.

(c) Foreign Currency

- Functional currency:

Items included in the financial statements of each subsidiary of the Corporation are measured using their functional currencies, as dictated by their operating environment.

ii. Foreign operations:

The financial statements of subsidiaries that have a functional currency different from that of the Corporation ("foreign operations") are translated into Canadian dollars as follows:

- assets and liabilities – at the closing rate at the date of the statement of financial position, and
- income and expenses – at the rate on the date of the transaction and/or the average rate during the period (where it approximates the rate at the date of the transaction).

All changes resulting from applying the closing rate to the assets and liabilities of foreign operations are recognized as gains or losses as part of other comprehensive income.

iii. Transactions and balances:

Transactions that take place within an entity that are denominated in a different currency, are translated into that entity's functional currency using the exchange rates prevailing at the date the transactions take place. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency, are recognized in the consolidated statement of loss and comprehensive loss as foreign exchange gains or losses.

(d) Joint Arrangements

When joint arrangements are entered, the Corporation determines whether it constitutes a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting, with income recorded in earnings (loss). This applies to the Corporation's 49% ownership share in Seh' Chene GP Inc. and Seh' Chene Well Services Limited Partnership. Joint operations are recorded using proportionate consolidation.

(e) Revenue Recognition

Revenue is recognized from a variety of sources. In general, revenue is measured based on the consideration specified in a contract with a customer based upon an agreed transaction price. The Corporation's revenue is generated from short-term or spot market contracts and long-term arrangements. As referenced in Note 16 regarding economic dependence, large customers often have contract durations greater than one year and can include customers in both Canada and PNG.

Long-term contracts are those with a term greater than one year. Revenue from the rendering of services is recognized as the Corporation satisfies its performance obligations, which is generally over time, as the Corporation provides its services on a per billable day or hourly basis.

Contract drilling services include contracts for individual drilling rig packages that include crews and contracts for specialist drilling related services.

Revenue is recognized over time from spud to rig release on a daily basis, using day rates based on contract specified amounts, and may include fixed fee or time-based compensation for the initial location of the drilling rig on the well site and its removal after release.

Revenue from well completion and production services including well servicing, workover and snubbing is typically recognized based on daily or hourly rates as stipulated in the contracts with the customer.

Revenue for oilfield equipment rentals, including mats, is recognized using daily or monthly rates determined within the contracts.

A portion of the Corporation's revenue is lease revenue and not within the scope of IFRS 15, as such portions of revenue received represent the customers' ability to direct the use of an asset belonging to the Corporation. The Corporation has applied judgement to determine the amount of revenue that relates to lease revenue when lease rates were not specifically identified.

The Corporation recognizes the incremental costs of obtaining a contract as an expense when incurred if the related contract is one year or less.

The Corporation's revenue transactions do not contain significant financing components and the Corporation does not adjust transaction prices for the effects of a significant financing component when the period between the transfer of the promised service to the customer and the payment by the customer is less than one year. The Corporation does not disclose information related to performance obligations that have an original duration of one year or less.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(g) Financial Instruments

Financial assets and liabilities are classified and measured at amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit and loss ("FVTPL"), depending on the nature of the instrument. The classification is generally based on the contractual cash flow characteristics of the asset or liability. Financial assets held to collect principal and interest cash flows on specified dates are measured at amortized cost.

Investments in share equity of other third-parties are initially recognized at fair value and classified as FVTPL or FVTOCI. If designated as FVTOCI, all changes in fair value are recorded in Other comprehensive income ("OCI"). Upon disposal of such investment, the cumulative OCI recorded is reclassified to retained earnings. Dividends from such investments are recognized in profit or loss as other income when the Corporation's right to receive payments is established.

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The fair value hierarchy establishes three levels to classify the inputs for valuation techniques used to measure fair value as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quotes prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means; and
- Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives highest priority to level 1 inputs and lowest priority to level 3 inputs. The corporation has level 1 inputs, such as cash and cash equivalents, and level 2 inputs such as, accounts receivable, accounts payable and long-term debt. The Corporation has no level 3 inputs.

The following table provides a summary of the classification and measurement basis applicable for the Corporation's non-derivative financial instruments.

Instrument	Initial Measurement	Subsequent Measurement
Financial Assets		
Cash (and equivalents if applicable)	Fair value	Amortized cost (1)
Accounts receivable	Fair value	Amortized cost (2)
Financial Liabilities (3)		
Accounts payable and accrued liabilities	Fair value	Amortized cost (1)
Long-term debt	Fair value	Amortized cost (1)

(1) Amortized cost using an effective interest rate

(2) Upon initial recognition of a non-derivative financial asset, a loss allowance is recorded for expected credit losses ("ECL"). Loss allowances for accounts receivables are measured based on lifetime ECL that incorporates historical loss information and is adjusted for current economic and credit conditions. Losses are recorded as a charge in earnings (loss) as part of general and administrative expense.

(3) All financial liabilities are recognized initially at fair value and loans and borrowings are recorded net of directly attributable transaction costs.

High Arctic currently does not have any derivative financial instruments.

(h) Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits through increased capability or performance associated with the item will flow to the Corporation, and the cost can be measured reliably. Repairs and maintenance costs are charged to earnings (loss) during the period in which they are incurred.

Gains and losses on disposal of property and equipment are the result of the difference between proceeds obtained compared to the carrying amount of the asset disposed of and are included as part of gains and losses on sale of property and equipment in earnings (loss).

Depreciation is calculated on the depreciable amount which is the carrying cost of an asset less its salvage value and recognized in earnings (loss) over the estimated useful life of the asset. The Corporation allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each such component.

The calculation of depreciation includes assumptions related to useful lives and residual values and is reviewed annually and adjusted if appropriate, on a prospective basis. The assumptions are based on experience with similar assets and are subject to change as new information becomes available.

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

Property and equipment is depreciated as follows:

	Expected Life	Salvage value	Basis of depreciation
Oilfield Equipment			
Drilling rigs	5 - 15 years	Up to 10%	Straight line
Service rigs	5 - 20 years	Up to 10%	Straight line
Support and shop	7 - 10 years	Up to 5%	Straight line
Drilling support equipment	7 - 10 years	Up to 5%	Straight line
Hydraulic workover and UB rigs (1)	7 - 10 years	Up to 5%	Straight line
Snubbing rigs	7 - 10 years	Up to 5%	Straight line
Nitrogen units	7 - 10 years	Up to 5%	Straight line
Rentals and matting	5 - 10 years	Up to 5%	Straight line
Light vehicles	5 - 10 years	Up to 5%	Straight line
Heavy trucks	7 - 10 years	Up to 5%	Straight line
Buildings	20 – 25 years	Up to 10%	Straight line
Office equipment and computers	3 - 5 years	Up to 5%	Straight line
Computer software	3 - 5 years	nil	Straight line
Leasehold improvements	Lessor of lease term or five years	nil	Straight line
Right of use assets			
Real estate	1- 12 years	nil	Straight line
Vehicles	Lessor of lease term or five years	Up to 15%	Straight line

(1) UB rigs – Underbalanced rigs

(i) Inventory

Inventory consists primarily of operating supplies and spare parts not held for sale and are valued at the lower of average cost and net realizable value. Inventory is charged to oilfield services expense as items are consumed at the average cost of the item.

Net realizable value is the estimated selling price less estimated selling costs. A regular review is undertaken to determine the extent of any obsolescence for which a provision is required.

(j) Impairment of assets

Impairment of financial assets

The Corporation's accounts receivable is recorded net of expected credit losses ("ECL"), using the simplified approach in estimating the lifetime ECL, taking into consideration historical industry default rates as well as credit ratings and the current financial condition of specific customers.

Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

These are called cash generating units, and judgement is required to aggregate assets into their appropriate CGU. If indicators exist, impairment is recognized for the amount by which the cash generating unit's carrying amount exceeds its recoverable amount. The recoverable amount for a CGU is determined as the higher of its fair value less costs of disposal, and its value in use.

Recoverable amounts are typically calculated using a discounted cash flow model. Value in use calculations estimate future cash flows, discounted to their present value, using a before-tax discount rate reflecting current market conditions specific to the risk inherent in the assets in the CGU. If the carrying amount of the CGU exceeds its recoverable amount, an impairment loss is charged to earnings (loss) such that the recorded value of the CGU is no greater than its recoverable amount.

A previously recognized impairment loss is required to be reversed if there has been a change in circumstances and/or estimates used to determine the CGU's recoverable amount. If the recoverable amount has increased since the time that the impairment loss was recorded, the carrying amount of the CGU is increased, but only up to its recoverable amount. Further, the amount of impairment reversal cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the CGU while impaired. Such impairment reversal is recognized in the consolidated statements of loss and comprehensive loss.

(k) Share-based and other compensation

<u>Share-based plans:</u>

Stock Option Plan

The Corporation has a stock option plan that provides incentive for directors, management and certain employees. Options granted are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the stock options is recognized as an employee benefit expense, with a corresponding increase in contributed surplus, over the vesting period based on the Corporation's estimate of stock options that will eventually vest. At the end of each reporting period, the Corporation revises its estimate of the number of stock options expected to vest. The impact of the revision of the original estimates, if any, is recognized immediately.

When the options are exercised, the Corporation issues common shares. The proceeds received plus the amount of the previously recognized benefit recorded in contributed surplus are credited to share capital.

Performance Share Unit Plan:

The Corporation has a Performance Share Unit Plan ("PSUP") under which the Corporation may grant restricted share units ("RSUs") and/or performance share units ("PSUs") to its employees. The Corporation intends to grant PSUs which have performance vesting conditions, and other units which, unless otherwise directed by the Board of Directors, vest one-third on each of the first, second and third anniversaries from the date of the grant.

The fair value of the RSUs and PSUs issued is equal to the Corporation's five day weighted average share price on the grant date. The fair value is expensed over the vesting term on a graded vesting basis.

PSU and RSU holders are entitled to dividends on any date a cash dividend is paid on the Corporation's common shares.

Holders will be credited with a dividend equivalent in the form of a number of PSUs or RSUs calculated by multiplying the amount of the dividend per common share by the aggregate number of PSUs or RSUs that were credited to the participant's account as of the record date for payment of the dividend and dividing that amount by the fair market value on the date on which the dividend is paid.

The PSUs and RSUs are treated as equity-settled share-based compensation and compensation expense is recognized on issued units as vesting occurs, at fair value, with a corresponding increase in contributed surplus.

Deferred Share Units:

The Corporation has awarded Deferred Share Units ("DSUs") to non-employee directors of the Corporation. DSUs awarded vest immediately and provide participants the right to receive, at the election of the Corporation, common shares or a cash payment equal to the five-day volume weighted average price of the Corporation's common shares. DSU holders are also entitled to dividends and on any date a cash dividend is paid on the Corporation's common shares. DSU holders will be credited with a dividend equivalent in the form of a number of DSUs calculated by multiplying the amount of the dividend per common share by the aggregate number of DSUs that were credited to the participant's account as of the record date for payment of the dividend and dividing that amount by the fair market value on the date on which the dividend is paid.

The DSUs are treated as equity-settled share-based compensation and compensation expense is recognized when the DSUs are issued, using fair values, with a corresponding increase in contributed surplus.

Other compensation:

Bonus Plans:

The Corporation recognizes a liability and an expense for bonuses expected to be paid to employees based on various formulae that take into consideration operating earnings and other factors attributable to the financial and operational performance of the Corporation. The Corporation recognizes a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

Defined Contribution Pension Plan:

The Corporation matches payments by employees to a third-party service provider which manages a group retirement savings plan or a defined contribution pension plan. Amounts are recognized as a liability and expense in accordance with the fixed contribution terms. The Corporation has no legal or constructive obligation relating to future payments on behalf of the employee.

(l) Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a reduction from equity.

(m) Dividends

Dividends on common shares, if declared, are recognized in the Corporation's Financial Statements in the period in which the dividends are approved by the Board of Directors.

(n) Provisions

Provisions for legal claims and other obligations, where applicable, are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

The Corporation is involved in legal claims through the normal course of operations, and these are recorded and/or disclosed as any other provision. The Corporation believes that any liabilities that may arise from such matters to the extent not provided for, are not likely to have a material effect on the Financial Statements.

(o) Interest and finance expenses

Interest and finance expenses are comprised of interest payable on borrowings calculated using the effective interest rate method, interest on lease liabilities, and other banking charges.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized until such time as the assets are substantially ready for their intended use or sale.

Debt transaction costs incurred in connection with entering into new credit facility agreements are amortized over the term of the debt using the effective interest rate method. All other borrowing costs are recognized in earnings (loss) in the period in which they are incurred.

(p) Income tax

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in earnings (loss) except to the extent that it relates to the items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date in the jurisdictions where the Corporation operates.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(q) Earnings (loss) per share

The Corporation presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net earnings or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined using the treasury stock method, whereby net earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding is adjusted for the effects of all dilutive potential common shares. The treasury stock method assumes any proceeds obtained on the exercise of equity-based compensation arrangements would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the difference between the number of shares issued from the exercise of equity-based compensation arrangements and shares repurchased from the related proceeds.

(r) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

The Corporation determines its operating segments based on internal information regularly reviewed by the Corporation's chief operating decision makers to allocate resources and assess performance. The Corporation has determined that it has four reporting operating segments: Drilling services, Production services, Ancillary services and Corporate.

(s) Leases

At the inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation considers whether it has the right to substantially all the economic benefits from the use of the identified asset, and the right to direct the use of the asset.

The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Generally, the Corporation uses its incremental borrowing rate as the discount rate.

The lease payments included in the present value calculation include fixed payments (and in substance fixed payments); variable lease payments that depend on an index or rate; amounts expected to be payable under a residual value guarantee; the exercise price of purchase options if the lessee is reasonably certain to exercise that option; and early termination penalties.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

The Corporation recognizes the lease payments associated with short-term leases of less than a one-year duration as an expense on a straight-line basis over the lease term.

(t) Government assistance

The following outlines standard policy implementations which were adopted by the Corporation, as a result of qualifying for the Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") programs, which were enacted on April 11, 2020, and September 27, 2020, respectively, by the federal Government of Canada, with both programs ended on October 23, 2021. These programs were replaced with new programs for the industries hardest hit by Covid-19. The Corporation no longer qualified for government assistance subsequent to October 23, 2021.

In accordance with *IAS 20*, Government Grants, the Corporation will recognize government subsidies when there is reasonable assurance that the subsidy will be received and that the Corporation will comply with all relevant conditions. Government subsidies related to current expenses are recorded as a reduction of the related expenses, and/or in accordance with our IFRS 16 elected practical expedient, as noted above.

4. Accounts receivable

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

	As at December 31, 2021	As at December 31, 2020
Less than 31 days	**$11,803**	$8,045
31 to 60 days	**6,415**	3,131
61 to 90 days	**2,522**	1,208
Greater than 90 days	**675**	1,272
Expected credit losses	**(701)**	(770)
Total	**$20,714**	$12,886

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

	As at December 31, 2021	As at December 31, 2020
Canadian dollars	**$11,177**	$11,551
US dollars ("USD") (2021 – USD $7,523, 2020 – USD $1,049)	**9,537**	1,335
Total	**$20,714**	$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 group's credit risk. The ECL also incorporates forward looking information.

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

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

	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	$ 10,052	$ 5,817	$ 2,330	$ 46	$ 18,245
Non-investment grade receivables	1,751	598	192	629	3,170
Total receivables	$ 11,803	$ 6,415	$ 2,522	$ 675	$ 21,415
ECL for investment grade (%)	*0.04*	*0.06*	*0.10*	*0.30*	-
ECL for non-investment grade (%)	*0.25*	*0.75*	*5.00*	*10.00*	-
ECL provision - investment grade	$ -	$ -	$ -	$ -	$ -
ECL provision - non-investment grade	(4)	(33)	(40)	-	(77)
Specifically provided for amounts	-	-	-	(624)	(624)
Total provision for ECL	**$ (4)**	**$ (33)**	**$ (40)**	**$ (624)**	**$ (701)**

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

	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
ECL for investment grade (%)	*0.04*	*0.06*	*0.10*	*0.30*	-
ECL for non-investment grade (%)	*0.75*	*5.00*	*10.00*	*10.00*	-
ECL provision - investment grade	$ -	$ -	$ -	$ -	$ -
ECL provision - non-investment grade	(27)	(45)	(56)	(86)	(214)
Specifically provided for amounts	-	-	-	(556)	(556)
Total provision for ECL	$ (27)	$ (45)	$ (56)	$ (642)	$ (770)

5. Inventory

As at December 31, 2021, the Corporation had inventory of $9,136 (2020 - $9,356), which is primarily comprised of parts and materials related to maintenance, recertification and refurbishment of rigs and rig-related equipment in the Corporation’s drilling segment. In 2021, consumed parts and materials for equipment, which are included in oilfield services expense, amounted to $238 (2020 - $487). For the year ended December 31, 2021 the Corporation recognized a write down of $594 in Canada to oilfield services expense (2020 – nil). As at December 31, 2021, $835 (2020 - $835) remains recorded as an inventory obsolescence provision for inventory held in PNG.

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

6. 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	-	-	-	-	7,242	7,242
Dispositions	(1,727)	(8,788)	(124)	-	-	(10,639)
Transfers	28	3,347	320	-	(3,695)	-
Reclassification - vehicle lease	116	-	-	-	-	116
Effect of foreign exchange	-	(669)	(4)	-	11	(662)
At December 31, 2021	**$7,799**	**$340,401**	**$4,469**	**$10,782**	**$7,272**	**$370,723**

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	221	21,752	319	247	-	22,539
Dispositions	(1,668)	(8,121)	(71)	-	-	(9,860)
Reclassification - vehicle lease	110	-	-	-	-	110
Effect of foreign exchange	(1)	(363)	(1)	-	-	(365)
At December 31, 2021	**$7,177**	**$232,672**	**$3,834**	**$1,731**	$ -	**$245,414**

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 December 31, 2021	**$622**	**$107,729**	**$635**	**$9,051**	**$7,272**	**$125,309**

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

Cost	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2019	$9,718	$354,458	$3,820	$10,782	$4,898	$383,676
Additions	-	-	-	-	4,874	4,874
Dispositions	(334)	(10,410)	-	-	-	(10,744)
Transfers	-	5,454	484	-	(5,938)	-
Effect of foreign exchange	(2)	(2,991)	(27)	-	(120)	(3,140)
At December 31, 2020	**$9,382**	**$346,511**	**$4,277**	**$10,782**	**$3,714**	**$374,666**

Accumulated depreciation	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2019	$8,255	$196,513	$3,291	$1,237	$ -	$209,296
Depreciation	536	33,158	314	247	-	34,255
Dispositions	(273)	(7,907)	(18)	-	-	(8,198)
Transfers	-	-	-	-	-	-
Effect of foreign exchange	(3)	(2,360)	-	-	-	(2,363)
At December 31, 2020	**$8,515**	**$219,404**	**$3,587**	**$1,484**	**$ -**	**$232,990**

Net book value	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2019	$1,463	$157,945	$529	$9,545	$4,898	$174,380
At December 31, 2020	**$867**	**$127,107**	**$690**	**$9,298**	**$3,714**	**$141,676**

For the year ended December 31, 2021, High Arctic disposed of property and equipment and received proceeds of $1,196 (2020 - $5,134), resulting in a gain on sale of $417 (2020 - $2,589).

For the year ended December 31, 2021, the asset cost and accumulated depreciation for vehicles purchased at the end of the lease term were reclassified from right-of-use asset to property and equipment at the salvage value amount.

At December 31, 2021, High Arctic determined that no indicators of impairment existed within the Corporation’s cash generating units. At December 31, 2020, High Arctic recognized no impairment.

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

7. Right-of-use assets and lease liabilities

a) Right-of-use assets

Cost	Total
At December 31, 2020	$8,238
Additions	349
Disposals	(775)
Effect of foreign exchange rate changes	(30)
At December 31, 2021	**$7,782**

Accumulated amortization	Total
At December 31, 2020	$2,171
Amortization	1,100
Disposals	(775)
Effect of foreign exchange rate changes	18
At December 31, 2021	**$2,514**
Net book value	
At December 31, 2020	$6,067
At December 31, 2021	**$5,268**

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	436
Lease payments	(1,615)
Lease finance expense (Note 12)	390
Effect of foreign exchange rate changes	1
At December 31, 2021	**$8,445**

	Total
Current	$1,081
Non-current	7,364
At December 31, 2021	**$8,445**

The lease liabilities relate to various types of real estate assets and vehicles which are recorded as right-of-use assets in 7a). 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 12 Supplementary expense disclosure for movement details. There was no accounting impact relating to the lease liability accounting under IFRS 16 due to CERS.

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

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

	Total
Less than one year	$ 1,424
One to five years	3,718
More than five years	5,335
Total undiscounted liabilities	**$ 10,477**

8. Long-term debt

	Year Ended December 31, 2021	Year ended December 31, 2020
Revolving loan	**$ -**	$ 10,000
Mortgage financing [1]	**$ 8,075**	$ -

[1] Includes total of current and noncurrent amounts.

Revolving Credit Facility:

In December 2021, the Corporation amended its revolving credit facility from a borrowing limit of $45,000 to $37,000 and site-specific assets held as mortgage security for separate mortgage financing have been carved out of the security for the credit facility. In addition, the amended revolving credit facility allows for up to $5,000 to be available by way of account overdraft outside of covenant requirements described below.

The Corporation's revolving credit facility has a maturity date of August 31, 2023, is renewable with the lender's consent, and is secured by a general security agreement over most of 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 December 31, 2021, the Corporation was in compliance with these two financial covenants.

Ratio	**Covenant**	**December 31, 2021**
Funded Debt to EBITDA	< 3.0x	-
EBITDA to Interest Expense	>3.0x	11.1

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

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 credit facility debt provided and outstanding at the date of the covenant calculation. Interest Expense excludes any impact related to lease liabilities (note 7). 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, and non-cash inventory write-downs, less gains from foreign exchange and sale or purchase of assets and lease payments.

Mortgage Financing:

		Total
Current	$	296
Non-current		7,779
At December 31, 2021	**$**	**8,075**

In December 2021, the Corporation entered into a mortgage arrangement with the Business Development Bank of Canada (BDC) for $8,100, secured by lands and buildings owned and occupied by High Arctic within Alberta. The mortgage financing provides the Corporation with long term liquidity, and adds to existing cash balances. The mortgage has an initial term of 5 years with a fixed interest rate of 4.30% and an amortization period of 25 years with payments occurring monthly. The mortgage liability and associated financing costs are carved out of all revolving credit facility financial covenant calculations.

The Corporation capitalized $25 in financing fees incurred to set up the loan and applied this to the long-term debt liability. Financing fees will be amortized over the expected life of the mortgage financing.

9. 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.

	Year ended December 31, 2021		Year ended December 31, 2020	
Common shares issued and outstanding:	**Shares**	**Amount**	Shares	Amount
Balance, beginning of period	48,759,660	$169,220	49,623,432	$173,071
Exercise of performance share units (Note 10)	52,289	751	273,328	101
Normal course issuer bid	(78,804)	(274)	(1,137,100)	(3,952)
Balance, end of period	**48,733,145**	**$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 13, 2021, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,420,531 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 15, 2021 and terminating on December 14, 2022. Pursuant to the NCIB no shares were purchased and cancelled in 2021 under this NCIB.

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

The Corporation's previous NCIB commenced on December 11, 2020 and terminated on December 10, 2021. Pursuant to this previous NCIB, in total 78,804 common shares have been purchased and cancelled in 2021.

The Corporation's NCIB active during 2020 commenced on December 2, 2019 and terminated on December 1, 2020. Pursuant to this NCIB, in total 1,137,100 common shares were purchased and cancelled in 2020.

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 years ended December 31, 2021 and 2020, as the effects of all stock options and units are anti-dilutive.

	Year ended December 31,			
	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	**48,778,012**	**$(0.38)**	49,479,022	$(0.52)

c) Deficit

On October 20, 2021, the Corporation announced a special one-time dividend payment of $0.20 per share to holders of common shares. In total, $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 purpose.

10. Share-based compensation

The Corporation has four equity-based compensation plans under which up to 4,873,314 common shares (being 10% of all outstanding shares) may be issued as at December 31, 2021

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

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

	Year Ended December 31, 2021	Year ended December 31, 2020
Stock options	**464,500**	265,500
Performance share unit plan – restricted units	**351,123**	422,181
Performance share unit plan – performance units	**389,435**	376,053
Deferred share units	**836,743**	523,117
Balance, end of period	**2,041,801**	1,586,851
Common shares available for grants	**4,873,314**	4,875,966
Percentage used of total available	**42%**	33%
Remaining common shares available for grants	**2,831,513**	3,289,115

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

	Year Ended December 31, 2021	Year ended December 31, 2020
Stock options	**$ 39**	$ 13
Performance share unit plan – restricted units	**113**	154
Performance share unit plan – performance units	**92**	4
Deferred share units	**465**	384
Total expense	**$ 709**	$ 555

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 December 31, 2021, a total of 464,500 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 percent exercisable by the holder after the first anniversary date, another 33.3 percent after the second anniversary date and the balance after the third anniversary date.

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

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

	Number of Stock Options	Weighted Average Exercise Price ($)
At December 31, 2019	955,000	3.77
Expired	(110,000)	3.81
Forfeited/Cancelled	(579,500)	3.71
At December 31, 2020	265,500	3.72
Granted	638,000	1.43
Expired	(85,000)	3.55
Forfeited/Cancelled	(354,000)	1.86
At December 31, 2021	**464,500**	**2.02**

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	16,500	4.96	1.30	-	-
$1.37	100,000	4.96	1.37	-	-
$1.44	211,500	4.96	1.44	-	-
$1.59	16,500	4.96	1.59	16,500	1.59
$3.75	120,000	0.99	3.75	120,000	3.75
At December 31, 2021	**464,500**	**3.93**	**2.02**	**136,500**	**3.49**

The Corporation values all its share options using the Black-Scholes model. The number of options granted during 2021 was 638,000. 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	$1.43

Performance Share Unit Plan ("PSUP")

Share units granted may be performance share units (PSUs) or restricted share units (RSUs). PSUs and RSUs generally vest evenly over a three-year period unless otherwise directed by the Board of Directors. PSUs also have performance vesting conditions, which are assessed at the discretion of the Board of Directors. PSUs and RSUs expire at the end of the third calendar year from the issuance date.

The number of PSUs and RSUs outstanding are proportionately adjusted for any dividends declared on the Corporation's common shares during the period.

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

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

	RSUs	PSUs	Total
At December 31, 2019	124,369	251,188	375,557
Granted	500,000	392,499	892,499
Dividends re-invested	4,263	8,787	13,050
Exercised	(191,229)	(115,059)	(306,288)
Forfeited/Cancelled	(15,222)	(161,362)	(176,584)
At December 31, 2020	422,181	376,053	798,234
Granted	10,000	80,000	90,000
Dividends re-invested	34,457	37,569	72,026
Exercised	(62,181)	(28,751)	(90,932)
Forfeited/Cancelled	(53,334)	(75,436)	(128,770)
At December 31, 2021	**351,123**	**389,435**	**740,558**

During the year-ended December 31, 2021, 90,932 PSUP units were exercised, of which 52,289 were settled through the issuance of common shares (note 9(a)), and 38,643 were settled in cash and remitted as statutory withholdings on behalf of the recipients.

The weighted average fair value of each PSUP 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.

On September 28, 2020, all cash settled restricted share units were renounced and in exchange 140,000 RSUs were issued under the Corporation's PSUP in settlement thereof.

Deferred Share Unit Plan ("DSU")

DSUs are granted to non-employee members of the Board of Directors. The DSU unit vest immediately, and the fair value of each unit is equivalent to the share price at the time of grant. DSUs are exercised through the issuance of common shares of the Corporation upon the holder ceasing to serve as a member of the Board of Directors.

The number of DSUs outstanding are proportionately adjusted for any dividends declared on the Corporation's common shares during the period.

Details regarding the DSUs and related activity is as follows:

	Year Ended December 31, 2021	Year ended December 31, 2020
Outstanding, beginning of year	**523,117**	161,729
Granted	**241,998**	364,615
Dividends re-invested	**71,628**	5,395
Exercised	**-**	(8,622)
Outstanding, end of year	**836,743**	523,117

DSUs granted in 2021 pursuant to the Board Directors' election to have quarterly compensation for services rendered settled in DSUs rather than cash were 151,998 DSUs.

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

11. 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.

Year ended 31 December, 2021	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	**Total**
Service revenue:					
Canada	$ -	$51,905	$2,629	$ -	**$54,534**
PNG	10,609	-	-	-	**10,609**
	10,609	51,905	2,629	-	**65,143**
Equipment rental revenue:					
Canada	-	3,535	5,498	(1,925)	**7,108**
PNG	44	-	4,147	-	**4,191**
	44	3,535	9,645	(1,925)	**11,299**
Total revenue	**$10,653**	**$55,440**	**$12,274**	**$(1,925)**	**$76,442**

Year ended 31 December, 2020	Drilling Services	Production Services	Ancillary Services	Inter-Segment Elimination	**Total**
Service revenue:					
Canada	$ -	$46,567	$1,700	$ -	**$48,267**
USA	-	2,934	-	-	**2,934**
PNG	22,044	-	-	-	**22,044**
	22,044	49,501	1,700	-	**73,245**
Equipment rental revenue:					
Canada	-	8,322	4,371	(1,783)	**10,910**
USA	-	30	-	-	**30**
PNG	3,313	-	3,336	-	**6,649**
	3,313	8,352	7,707	(1,783)	**17,589**
Total revenue	**$25,357**	**$57,853**	**$9,407**	**$(1,783)**	**$90,834**

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 year ended December 31, 2021 from the Partnership of $2,110, (2020 - nil).

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

12. Supplementary expense disclosure

a) Oilfield services expenses by nature

	Year ended December 31, 2021	Year ended December 31, 2020
Personnel (1) (2)	$ 36,414	$ 43,433
Equipment operating and maintenance costs	15,913	10,951
Material and supplies	6,088	7,945
Drilling rig rental	126	3,443
Other (1)	2,685	3,751
	$ 61,226	$ 69,523

b) General and administrative expenses by nature

	Year ended December 31, 2021	Year ended December 31, 2020
Personnel (1) (2)	$ 7,067	$ 8,541
Professional, legal and advisory fees	1,011	1,410
Information technology services	874	897
Corporate	720	704
Office and warehouse (1)	330	350
(Recovery of) Provision for ECL	(24)	660
Vehicle, supplies and other	320	220
	$ 10,298	$ 12,782

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

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

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

As a result of CEWS, the resulting reduction of personnel wages amounted to $3,033 (2020 - $6,218) for the year ended December 31, 2021, with $2,715 (2020 - $5,364) allocated to Oilfield service expenses, and $318 (2020 - $854) allocated to General and administrative expenses. Amounts recorded as Accounts Receivable amount to $858 at December 31, 2021 (2020 - $1,447)

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

As a result of the CERS, the resulting reduction of other costs amounted to $282 (2020 - $105) for the year ended December 31, 2021, 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 December 31, 2021 was $49 related to CERS (2020: $105).

e) Restructuring costs

For the year ended December 31, 2020, $1,553 of restructuring costs are included in Personnel costs, with $804 recorded as part of Oilfield services and $749 recorded as part of General and administrative expenses. No restructuring costs were recorded in 2021.

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

f) Interest and finance expense

Interest and finance expense		Year ended December 31, 2021		Year ended December 31, 2020
Interest on long term debt & standby fees (Note 8)	$	280	$	487
Lease finance expense (Note 7)		390		506
Other		36		117
	$	706	$	1,110

13. Income tax

a) Income tax expense

		Year ended December 31, 2021		Year ended December 31, 2020
Current income tax expense:				
Jurisdictions outside of North America	$	905	$	1,549
Total current income tax expense	$	905	$	1,549
Deferred income tax recovery:				
Jurisdictions outside of North America	$	(2,214)	$	(1,754)
Total deferred tax recovery	$	(2,214)	$	(1,754)
Total tax recovery				
Jurisdictions outside of North America	$	(1,309)	$	(205)
Total tax recovery	$	(1,309)	$	(205)

		Year ended December 31, 2021		Year ended December 31, 2020
Net loss before income tax	$	(19,916)	$	(26,190)
Canadian statutory tax rate		23.6%		24.2%
Expected income tax expense (recovery)	$	(4,702)	$	(6,346)
Increase (decrease) resulting from:				
Canada tax rate changes		(448)		(231)
Effect of foreign tax and rates		693		2,184
Non-deductible differences		178		161
Change in unrecognized deferred tax asset		2,714		3,489
Loss on investment		-		-
Reconciliation to prior year provision		138		536
Other		118		2
Total income tax expense (recovery)	$	(1,309)	$	(205)
Effective tax rate		6.6%		0.8%

The provision for income tax differs from the result that would be obtained by applying the expected Canadian tax rate of 23.6% (2020 – 24.2%) against the net loss before income taxes. The difference results mainly from unrecognized deferred tax assets related to deductible temporary differences in Canada and the effect rate and deductible differences in international jurisdictions.

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

The Corporation's effective tax rate of 6.6% in 2021 compared to 0.8% in 2020, was impacted by a number of reconciling items, with the largest being the impact of the change in the unrecognized portion of the deferred tax asset.

b) Deferred tax assets (liabilities)

Differences between the accounting and tax bases of assets and liabilities at expected tax rates upon anticipated reversal of such differences create deferred tax assets and liabilities on the statement of financial position.

The following table summarizes the deferred income tax assets and liabilities by jurisdiction:

		Year ended December 31, 2021		Year ended December 31, 2020
North America:				
Deferred income tax assets (liabilities):				
Property & equipment	**$**	**(1,697)**	$	(4,405)
Right of use assets		**(1,198)**		(1,337)
Lease liabilities		**1,946**		2,069
Non-capital losses		**29,264**		29,105
Capital losses		**4,686**		4,622
Unrecognized deferred tax asset		**(25,302)**		(22,588)
Other		**44**		103
		7,743		7,569
Jurisdictions outside of North America:				
Deferred income tax liabilities:				
Property & equipment		**(6,050)**		(8,144)
		(6,050)		(8,144)
Net deferred income tax assets (liabilities)	**$**	**1,693**	$	(575)

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

The following tables summarize the movements of the deferred income tax assets and liabilities during the year:

	January 1, 2021	Recognized in net loss	Exchange differences	December 31, 2021
Deferred income tax assets (liabilities):				
Property & equipment	$(4,405)	2,708	-	**$(1,697)**
Right of use assets	(1,337)	139	-	**(1,198)**
Lease liabilities	2,069	(123)	-	**1,946**
Non-capital losses	29,105	159	-	**29,264**
Capital losses	4,622	64	-	**4,686**
Unrecognized deferred tax asset	(22,588)	(2,714)	-	**(25,302)**
Other	103	(59)	-	**44**
	7,569	174	-	**7,743**
Deferred income tax liabilities:				
Property and equipment	(8,144)	2,010	84	**(6,050)**
	(8,144)	2,010	84	**(6,050)**
Net deferred income tax (liabilities) assets	$(575)	2,184	84	**$1,693**

	January 1, 2020	Recognized in net loss	Exchange differences	December 31, 2020
Deferred income tax assets (liabilities):				
Property & equipment	$(9,207)	4,802		$(4,405)
Right of use assets	(1,556)	220		(1,336)
Lease liabilities	2,309	(240)		2,069
Non-capital losses	29,832	(727)		29,105
Capital losses	4,614	8		4,622
Unrecognized deferred tax asset	(18,560)	(4,028)		(22,588)
Other	137	(35)		102
	7,569	-		7,569
Deferred income tax liabilities:				
Property and equipment	(10,234)	1,921	169	(8,144)
	(10,234)	1,921	169	(8,144)
Net deferred income tax (liabilities) asset	$(2,665)	1,921	169	$(575)

At December 31, 2021 deferred tax assets created through the accumulation of non-capital losses were reviewed to assess the probability that future taxable profit could be utilized against such losses, and it was estimated that $7,743 will be utilized.

c) Non-capital losses

Total Canadian non-capital losses carried forward for income tax purposes was $123,949 at December 31, 2021 (2020 - $124,861), which expire in years 2027 through 2041.

At December 31, 2021, the total US non-capital losses carried forward for income tax purposes was USD $6,412 (2020 - $5,910) which can be carried forward indefinitely.

d) Capital losses

At December 31, 2021 the capital losses carried forward for income tax purposes was $39,694 (2020 - $39,657), which can be carried forward indefinitely, but only used against capital gains.

e) Withholding taxes

The government of PNG levies withholding taxes when funds are repatriated out of the country, which includes intercompany dividends. For the year ended December 31, 2021, withholding tax levied associated with such charges amounted to $207 (2020 - $943) and are recorded as part of current income tax expense. The average dividend withholding rate is estimated to be 15% (2020 – 15%).

The government of PNG levies foreign contractor withholding tax at 15% (2020 – 15%) on all PNG revenue earned by companies incorporated outside of PNG, which includes the Corporation's Singaporean entity. Customers deduct this tax and remit directly to the government in PNG. For the year ended December 31, 2021, this amounted to $621 (2020 - $500) and are recorded as part of current income tax expense.

f) Income tax receivable

Income tax receivable totaling $3,006, of which $1,006 is current asset and $2,000 is non-current asset, relate to installment payments made to the PNG government (2020 - $3,258 non-current). The Corporation can apply the prepayments to future income tax payments on earnings. Current income tax receivable is reflective of expected tax payments in 2022.

14. 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 ceased operations in the USA with no revenues in the 2021-year. The Corporation has four operating segments as follows:

<u>Drilling Services</u>

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.

<u>Production Services</u>

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.

<u>Ancillary Services</u>

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

<u>Corporate</u>

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

Details associated with each geographic and operating segment are provided for the year ended and as at December 31, 2021 and 2020 in the tables which follow.

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

December 31, 2021	PNG [1]	Canada	Interco Eliminations	**Total**
Revenue	$ 14,802	$ 63,565	$ (1,925)	**$ 76,442**
Non-current assets excluding deferred tax assets	55,914	80,151	**-**	**136,065**
Total assets excluding deferred tax assets	74,844	$102,866	**-**	**$177,710**

[1] Includes US geographic segment as at December 31, 2021 of $96 current assets. No US segment revenues in 2021.

December 31, 2020	PNG [1]	Canada	Interco Eliminations	Total
Revenue	$ 31,658	$ 60,958	$ (1,783)	$ 90,834
Non-current assets excluding deferred tax assets	61,719	89,024	-	150,743
Total assets excluding deferred tax assets	$ 85,925	$ 120,665	-	$206,590

[1] Includes US geographic segment as at December 31, 2020 of $234 current assets. Includes US geographic revenues of $2,965 for the year ended December 31, 2020.

Year ended/As at December 31, 2021	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	**Total**
Revenue	$ 10,653	$ 55,440	$ 12,274	$ -	$ (1,925)	**$ 76,442**
Expenses						
Oilfield Services	8,990	47,957	6,204	-	(1,925)	**61,226**
General and administrative	2,937	3,818	608	2,935	-	**10,298**
Depreciation	7,198	11,365	4,915	161	-	**23,639**
Share-based compensation	-	-	-	709	-	**709**
	19,125	63,140	11,727	3,805	(1,925)	**95,872**
Operating (loss) income	(8,472)	(7,700)	547	(3,805)	-	**(19,430)**
Foreign exchange loss	-	-	-	(197)	-	**(197)**
Gain (loss) on sale of property & equipment	5	285	165	(38)	-	**417**
Interest and finance expense	-	-	-	(706)	-	**(706)**
(Loss) Earnings before income tax	(8,467)	(7,415)	712	(4,746)	-	**(19,916)**
Property and equipment	35,875	68,142	20,795	497	-	**125,309**
Right-of-use assets	192	4,793	283	-	-	**5,268**
Total assets less deferred tax assets	$ 73,873	$ 80,619	$ 22,721	$ 497	$ -	**$177,710**

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

Year ended/As at December 31, 2020	Drilling Services	Production Services	Ancillary Services	Corporate	Inter-Segment Elimination	Total
Revenue	$ 25,357	$ 57,853	$ $9,407	$ -	$ (1,783)	**$ 90,834**
Expenses						
Oilfield Services	18,827	47,645	4,834	-	(1,783)	**69,523**
General and administrative	2,512	5,126	492	4,652	-	**12,782**
Depreciation	10,320	18,519	6,332	313	-	**35,484**
Share-based compensation	-	-	-	555	-	**555**
	31,659	71,290	11,658	5,520	(1,783)	**118,344**
Operating loss	(6,302)	(13,437)	(2,251)	(5,520)	-	**(27,510)**
Foreign exchange loss	-	-	-	(159)	-	**(159)**
Gain (loss) on sale of property & equipment	5	(213)	2,797		-	**2,589**
Interest and finance expense	-	-	-	(1,110)	-	**(1,110)**
(Loss) Earnings before income tax	(6,297)	(13,650)	546	(6,790)	-	**(26,190)**
Property and equipment	40,980	76,898	23,285	513	-	**141,676**
Right-of-use assets	333	5,447	287	-	-	**6,067**
Total assets less deferred tax assets	$ 56,570	$ 110,940	$ 38,567	$ 513	$ -	**$206,590**

15. Supplementary cash flow information

Changes in non-cash working capital:

	Year Ended December 31 **2021**	2020
(Use) source of cash:		
Accounts receivable	**$ (7,828)**	$ 26,921
Inventory and prepaid expenses	**(1,270)**	212
Accounts payable and accrued liabilities	**4,287**	(14,106)
Dividend payable	**-**	(819)
Income taxes payable	**183**	(89)
Income taxes receivable	**-**	8
Deferred revenue	**-**	(682)
Impact of foreign exchange on working capital	**(392)**	208
	$ (5,020)	$ 11,653

Attributable to:		
Operating activities	**$ (5,494)**	$ 13,832
Investing activities	**474**	(1,360)
Financing activities	**-**	(819)
	$ (5,020)	$ 11,653

For the year ended December 31, 2021, interest of $280 was paid (2020 - $487). For the year ended December 31, 2021, income taxes paid of $722 was paid (2020 - $1,631).

16. 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:

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 long-term debt includes 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 December 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 current US President 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, transitionary, and future phases of energy industry changes.

The Corporation had no risk management contracts that would be affected by commodity prices in place at December 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.

Most 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 year ended December 31, 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 $560 (December 31, 2020 - $630).

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 December 31, 2021 USD $384 (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 historically received approval from the BPNG for most of 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 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 two large multinational/regional customers who individually accounted for greater than 10% of its consolidated revenues during year ended December 31, 2021 with total sales of $24,611, (December 31, 2020 – two customers totaling $40,553).

As at December 31, 2021, these two customers represented a total of $2,737 or 13% of outstanding accounts receivable (December 31, 2020 - two customers represented a total of $2,158 or 17% of outstanding accounts receivable).

Liquidity risk

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

Liquidity risk is currently being impacted by uncertainty within capital markets due to factors that include the Covid-19 pandemic on global economies, economic recession possibilities, contraction of available capital, reliance on stimulus from governments around the world, and the climate change driven energy transition.

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, as at December 31, 2021 the Corporation currently has up to $37,000 in remaining availability under its credit facility, subject to the bank stipulated Margin Requirement (Note 8), to enable execution of strategic direction.

17. Capital Management

The Corporation's primary objective of capital management is to maintain a strong capital base, in conjunction with conservative long-term debt levels so as to maintain investor, creditor and market confidence, and to sustain future development of the business. The Corporation seeks to maintain investor, creditor and market confidence, and to sustain future development of the business. The Corporation seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security created by a strong equity position.

The Corporation's management considers the capital structure to consist of long-term debt, including any current portion of long-term debt, and shareholders' equity. As at December 31, 2021, the Corporation had long-term debt outstanding $8,075 (2020 - $10,000) and $148,851 shareholders' equity (2020 - $169,220). The Corporation's resulting long-term debt to equity ratio was 0.05 as at December 31, 2021 (2020 – 0.06).

The Corporation prepares annual and quarterly operating and capital expenditure budgets, and forecasts to assist with the management of its capital. The Corporation intends to maintain flexible capital structure and it may alter its dividend levels, raise new equity or issue new debt in response to a change in economic conditions.

The Corporation is subject to capital requirements relating to debt covenants on debt facilities held. As at December 31, 2021, the Corporation was in compliance with all debt covenants.

There were no changes to the Corporation's approach to capital management during the year ended December 31, 2021.

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

18. Related party transactions

Director and executive personnel

The table below summarizes all Board of Director and executive compensation:

		Year ended December 31, 2021		Year ended December 31, 2020
Directors' fees, executive wages including short-term employee benefits	**$**	**1,437**	$	2,164
Share-based compensation		**662**		530
Total	**$**	**2,099**	$	2,694

Two executive officers have a change of control clause (2020 – one executive officer) that would result in additional wages and benefit expense being accrued if executed, as well as immediate vesting in outstanding share-based compensation plans.

No severance amounts were paid during 2021 (2020 - $287) to executive personnel.

19. 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 $7,244 at December 31, 2021 (2020 - $7,275) 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. Written notice is required to end the contract, when notice to terminate is communicated the Corporation must make a payment to the customer equivalent to any inventory shortfall and return the balance of inventory on hand.