



**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE-MONTHS ENDED
March 31, 2022 and 2021**

(Unaudited)

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(Stated in Thousands of Canadian Dollars)

	Note	As at March 31 2022	As at December 31 2021
Assets			
Current assets			
Cash		\$ 11,442	\$ 12,037
Accounts receivable	3	24,370	20,714
Inventory		9,394	9,136
Prepaid expenses and other assets		805	2,239
Current portion of income tax receivable		981	1,006
		46,992	45,132
Non-current assets			
Property and equipment	4	120,028	125,309
Deferred tax asset		7,743	7,743
Right-of-use assets	5(a)	5,186	5,268
Income tax receivable		2,000	2,000
Investment in joint venture		93	-
Total Assets		\$ 182,042	\$ 185,452
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 14,190	\$ 13,367
Current portion of lease liabilities	5(b)	1,040	1,081
Income taxes payable		789	664
Current portion of long-term debt	6	324	296
		16,343	15,408
Non-current liabilities			
Long-term debt	6	7,697	7,779
Lease liabilities	5(b)	7,311	7,364
Deferred tax liability		5,291	6,050
Total Liabilities		36,642	36,601
Shareholders' Equity			
Share capital	7(a)	169,697	169,697
Contributed surplus		13,956	13,818
Accumulated other comprehensive income		22,503	23,421
Deficit		(60,756)	(58,085)
		145,400	148,851
Total Liabilities and Shareholders' Equity		\$ 182,042	\$ 185,452

Commitments and contingencies (Note 14)

Approved on behalf of the Corporation by:

(signed) "Doug Strong" Director

(signed) "Michael Binnion" Director

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

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)

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

For the Three-months ended March 31		2022	2021
	Note		
Revenue	9	\$ 28,696	\$ 17,767
Expenses			
Oilfield services	10	23,386	14,405
General and administrative	10	2,426	2,488
Depreciation		5,564	6,924
Share-based compensation	8	138	95
Total expenses		31,514	23,912
Foreign exchange gain		28	(35)
Gain on sale of property and equipment		77	464
Investment income in joint venture		93	-
Interest and finance expense	10	(225)	(216)
Loss before income taxes		(2,845)	(5,932)
Current income tax expense		(507)	(169)
Deferred income tax recovery		681	904
		174	735
Net loss for the period		\$ (2,671)	\$ (5,197)
Net loss per share – basic and diluted	7(b)	\$ (0.05)	\$ (0.11)

For the Three-months ended March 31		2022	2021
Net loss for the period		\$ (2,671)	\$ (5,197)
Other comprehensive loss:			
<i>Item that may be reclassified subsequently to net loss:</i>			
Foreign currency translation loss for foreign operations		(918)	(936)
Comprehensive loss for the period		\$ (3,589)	\$ (6,133)

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

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Stated in Thousands of Canadian Dollars)

	Note	Share capital Note 7(a)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balance at December 31, 2021		\$ 169,697	\$ 13,818	\$ 23,421	\$(58,085)	\$ 148,851
Net loss for the period		-	-	-	(2,671)	(2,671)
Other comprehensive loss – foreign currency translation loss		-	-	(918)	-	(918)
Share-based compensation	8	-	138	-	-	138
Balance at March 31, 2022		\$ 169,697	\$ 13,956	\$ 22,503	\$(60,756)	\$ 145,400
Balance at December 31, 2020		\$ 169,220	\$ 13,741	\$ 23,991	\$(29,731)	\$ 177,221
Net loss for the period		-	-	-	(5,197)	(5,197)
Other comprehensive loss – foreign currency translation loss		-	-	(936)	-	(936)
Exercise of share-based compensation	8	310	(310)	-	-	-
Share based compensation	8	-	95	-	-	95
Balance at March 31, 2021		\$ 169,530	\$ 13,526	\$ 23,055	\$(34,928)	\$ 171,183

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

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Stated in Thousands of Canadian Dollars)

For the Three-months ended March 31		Note	2022	2021
Operating activities				
Net loss for the period			\$ (2,671)	\$ (5,197)
Adjustments for:				
Depreciation and amortization			5,564	6,924
Share-based compensation expense	8		138	95
Non-cash finance expense			91	101
Investment income in joint venture			(93)	-
Gain on sale of property and equipment	4		(77)	(464)
Foreign exchange (gain) loss			(28)	35
Deferred income tax recovery			(681)	(904)
Funds flow from operations			2,243	590
Changes in non-cash working capital	11		(1,943)	(1,675)
Cash flow from (used in) operating activities			300	(1,085)
Investing activities				
Purchase of property and equipment	4		(1,582)	(765)
Proceeds from disposal of property and equipment	4		1,037	571
Changes in non-cash working capital	11		127	287
Cash flow (used in) from investing activities			(418)	93
Financing activities				
Lease obligation payments	5(b)		(467)	(408)
Repayment of long-term debt	6		(54)	(10,000)
Cash flow used in financing activities			(521)	(10,408)
Effect of foreign exchange rate changes			44	(181)
Decrease in cash			(595)	(11,581)
Cash, beginning of period			12,037	32,598
Cash, end of period			\$ 11,442	\$ 21,017

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

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three-months ended March 31, 2022 and 2021

(Unaudited)

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

1. Nature of Business

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

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

As of March 31, 2022, 21,916,634 common shares of the Corporation were owned by FBC Holdings S.A.R.L., representing 45.0% of the outstanding common shares.

2. Basis of Presentation

(a) Statement of compliance and approval

These unaudited interim condensed consolidated financial statements (“Condensed Consolidated Financial Statements”) have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting.

These Interim Condensed Consolidated Financial Statements were authorized for issuance by the Board of Directors on May 12, 2022.

(b) Basis of preparation

Unless otherwise noted, the Interim Condensed Consolidated Financial Statements follow the same accounting policies and methods of computation as described in the annual audited consolidated financial statements for the year ended December 31, 2021.

The disclosures provided below are incremental to those included as part of the annual audited consolidated financial statements for the year ended December 31, 2021. Certain information and disclosures normally included in the notes to the annual audited consolidated financial statements have been condensed or have been/will be disclosed on an annual basis only. Accordingly, these Interim Condensed Consolidated Financial Statements should be read in conjunction with the annual audited consolidated financial statements.

(c) Judgments, estimates and assumptions

The Interim Condensed Consolidated Financial Statements were prepared using the same judgments, estimates and assumptions as described in the annual audited consolidated financial statements for the year ended December 31, 2021.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three-months ended March 31, 2022 and 2021

(Unaudited)

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

3. Accounts receivable

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

	As at March 31, 2022	As at December 31, 2021
Less than 31 days	\$ 13,036	\$ 11,803
31 to 60 days	10,366	6,415
61 to 90 days	719	2,522
Greater than 90 days	863	675
Provision for expected credit losses	(614)	(701)
Total	\$ 24,370	\$ 20,714

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

	As at March 31, 2022	As at December 31, 2021
Canadian dollars	\$ 11,142	\$ 11,177
US dollars ("USD")		
(March 31, 2022– USD \$10,586;	13,228	9,537
December 31, 2021 – USD \$7,523)		
Total	\$ 24,370	\$ 20,714

High Arctic determined the expected credit loss (ECL) provision percentages used in the provision matrix based on historical credit loss experience as well as historical global default rates for investment grade and speculative grade companies as published by Standard and Poor's. Further, High Arctic aggregated its accounts receivable into groups that share similar credit risk characteristics, taking into consideration drivers for each group's credit risk. The ECL also incorporates forward looking information.

The details of this approach as at March 31, 2022 was as follows:

(\$ thousands, unless otherwise noted)	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	\$ 11,079	\$ 8,480	\$ 460	\$ 274	\$ 20,293
Non-investment grade receivables	1,957	1,886	259	589	4,691
Total receivables	\$ 13,036	\$10,366	\$ 719	\$ 863	\$ 24,984
<i>ECL for investment grade (%)</i>	<i>0.04</i>	<i>0.06</i>	<i>0.10</i>	<i>0.30</i>	-
<i>ECL for non-investment grade (%)</i>	<i>0.25</i>	<i>0.75</i>	<i>5.00</i>	<i>10.00</i>	-
Investment grade ECL provision	\$ -	\$ -	\$ -	\$ -	\$ -
Non-investment grade ECL provision	(5)	(8)	(12)	-	(25)
Specifically provided for amounts	-	-	-	(589)	(589)
Total provision for ECL	\$ (5)	\$ (8)	\$ (12)	\$ (589)	\$ (614)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three-months ended March 31, 2022 and 2021

(Unaudited)

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

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

<i>(\$ thousands, unless otherwise noted)</i>	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	\$ 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
<i>ECL for investment grade (%)</i>	<i>0.04</i>	<i>0.06</i>	<i>0.10</i>	<i>0.30</i>	-
<i>ECL for non-investment grade (%)</i>	<i>0.25</i>	<i>0.75</i>	<i>5.00</i>	<i>10.00</i>	-
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)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three-months ended March 31, 2022 and 2021

(Unaudited)

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

4. Property and equipment

Cost	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2021	\$ 7,799	\$ 340,401	\$ 4,469	\$ 10,782	\$ 7,272	\$ 370,723
Additions	-	-	-	-	1,582	1,582
Dispositions	(23)	(5,728)	(1,138)	-	-	(6,889)
Transfers	-	3,502	44	-	(3,546)	-
Reclassification – vehicle lease	289	-	-	-	-	289
Effect of foreign exchange	-	(2,265)	(12)	-	(66)	(2,343)
At March 31, 2022	\$ 8,065	\$ 335,910	\$ 3,363	\$ 10,782	\$ 5,242	\$ 363,362
Accumulated depreciation	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2021	\$ 7,177	\$ 232,672	\$ 3,834	\$ 1,731	\$ -	\$ 245,414
Depreciation	59	5,133	41	62	-	5,295
Dispositions	(22)	(4,769)	(1,138)	-	-	(5,929)
Reclassification – vehicle lease	202	-	-	-	-	202
Effect of foreign exchange	(1)	(1,635)	(12)	-	-	(1,648)
At March 31, 2022	\$ 7,415	\$ 231,401	\$ 2,725	\$ 1,793	\$ -	\$ 243,334
Net book value	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2021	622	107,729	635	9,051	7,272	125,309
At March 31, 2022	\$ 650	\$ 104,509	\$ 638	\$ 8,989	\$ 5,242	\$ 120,028

For the three-months period ended March 31, 2022, High Arctic disposed of property and equipment and received proceeds of \$1,037 (March 31, 2021 - \$571), resulting in a gain on sale of \$77 in the quarter (March 31, 2021: \$464).

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three-months ended March 31, 2022 and 2021

(Unaudited)

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

5. Right-of-use assets and lease liabilities

a) Right-of-use assets

Cost		Total
At December 31, 2021	\$	7,782
Additions		274
Disposals		(580)
Effect of foreign exchange rate changes		3
At March 31, 2022	\$	7,479
Accumulated amortization		Total
At December 31, 2021	\$	2,514
Amortization		269
Disposals		(493)
Effect of foreign exchange rate changes		3
At March 31, 2022	\$	2,293
Net book value		
At December 31, 2021	\$	5,268
At March 31, 2022	\$	5,186

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

b) Lease liabilities

At December 31, 2021	\$	8,445
Lease additions		274
Lease payments		(467)
Lease finance expense (Note 10)		88
Effect of foreign exchange rate changes		11
At March 31, 2022	\$	8,351
		Total
Current	\$	1,040
Non-current		7,311
At March 31, 2022	\$	8,351

The undiscounted cash flows relating to the lease liabilities at March 31, 2022 are as follows:

Less than one year	\$	1,405
One to five years		3,885
More than five years		5,105
Total undiscounted liabilities	\$	10,395

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three-months ended March 31, 2022 and 2021

(Unaudited)

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6. Long-term debt

	As at, March 31, 2022	As at, December 31, 2021
Revolving loan	\$ -	\$ -
Mortgage financing ⁽¹⁾	\$ 8,021	\$ 8,075

⁽¹⁾ Includes total of current and non-current amounts

a) Revolving Credit Facility:

The Corporation has a \$37,000 revolving facility which has a maturity date of August 31, 2023, is renewable with the lender's consent, and is secured by a general security agreement over the Corporation's assets. In addition, the revolving credit facility allows for up to \$5,000 to be available by way of account overdraft outside of covenant requirements described below.

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 March 31, 2022, the Corporation was in compliance with these two financial covenants.

Ratio	Covenant	March 31, 2022
Funded Debt to EBITDA ⁽¹⁾	< 3.0x	-
EBITDA to Interest Expense ⁽¹⁾	>3.0x	16.4

⁽¹⁾ As at March 31, 2022 the Corporation had access to \$16.7 million of the revolving facility.

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

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three-months ended March 31, 2022 and 2021

(Unaudited)

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

b) Mortgage Financing:

	As at, March 31, 2022		As at, December 31, 2021	
Current	\$	324	\$	296
Non-current		7,697		7,779
Total	\$	8,021	\$	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.

In 2021, 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.

7. Shareholders' equity

a) Share capital

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. No preferred shares have been issued by the Corporation.

	Three-months ended March 31, 2022		Year ended December 31, 2021	
	Shares	Amount	Shares	Amount
<i>Common shares issued and outstanding:</i>				
Balance, beginning of period	48,733,145	\$ 169,697	48,759,660	\$ 169,220
Exercise of performance share units	-	-	52,289	751
Normal course issuer bid	-	-	(78,804)	(274)
Balance, end of period	48,733,145	\$ 169,697	48,733,145	\$ 169,697

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 have been purchased and cancelled in 2021.

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 were purchased and cancelled in 2021.

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.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three-months ended March 31, 2022 and 2021

(Unaudited)

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

There is no dilutive impact to the weighted average number of common shares outstanding for the three-months ended March 31, 2022 and 2021, as the effects of all stock options and units are anti-dilutive.

	Three-months ended March 31			
	2022		2021	
	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	48,733,145	\$ (0.05)	48,767,213	\$ (0.11)

8. Share-based compensation

The Corporation has various equity-based compensation plans under which up to 4,873,314 common shares (being 10% of all outstanding shares) may be issued as at March 31, 2022.

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

	Three-months ended March 31, 2022	Year ended December 31, 2021
Stock options	475,000	464,500
Performance share unit plan – restricted units	511,122	351,123
Performance share unit plan – performance units	617,457	389,435
Deferred share units	869,023	836,743
Balance, end of period	2,472,602	2,041,801
Common shares available for grants	4,873,314	4,873,314
Percentage used of total available	51%	42%
Remaining common shares available for grants	2,400,712	2,831,513

HIGH ARCTIC ENERGY SERVICES INC.

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(Unaudited)

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

	Three-months ended	
	March 31, 2022	March 31, 2021
Stock options	\$ 29	\$ (4)
Performance share unit plan – restricted units	34	48
Performance share unit plan – performance units	18	(1)
Deferred share units	57	52
Total expense	\$ 138	\$ 95

Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management, and certain employees. At March 31, 2022, a total of 475,000 stock options are outstanding and expire at various dates up to 2026, at exercise prices that range from \$1.30 to \$3.75 per share.

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

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

	Number of Stock Options	Weighted Average Exercise Price (\$)
At December 31, 2021	464,500	2.02
Forfeited/Cancelled and Other ⁽¹⁾	10,500	1.30
At March 31, 2022	475,000	2.01

⁽¹⁾ Forfeited/Cancelled and Other relates to reinstated stock options previously forfeited in 2021.

Exercise prices	Outstanding number of options	Weighted average remaining life of outstanding options (years)	Weighted average exercise price of outstanding options (\$)	Exercisable number of options	Weighted average exercise price of options that are exercisable (\$)
\$1.30	27,000	4.71	1.30	-	-
\$1.37	100,000	4.71	1.37	-	-
\$1.44	211,500	4.71	1.44	-	-
\$1.59	16,500	4.71	1.59	-	-
\$3.75	120,000	0.74	3.75	120,000	0.74
At March 31, 2022	475,000	3.71	2.01	120,000	0.74

The Corporation values all its share options using the Black-Scholes model. No stock options were granted in 2022.

Performance Share Unit Plan (“PSUP”)

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

HIGH ARCTIC ENERGY SERVICES INC.

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(Unaudited)

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	RSUs	PSUs	Total
At December 31, 2021	351,123	389,435	740,558
Granted	159,999	309,999	469,998
Forfeited/Cancelled	-	(81,977)	(81,977)
At March 31, 2022	511,122	617,457	1,128,579

The fair value of each PSU and RSU granted during Q1-2022 was \$1.65, 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.

Deferred Share Unit Plan (“DSU”)

Details regarding the DSUs and related activity is as follows:

	Three-months ended March 31, 2022	Year ended December 31, 2021
Outstanding, beginning of period	836,743	523,117
Granted	32,280	241,998
Dividends re-invested	-	71,628
Outstanding, end of period	869,023	836,743

The fair value of each DSU granted during Q1-2022 was \$1.76, equivalent to share price at the time of grant and vest immediately.

9. Revenue

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

Three-months ended March 31, 2022	Drilling Services	Production Services	Ancillary Services	Inter- Segment Elimination	Total
Service revenue:					
Canada	\$ -	\$ 14,500	\$ 516	\$ -	\$15,016
PNG	9,574	-	-	-	9,574
	9,574	14,500	516	-	24,590
Equipment rental revenue:					
Canada	-	559	1,639	(662)	1,536
PNG	-	-	2,570	-	2,570
	-	559	4,209	(662)	4,106
Total revenue	\$ 9,574	\$15,059	\$4,725	\$ (662)	\$28,696

HIGH ARCTIC ENERGY SERVICES INC.

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(Unaudited)

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

Three-months ended March 31, 2021	Drilling Services	Production Services	Ancillary Services	Inter- Segment Elimination	Total
Service revenue:					
Canada	\$ -	\$14,106	\$ 528	\$ -	\$ 14,634
PNG	708	-	-	-	708
	708	14,106	528	-	15,342
Equipment rental revenue:					
Canada	-	1,268	1,257	(555)	1,970
PNG	44	-	411	-	455
	44	1,268	1,668	(555)	2,425
Total revenue	\$ 752	\$15,374	\$ 2,196	\$ (555)	\$ 17,767

High Arctic has a 49% ownership interest in the Seh' Chene Well Services Limited Partnership (the "Partnership" or "Joint Venture") and is one of two participants in the Joint Venture whose mission is to execute dependable high-quality energy services, focused on environmental stewardship, while creating opportunity for local Indigenous communities and individuals. The Partnership is governed by a Limited Partnership Agreement, which requires that unanimous consent be obtained from the participants for all significant operating and financing decisions. High Arctic has been appointed as manager to oversee the day-to-day operations of the Partnership, which includes providing drilling, well completion, well reclamation and abandonment, production workover and equipment rental services to third parties on behalf of the Partnership. High Arctic has recorded Production services revenue for the three-months ended March 31, 2022 of \$1,494 (2021: \$455).

10. Supplementary expense disclosure

a) Oilfield services expenses by nature

	Three-months ended March 31	
	2022	2021
Personnel	\$ 12,975	\$ 9,731
Equipment operating and maintenance costs	6,228	2,586
Material and supplies	3,306	1,051
Drilling rig rental	21	64
Other	856	973
	\$ 23,386	\$ 14,405

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b) General and administrative expenses by nature

	Three-months ended March 31	
	2022	2021
Personnel	\$ 1,790	\$ 1,721
Professional, legal, and advisory fees	215	264
Information technology services	309	245
Corporate	131	114
Office and warehouse	24	54
(Recovery of) Provision for ECL	(77)	(3)
Vehicle, supplies and other	34	93
	\$ 2,426	\$ 2,488

In 2021 the Corporation received government subsidies from the Canada Emergency Wage Subsidy and Rent Subsidy programs in relation to the impact of Covid-19. These programs expired in Q4-2021, and the Corporation no longer qualified for new government subsidies in 2022. For the three-months period ended March 31, 2021, the resulting reduction of personnel costs amounted to \$911, of which \$812 were allocated to Oilfield service expenses, and \$99 were allocated to General and administrative expenses. For the three-months period ended March 31, 2021, the resulting reduction of other costs amounted to \$79.

c) Interest and finance expense

	Three-months ended March 31	
	2022	2021
Interest on long term debt and standby fees (Note 6)	\$ 125	\$ 99
Lease finance expense (Note 5(b))	88	98
Other	12	19
	\$ 225	\$ 216

11. Supplementary cash flow information

Changes in non-cash working capital balances:

	Three-months ended March 31	
	2022	2021
(Use) source of cash:		
Accounts receivable	\$ (3,656)	\$ (2,368)
Inventory, prepaid expenses and other assets	1,176	363
Accounts payable and accrued liabilities	823	774
Income taxes payable	125	(6)
Impact of foreign exchange on working capital	(284)	(151)
	\$ (1,816)	\$ (1,388)

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Attributable to:			
Operating activities	\$	(1,943)	\$ (1,675)
Investing activities		127	287
Financing activities		-	-
	\$	(1,816)	\$ (1,388)

For the three-months period ended March 31, 2022, interest amounting to \$125 was paid (2021: \$99).

For the three-months period ended March 31, 2022, income taxes paid amounted to \$382 (2021: \$181).

12. Financial instruments and risk management

Financial and other risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes the risk associated with the developments relating to COVID-19. Pandemic and/or endemic risk is the risk that operations and/or administration are forced to run at less than full capacity due to an absence or reduction of members of the workforce, either through forced closures by government both within countries and across national borders, by internally imposed rotational schedules and/or quarantine or illness of the workforce. Further, cyber-security risks increase as employees work from home. Such restrictions could significantly impact the ability for the Corporation to operate, and therefore impact financial results.

The Corporation is also exposed to geopolitical risks including the trade and economic impacts of the ongoing war in Ukraine. Geopolitical risks associated with the situation in Ukraine could significantly impact international trade and global commodity prices, including global oil prices.

Market risks

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

a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation currently has mortgage financing arrangement with a fixed interest rate of 4.30% (Note 6). The Corporation is exposed to interest rate risk upon renewal or expiration of the initial term. In addition, the Corporation is also exposed to interest rate risk on borrowing within its revolving credit facility, which is a floating rate credit facility and fluctuates in response to changes in the prime interest rates (Note 6). The Corporation had no risk management contracts that would be affected by interest rates in place at March 31, 2022.

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 changing oil demand and 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

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implications of changes to government and government policy including the policy directions that will be taken by the US government and ongoing negotiations in PNG to build LNG expansion with industry.

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

The Corporation had no risk management contracts that would be affected by commodity prices in place at March 31, 2022.

c) Foreign currency risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results.

The majority of the Corporation's international revenue and expenses are effectively transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the three-months ended March 31, 2022, 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 \$335 (2021: \$228).

d) PNG foreign currency restrictions

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

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

As at March 31, 2022 USD \$1,031 (December 31, 2021: \$384) was on deposit with a large international bank in PNG. The Bank of PNG ("BPNG") has provided approval for High Arctic to maintain a USD bank account in accordance with the BPNG currency regulations. The Corporation has received approval from the BPNG for its existing drilling services contracts with its key customers in PNG to be denominated and settled in USD. However, if such approval is withdrawn in the future, or new contracts do not receive BPNG approval, funds may be converted into PGK and the Corporation would be required to access the foreign currency market in PNG to meet its foreign currency obligations, thus exposing the Corporation to greater foreign exchange exposure for the PGK.

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

Credit risk, customers, and economic dependence

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

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also institutes credit reviews prior to commencement of contractual arrangements.

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

In providing for ECL, the Corporation uses the historical default rates within the industry between investment grade and non-investment grade customers as well as forward looking information to determine the appropriate loss allowance provision.

The net carrying amount of accounts receivable represents the estimated maximum credit exposure on the accounts receivable balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to 3 large multinational/regional customers who individually accounted for greater than 10% of its consolidated revenues during the three-months period ended March 31, 2022 with sales of \$7,789, \$4,574, and \$2,983, respectively (2021: four customers with revenues of \$4,206, \$2,435, \$2,277 and \$2,073, respectively).

As at March 31, 2022, these 3 customers represented a total of \$12,545 or 51% of outstanding accounts receivable (December 31, 2021: two customers represented a total of \$2,737 or 13% 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 given the COVID-19 pandemic on global economies, economic recession possibilities, and contraction of available capital and reliance on continued fiscal stimulus by governments around the world.

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

Further, the Corporation currently has up to \$37,000 in remaining availability under its credit facility, subject to the bank stipulated Margin Requirement (Note 6), to enable execution of strategic direction.

13. Operating segments

The Corporation determines its operating segments based on internal information reviewed by the executive management team and Board of Directors to allocate resources and assess performance. The Corporation's reportable operating segments are strategic operating units that offer different products and services. The Corporation operates in Canada and PNG. The Corporation has four operating segments as follows:

Drilling Services

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

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Production Services

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

Ancillary Services

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

Corporate

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

Details associated with each geographic and operating segment are provided for the three-months ended and as at March 31, 2022 and 2021 in the tables which follow.

March 31, 2022	PNG	Canada	Total
Revenue – three-months ended	\$ 12,144	\$ 16,552	\$ 28,696
Non-current assets excluding deferred tax assets	\$ 49,181	\$ 78,126	\$ 127,307
Total assets excluding deferred tax assets	\$ 76,126	\$ 98,173	\$ 174,299

March 31, 2021	PNG	Canada	Total
Revenue – three-months ended	\$ 1,163	\$ 16,604	\$ 17,767
Non-current assets excluding deferred tax assets ^{(1) (2)}	\$ 52,426	\$ 80,151	\$ 132,577
Total assets excluding deferred tax assets ⁽¹⁾	\$ 74,844	\$ 102,866	\$ 177,710

⁽¹⁾ Represents balances as at December 31, 2021.

⁽²⁾ December 31, 2021 non-current assets excluding deferred tax assets were restated.

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Three-months ended/As at March 31, 2022	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	\$ 9,574	\$ 15,059	\$ 4,725	\$ -	\$ (662)	\$ 28,696
Expenses						
Oilfield Services	7,477	14,815	1,756	-	(662)	23,386
General and administrative	861	727	133	705	-	2,426
Depreciation and amortization	1,836	2,710	984	34	-	5,564
Share-based compensation	-	-	-	138	-	138
	10,174	18,252	2,873	877	(662)	31,514
Operating (loss) income	(600)	(3,193)	1,852	(877)	-	(2,818)
Foreign exchange loss	-	-	-	28	-	28
Investment income in joint venture	-	-	-	93	-	93
Gain (loss) on sale of property and equipment	(133)	(447)	657	-	-	77
Interest and finance expense	-	-	-	(225)	-	(225)
Loss before income tax	\$ (733)	\$ (3,640)	\$ 2,509	\$ (981)	\$ -	\$ (2,845)
Property and equipment	33,658	65,491	20,412	467	-	120,028
Right-of-use assets	117	4,619	450	-	-	5,186
Total assets less deferred tax assets	\$ 57,472	\$ 87,667	\$ 28,600	\$ 560	\$ -	\$ 174,299

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Three-months ended March 31, 2021	Drilling Services	Production Services	Ancillary Services	Corporate	Inter- Segment Elimination	Total
Revenue	\$752	\$15,374	\$ 2,196	\$ -	\$ (555)	\$ 17,767
Expenses						
Oilfield Services	832	12,957	1,171	-	(555)	14,405
General and administrative	637	908	128	815	-	2,488
Depreciation and amortization	2,432	3,021	1,431	40	-	6,924
Share-based compensation	-	-	-	95	-	95
	3,901	16,886	2,730	950	(555)	23,912
	(3,149)	(1,512)	(534)	(950)	-	(6,145)
Foreign exchange gain	-	-	-	(35)	-	(35)
Gain (loss) on sale of property and equipment	5	514	(41)	(14)	-	464
Interest and finance expense	-	-	-	(216)	-	(216)
Loss before income tax	(3,144)	(998)	(575)	(1,215)	-	(5,932)
Property and equipment ⁽¹⁾	35,875	68,142	20,795	497	-	125,309
Right-of-use assets ⁽¹⁾	192	4,793	283	-	-	5,268
Total assets less deferred tax assets ⁽¹⁾ ⁽²⁾	\$ 55,452	\$ 92,838	\$ 28,923	\$ 497	\$ -	\$ 177,710

⁽¹⁾ Represents balances as at December 31, 2021

⁽²⁾ December 31, 2021 total assets less deferred tax assets were restated.

14. Commitments and contingencies

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied an inventory of spare parts with a total value of \$7,140 at March 31, 2022 (December 31, 2021: \$7,244) by a customer for the Corporation's operations in PNG. The inventory is owned by this party and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must make a payment to the customer equivalent to any inventory shortfall and return the balance of inventory on hand.