INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTHS ENDED
March 31, 2023 and 2022

(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 2023		As at December 31 2022
Assets					
Current assets					
Cash and cash equivalents		$	**46,745**	$	19,559
Accounts receivable	3		**11,161**		11,092
Asset sale receivable			**-**		28,000
Inventory			**10,163**		9,099
Prepaid expenses and other assets			**634**		1,046
Income tax receivable			**745**		482
			69,448		69,278
Non-current assets					
Property and equipment	4		**50,636**		52,962
Equity investments	5		**8,112**		7,739
Note receivable	6		**2,685**		2,604
Right-of-use assets	7(a)		**1,242**		1,374
Total Assets		$	**132,123**	$	133,957
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	**8,704**	$	8,671
Income taxes payable			**225**		227
Current portion of lease liabilities	7(b)		**477**		490
Current portion of long-term debt	8		**176**		186
Dividend payable			**243**		243
			9,825		9,817
Non-current liabilities					
Lease liabilities	7(b)		**878**		992
Long-term debt	8		**3,982**		4,028
Deferred tax liability			**3,446**		3,889
Total Liabilities			**18,131**		18,726
Shareholders' Equity					
Share capital	9(a)		**169,490**		169,554
Contributed surplus			**14,910**		14,685
Accumulated other comprehensive income			**27,808**		27,853
Deficit			**(98,216)**		(96,861)
			113,992		115,231
Total Liabilities and Shareholders' Equity		$	**132,123**	$	133,957

Commitments and contingencies (Note 16)

Approved on behalf of the Corporation by:

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

(signed) "Michael Binnion"
Chairman of the Board and 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	Note		2023		2022
Revenue	11	**$**	**9,525**	$	28,696
Expenses					
Oilfield services	12		**6,452**		23,386
General and administrative	12		**2,067**		2,426
Depreciation and amortization			**2,792**		5,564
Share-based compensation expense	10		**186**		138
			11,497		31,514
Operating loss			**(1,972)**		(2,818)
Finance expense	12		**(40)**		(225)
Interest income			**417**		-
Foreign exchange (loss) gain			**(6)**		28
Gain on sale of property and equipment	4		**130**		77
Income from equity investments	5		**373**		93
Loss before income taxes			**(1,098)**		(2,845)
Current income tax recovery (expense)			**33**		(507)
Deferred income tax recovery			**440**		681
			473		174
Net loss for the period		**$**	**(625)**	$	(2,671)
Net loss per common share – basic and diluted	9(b)	**$**	**(0.01)**	$	(0.05)

For the Three-months ended March 31		2023		2022
Net loss for the period	**$**	**(625)**	$	(2,671)
Other comprehensive loss:				
Items that may be reclassified subsequently to net loss				
Foreign currency translation loss for foreign operations		**(45)**		(918)
Comprehensive loss for the period	**$**	**(670)**	$	(3,589)

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 9(a)	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance at December 31, 2022		**$ 169,554**	**$ 14,685**	**$ 27,853**	**$(96,861)**	**$ 115,231**
Net loss for the period		**-**	**-**	**-**	**(625)**	**(625)**
Dividends		**-**	**-**	**-**	**(730)**	**(730)**
Other comprehensive loss – Foreign currency translation loss		**-**	**-**	**(45)**	**-**	**(45)**
Purchase of common shares for cancellation		**(64)**	**39**	**-**	**-**	**(25)**
Share-based compensation	10	**-**	**186**	**-**	**-**	**186**
Balance at March 31, 2023		**$ 169,490**	**$ 14,910**	**$ 27,808**	**$(98,216)**	**$ 113,992**

	Note	Share capital Note 9(a)	Contributed surplus	Accumulated other comprehensive income	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	10	-	138	-	-	138
Balance at March 31, 2022		$ 169,697	$ 13,956	$ 22,503	$(60,756)	$ 145,400

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	2023	2022
Operating activities			
Net loss for the period		$ (625)	$ (2,671)
Adjustments for:			
Depreciation and amortization		2,792	5,564
Deferred income tax recovery		(440)	(681)
Share-based compensation expense	10	186	138
Non-cash finance (income) expense		(60)	91
Foreign exchange loss (gain)		6	(28)
Gain on sale of property and equipment		(130)	(77)
Income from equity investments		(373)	(93)
Funds flow from operations		1,356	2,243
Changes in non-cash working capital	13	(983)	(1,943)
Cash flow from operating activities		373	300
Investing activities			
Purchase of property and equipment	4	(396)	(1,582)
Proceeds from disposal of property and equipment		28,130	1,037
Changes in non-cash working capital	13	34	127
Cash flow from (used in) investing activities		27,768	(418)
Financing activities			
Repayment of long-term debt	8	(56)	(54)
Dividend payments		(730)	-
Lease obligation payments	7(b)	(153)	(467)
Purchase of common shares for cancellation		(25)	-
Cash flow used in financing activities		(964)	(521)
Effect of foreign exchange rate changes on cash		9	44
Increase (decrease) in cash		27,186	(595)
Cash, beginning of period		19,559	12,037
Cash, end of period		$ 46,745	$ 11,442

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

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, equipment rentals and other oilfield services to the oil and natural gas industry in Papua New Guinea ("PNG") and Canada.

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

As of March 31, 2023, 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.

During 2022, High Arctic entered into an agreement to sell its Canadian Well Servicing business (the "Well Servicing Transaction") for cash consideration of $38,200. Consideration of $10,200 was received in Q3-2022 and the asset sale receivable balance of $28,000 that was outstanding on December 31, 2022, was received in full during Q1-2023.

During 2022, High Arctic entered into an agreement with Team Snubbing Services Inc. ("Team Snubbing") to sell its Snubbing business (the "Snubbing Transaction"). Consideration received included a non-cash equity ownership investment (see Note 5) in with Team Snubbing and note receivable (see Note 6).

2. Basis of Presentation

(a) Statement of compliance and approval

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

These Interim Financial Statements were authorized for issuance by the Board of Directors on May 11, 2023.

(b) Basis of preparation

Unless otherwise noted, the Interim 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, 2022.

The disclosures provided below are incremental to those included as part of the annual audited consolidated financial statements for the year ended December 31, 2022. 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 Financial Statements should be read in conjunction with the annual audited consolidated financial statements.

(c) Judgments, estimates and assumptions

The Interim 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, 2022.

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

3. Accounts receivable

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

	As at March 31, 2023	As at December 31, 2022
Less than 31 days	**$ 5,341**	$ 3,049
31 to 60 days	**3,172**	2,636
61 to 90 days	**887**	2,173
Greater than 90 days	**1,793**	3,279
Expected credit losses	**(32)**	(45)
	$ 11,161	$ 11,092

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

	As at March 31, 2023	As at December 31, 2022
Canadian dollars	**$ 1,392**	$ 2,064
US dollars ("USD") (2023 – USD $7,219, 2022 – USD $6,666)	**9,769**	9,028
	$ 11,161	$ 11,092

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, 2023 was as follows:

	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	$ 3,523	$ 2,922	$ 821	$ 1,618	$ 8,884
Non-investment grade receivables	1,818	250	66	175	2,309
Total receivables	$ 5,341	$ 3,172	$ 887	$ 1,793	$ 11,193
ECL for investment grade (%)	*0.04*	*0.06*	*0.10*	*0.30*	
ECL for non-investment grade (%)	*0.25*	*0.75*	*5.00*	*10.0*	
ECL provision – investment grade	$ -	$ (2)	$ (1)	$ (4)	$ (7)
ECL provision – non-investment grade	(4)	(2)	(3)	(16)	(25)
Total provision for ECL	**$ (4)**	**$ (4)**	**$ (4)**	**$ (20)**	**$ (32)**

(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, 2022 was as follows:

	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	$ 1,743	$ 2,428	$ 2,109	$ 3,026	$ 9,306
Non-investment grade receivables	1,306	208	64	253	1,831
Total receivables	$ 3,049	$ 2,636	$ 2,173	$ 3,279	$ 11,137
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	$ -	$ (1)	$ (2)	$ (9)	$ (12)
ECL provision – non-investment grade	(3)	(2)	(3)	(25)	(33)
Total provision for ECL	**$ (3)**	**$ (3)**	**$ (5)**	**$ (34)**	**$ (45)**

4. Property and equipment

Cost	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2022	$ 1,897	$ 201,595	$ 3,109	$ 6,866	$ -	$ 213,467
Additions	-	-	-	-	396	396
Transfers	-	244	-	-	(244)	-
Effect of foreign exchange	1	(126)	(1)	-	-	(126)
At March 31, 2023	**$ 1,898**	**$ 201,713**	**$ 3,108**	**$ 6,866**	**$ 152**	**$ 213,737**

Accumulated depreciation	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in progress	Total
At December 31, 2022	$ 1,885	$ 154,377	$ 2,740	$ 1,503	$ -	$ 160,505
Depreciation	2	2,605	27	43	-	2,677
Effect of foreign exchange	-	(80)	(1)	-	-	(81)
At March 31, 2023	**$ 1,887**	**$ 156,902**	**$ 2,766**	**$ 1,546**	$ -	**$ 163,101**

Net book value	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2022	$ 12	$ 47,218	$ 369	$ 5,363	$ -	$ 52,962
At March 31, 2023	**$ 11**	**$ 44,811**	**$ 342**	**$ 5,320**	**$ 152**	**$ 50,636**

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

5. Equity Investments

	As at March 31, 2023	As at December 31, 2022
Equity investment – Team Snubbing	**$ 7,962**	$ 7,589
Equity investment – Seh' Chene	**150**	150
	$ 8,112	$ 7,739

6. Note Receivable

	As at March 31, 2023	As at December 31, 2022
Convertible promissory note	**$ 3,365**	$ 3,365
Less: Interest accretion	**(680)**	(761)
	$ 2,685	$ 2,604

In 2022, as part of the consideration for the Snubbing Transaction, High Arctic received a convertible promissory note from Team Snubbing for $3,365 with a five-year term, annual interest of 4.5% accruing from January 1, 2023 and principal repayments commencing July 2024. The note receivable is being recorded at amortized cost using the effective interest rate method.

In the event of default, the outstanding principal amount plus accrued interest is convertible to additional common shares of Team Snubbing.

7. Right-of-use assets and lease liabilities

a) Right-of-use assets

Cost	**Total**
At December 31, 2022	$ 1,560
Disposals	(10)
Effect of foreign exchange rate changes	(7)
At March 31, 2023	**$ 1,543**

Accumulated amortization	**Total**
At December 31, 2022	$ 186
Amortization	115
Disposals	(1)
Effect of foreign exchange rate changes	1
At March 31, 2023	**$ 301**
Net book value	
At December 31, 2022	$ 1,374
At March 31, 2023	**$ 1,242**

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

b) Lease liabilities

	Total
At December 31, 2022	$ 1,482
Lease disposals	-
Lease payments	(153)
Lease finance expense	21
Effect of foreign exchange rate changes	5
At March 31, 2023	**$ 1,355**

	Total
Current	$ 477
Non-current	878
At March 31, 2023	**$ 1,355**

The lease liabilities relate to various types of real estate assets and vehicles which are recorded as right-of-use assets in 7a).

The undiscounted cash flows relating to the lease liabilities at March 31, 2023 are as follows:

	Total
Less than one year	$ 542
One to five years	916
More than five years	-
Total undiscounted liabilities	**$ 1,458**

8. Long-term debt

a) Mortgage financing

The Corporation has mortgage financing secured by lands and buildings owned by High Arctic located within Alberta, Canada. The mortgage has a remaining term of 3.7 years with a fixed interest rate of 4.30% with payments occurring monthly.

	As at, March 31, 2023	As at, December 31, 2022
Current	**$ 176**	$ 186
Non-current	**3,982**	4,028
Total	**$ 4,158**	$ 4,214

b) Overdraft facility

The Corporation currently maintains an overdraft facility in the amount of $600 with security interest over its cash balances in Canada.

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

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.

	Three-months ended March 31, 2023		Year ended December 31, 2022	
Common shares issued and outstanding:	**Shares**	**Amount**	Shares	Amount
Balance, beginning of period	**48,691,864**	**$ 169,554**	48,733,145	$ 169,697
Purchase of common shares for cancellation	**(18,296)**	**(64)**	(41,281)	(143)
Balance, end of period	**48,673,568**	**$ 169,490**	48,691,864	$ 169,554

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

On December 13, 2022, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 750,000 common shares, or approximately 1.5 percent of the Corporation's outstanding shares, under a Normal Course Issuer Bid ("NCIB"). The NCIB is valid for one year, commencing on December 15, 2022 and terminating on December 14, 2023. Pursuant to the NCIB 18,296 shares have been purchased and cancelled during Q1-2023.

b) Per common share amounts

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

There is no dilutive impact to the weighted average number of common shares outstanding for the three-months ended March 31, 2023 and 2022, as the effects of all stock options and units are anti-dilutive.

	Three-months ended March 31,			
	2023		2022	
	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	**48,691,631**	**$ (0.01)**	48,733,145	$ (0.05)

10. Share-based compensation

The Corporation has four equity-based compensation plans under which up to 4,867,356 common shares (being 10% of all outstanding shares) may be issued as at March 31, 2023.

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

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

	Three-months ended March 31, 2023	Year ended December 31, 2022
Stock options	**233,500**	250,000
Performance share unit plan – restricted units	**530,261**	524,965
Performance share unit plan – performance units	**358,849**	407,945
Deferred share units	**1,168,176**	1,107,970
Balance, end of period	**2,290,786**	2,290,880
Common shares available for grants	**4,867,356**	4,869,186
Percentage used of total available	**47%**	47%
Remaining common shares available for grants	**2,576,570**	2,578,306

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

	Three-months ended March 31, 2023	Three-months ended March 31, 2022
Stock options	**$ 9**	$ 29
Performance share unit plan – restricted units	**50**	34
Performance share unit plan – performance units	**43**	18
Deferred share units	**84**	57
Total expense	**$ 186**	$ 138

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, 2023, a total of 233,500 stock options are outstanding and expire at various dates up to 2026, at exercise prices that range from $1.30 to $1.44 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:

	Number of Stock Options	Weighted Average Exercise Price ($)
At December 31, 2021	464,500	2.02
Granted	30,000	1.30
Expired	(75,000)	3.75
Forfeited/Cancelled	(169,500)	2.02
At December 31, 2022	250,000	1.39
Forfeited/Cancelled	(16,500)	(1.59)
At March 31, 2023	**233,500**	**1.38**

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

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	57,000	4.24	1.30	5,610	1.30
$1.37	100,000	3.71	1.37	34,000	1.37
$1.44	76,500	3.71	1.44	30,600	1.44
At March 31, 2023	**233,500**	**4.08**	**1.38**	**70,210**	**1.39**

The Corporation values all its share options using the Black-Scholes model. No stock options were granted in 2023.

Performance Share Unit Plan ("PSUP")

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

	RSUs	PSUs	Total
At December 31, 2021	351,123	389,435	740,558
Granted	159,999	319,999	479,998
Dividends re-invested	13,843	16,288	30,131
Forfeited/Cancelled	-	(317,777)	(317,777)
At December 31, 2022	524,965	407,945	932,910
Dividends re-invested	5,296	4,789	10,085
Forfeited/Cancelled	-	(53,885)	(53,885)
At March 31, 2023	**530,261**	**358,849**	**889,110**

There have been no PSU's granted in 2023. The weighted average fair value of each PSU granted during 2022 was $1.72, equivalent to the previous 5-day weighted average share price at the time of grant.

Deferred Share Unit Plan ("DSU")

Details regarding the DSUs and related activity is as follows:

	Three-months ended March 31, 2023	Year ended December 31, 2022
Outstanding, beginning of year	**1,107,970**	836,743
Granted	**49,145**	246,410
Dividends re-invested	**11,061**	24,817
Outstanding, end of year	**1,168,176**	1,107,970

The weighted average fair value of each DSU granted during Q1-2023 was $1.33 (2022 - $1.76), equivalent to the previous 5-day weighted average share price at the time of grant.

DSUs granted during Q1-2023 pursuant to the Board Directors' election to have quarterly compensation for services rendered settled in DSUs rather than cash were 49,145 DSUs (2022 – 32,280 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.

Three-months ended 31 March, 2023	Drilling Services	Ancillary Services	Production Services	Total
Service revenue:				
Canada	$ -	$ 848	$ -	$ 848
PNG	5,655	-	-	5,655
	5,655	848	-	6,503
Equipment rental revenue:				
Canada	-	574	-	574
PNG	621	1,827	-	2,448
	621	2,401	-	3,022
Total revenue	**$ 6,276**	**$ 3,249**	**$ -**	**$ 9,525**

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

(1) Service revenue for the three-months ended March 31, 2022 associated with the Canadian Well Servicing and Snubbing businesses sold in 2022 totaled $15,059.
(2) Equipment rental revenue for the three-months ended March 31, 2022 associated with the assets sold in the Canadian Well Servicing Transaction included in Ancillary services totaled $1,131.

12. Supplementary expense disclosure

a) Oilfield services expenses by nature

	Three-months ended March 31, 2023	Three-months ended March 31, 2022
Personnel	**$ 3,651**	$ 12,975
Equipment operating and maintenance	**575**	6,228
Material and supplies	**1,107**	3,306
Drilling rig rental	**627**	21
Other	**492**	856
	$ 6,452	$ 23,386

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

b) General and administrative expenses by nature

	Three-months ended March 31, 2023	Three-months ended March 31, 2022
Personnel	**$ 1,390**	$ 1,790
Professional, legal, and advisory fees	**234**	215
Information technology services	**200**	309
Corporate	**138**	131
Office and warehouse	**87**	24
Recovery of expected credit losses	**(13)**	(77)
Vehicle, supplies and other	**31**	34
	$ 2,067	$ 2,426

c) Interest and finance expense

Interest and finance expense	**Three-months ended March 31, 2023**	Three-months ended March 31, 2022
Interest expense and standby fees	**$ 48**	$ 125
Accretion of note receivable	**(44)**	-
Lease finance expense	**15**	88
Other	**21**	12
	$ 40	$ 225

13. Supplementary cash flow information

Changes in non-cash working capital:

	Three-months ended March 31 2023	2022
Source (use) of cash:		
Accounts receivable	**$ (332)**	$ (3,656)
Inventory and prepaid expenses and other assets	**(652)**	1,176
Accounts payable and accrued liabilities	**(18)**	823
Income taxes payable	**(2)**	125
Impact of foreign exchange on working capital	**(97)**	(284)
	$ 949	$ (1,816)

Attributable to:		
Operating activities	**$ (983)**	$ (1,943)
Investing activities	**34**	127
Financing activities	**-**	-
	$ (949)	$ (1,816)

For the three-months ended March 31, 2023, interest of $48 was paid (2022 - $125). For the three-months ended March 31, 2023, income taxes of $237 was paid (2022 - $382).

14. Financial instruments and risk management

Financial instrument measurement and classification

The Corporation's financial assets and liabilities consist of accounts receivable, asset sale receivable, note receivable, accounts payable and accrued liabilities, dividends payable, long-term debt and lease liabilities. The carrying values of accounts receivable, asset sale receivable, accounts payable and accrued liabilities and dividends payable approximate fair value due to the short-term nature of these instruments. The carrying value of long-term debt and lease liabilities where interest is charged at a fixed rate is not significantly different than fair value.

At March 31, 2023, the estimated fair value of the Corporation's note receivable was $2,685 (December 31, 2021 - $2,604), equal to its amortized cost. This determination that fair value equal to amortized cost is based on level 3 inputs as there are no active market valuation inputs available in order to support a different valuation for the note receivable.

Financial and other risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes pandemic and/or endemic risk or 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, geopolitical risks are the potential risks that a business may face due to changes in global events, policies, national security threats, or regulations. These have impact on a company's workforce and operations by limiting market access and increasing costs and could have significant impact on the Corporation. Also, cyber-security risks increase with the use of cloud hosted servers. 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 currently has mortgage financing with a fixed interest rate of 4.30% (Note 8a). The Corporation is exposed to interest rate risk upon renewal or expiration of the initial term. The Corporation had no risk management contracts that would be affected by interest rates in place at March 31, 2023.

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 customers' 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 and geopolitical events. This includes implications from changing oil demand and supply, policy direction by OPEC , the ongoing effect of the conflict between Russia and Ukraine, climate change driven transitions to lower emission energy sources, the impact of future pandemics upon economic activity include the emergence of variants of COVID-19, the implications of changes to government and government policy and investment decisions in PNG to build LNG expansion.

The Corporation had no risk management contracts that would be affected by commodity prices in place at March 31, 2023.

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 three-months ended March 31, 2023, 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 $61 during Q1-2023 (March 31, 2022 - $335).

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 several 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, 2023, USD $1,061 (December 31, 2022 - USD $564) 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. Historically, the Corporation has received approval from the BPNG for drilling services contracts with its key customers in PNG to be denominated and settled in USD. The Corporation will continue to seek Bank of PNG approval for our contracts to be settled in USD on a contract-by-contract basis, however, there is no assurance the Bank of PNG will grant these approvals.

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 impact the Corporation's ability to transact or repatriate funds.

<u>Credit risk, customers, and economic dependence</u>

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 provided services to two large multinational/regional customers who individually accounted for greater than 10% of its consolidated revenues during the three-months ended March 31, 2023 with total sales of $5,651 and $1,326 respectively (2022: three customers with revenues of $7,789, $4,574 and $2,983 respectively).

As at March 31, 2023, these two customers represented a total of $7,621 or 68% of outstanding accounts receivable (December 31, 2022 - three customers represented a total of $6,415 or 58% 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.

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, and managing compliance to debt finance agreements.

Subsequent to the closing of the Sale Transactions, no funding was available under its legacy revolving credit facility and it was closed.

15. 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. For 2023 the Corporation has three 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.

Ancillary Services

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

Production Services

This segment consisted of the Corporation's well servicing and snubbing services provided in Canada that were sold as a part of the Sales Transactions in 2022. Remaining production services assets include the Corporation's snubbing assets in the US, its equity investment in Team Snubbing, Seh Chene, and its heli-portable workover rig in PNG.

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

Details associated with each geographic and operating segment are provided for the three-months ended and as at March 31, 2023 and 2022 in the tables which follow.

March 31, 2023	PNG	Canada	**Total**
Revenue – three-months ended	$ 8,103	$ 1,422	**$ 9,525**
Non-current assets	$ 31,601	$ 32,074	**$ 62,675**
Total assets	$ 68,429	$ 63,694	**$ 132,123**

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

Three-months ended/As at March 31, 2023	Drilling Services	Ancillary Services	Production Services	Corporate	Inter-Segment Elimination	**Total**
Revenue	$ 6,276	$ 3,249	$ -	$ -	$ -	**$ 9,525**
Expenses						
Oilfield Services	5,085	1,367	-	-	-	**6,452**
General and administrative	1,006	277	13	771	-	**2,067**
Depreciation and amortization	1,539	843	380	30	-	**2,792**
Share-based compensation	-	-	-	186	-	**186**
	7,630	2,487	393	987	-	**11,497**
Operating (loss) income	(1,354)	762	(393)	(987)	-	**(1,972)**
Foreign exchange loss	-	-	-	(6)	-	**(6)**
Interest income	-	-	-	417	-	**417**
Equity investment income	-	-	373	-	-	**373**
Gain (loss) on sale of property and equipment	-	106	-	24	-	**130**
Interest and finance expense	-	-	-	(40)	-	**(40)**
Loss before income tax	**$ (1,354)**	**$ 868**	**$ (20)**	**$ (592)**	**$ -**	**$ (1,098)**
Property and equipment	30,341	15,873	4,080	342	-	**50,636**
Right-of-use assets	260	454	-	528	-	**1,242**
Total assets	**$ 52,701**	**$ 63,771**	**$ 14,877**	**$ 774**	**$ -**	**$ 132,123**

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

Three-months ended/As at March 31, 2022 (1)	Drilling Services	Ancillary Services	Production Services	Corporate	Inter-Segment Elimination	**Total**
Revenue	$ 9,574	$ 4,725	$ 15,059	$ -	$ (662)	**$ 28,696**
Expenses						
Oilfield Services	7,477	1,756	14,815	-	(662)	**23,386**
General and administrative	861	133	727	705	-	**2,426**
Depreciation and amortization	1,836	984	2,710	34	-	**5,564**
Share-based compensation	-	-	-	138	-	**138**
	10,174	2,873	18,252	877	(662)	**31,514**
Operating (loss) income	(600)	1,852	(3,193)	(877)	-	**(2,818)**
Foreign exchange loss	-	-	-	28	-	**28**
Equity investment income	-	-	-	93	-	**93**
Gain (loss) on sale of property and	(133)	657	(447)	-	-	**77**
Interest and finance expense	-	-	-	(225)	-	**(225)**
Loss before income tax	**$ (733)**	**$ 2,509**	**$ (3,640)**	**$ (981)**	**$ -**	**$ (2,845)**
Property and equipment	33,658	20,340	65,563	467	-	**120,028**
Right-of-use assets	117	450	4,619	-	-	**5,186**
Total assets less deferred tax assets	**$ 57,472**	**$ 28,528**	**$ 87,739**	**$ 560**	**$ -**	**$ 174,299**

(1) Prior period operating segments have been restated to conform with the Corporation's new segmentation

16. Commitments and contingencies

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied equipment and an inventory of spare parts with a total value of $8,303 at March 31, 2023 (December 31, 2022 - $8,309) by a customer for the Corporation's operations in PNG, the underlying value is denominated in USD. The capital equipment and inventory are owned by this party and have 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 return the balance of capital equipment and inventory and make a payment to the customer equivalent to any shortfall. As at, March 31, 2023 the Corporation has recorded a current obligation of $3,333 (December 31, 2022 - $3,270) as a result of consuming third-party owned inventory in operations which it is required to replenish on or prior to the termination of the contractual arrangement.