



**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX-MONTHS ENDED
June 30, 2023 and 2022**

(Unaudited)

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS FINANCIAL POSITION

(Unaudited)

(Stated in Thousands of Canadian Dollars)

	Note	As at June 30, 2023	As at December 31, 2022
Assets			
Current assets			
Cash and cash equivalents		\$ 45,419	\$ 19,559
Accounts receivable	3	18,180	11,092
Asset sale receivable	1	-	28,000
Inventory		8,623	9,099
Prepaid expenses and other assets		536	1,046
Income tax receivable		726	482
Assets held for sale	5	800	-
		74,284	69,278
Non-current assets			
Property and equipment	4	47,079	52,962
Equity investments	6	7,682	7,739
Note receivable	7	2,771	2,604
Right-of-use assets	8(a)	1,689	1,374
Total Assets		\$ 133,505	\$ 133,957
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 10,890	\$ 8,671
Income taxes payable		551	227
Current portion of lease liabilities	8(b)	608	490
Current portion of long-term debt	9	176	186
Dividend payable		243	243
		12,468	9,817
Non-current liabilities			
Lease liabilities	8(b)	1,225	992
Long-term debt	9	3,939	4,028
Deferred tax liability		3,791	3,889
Total Liabilities		21,423	18,726
Shareholders' Equity			
Share capital	10(a)	169,490	169,554
Contributed surplus		14,876	14,685
Accumulated other comprehensive income		26,759	27,853
Deficit		(99,043)	(96,861)
		112,082	115,231
Total Liabilities and Shareholders' Equity		\$ 133,505	\$ 133,957

See also: 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)

	Note	Three-months ended June 30		Six-months ended June 30	
		2023	2022	2023	2022
Revenue	12	\$ 17,234	\$ 25,023	\$ 26,005	\$ 53,146
Expenses					
Oilfield services	13(a)	10,768	19,247	16,646	42,141
General and administrative	13(b)	2,053	2,797	4,005	5,194
Depreciation and amortization		3,151	5,847	5,883	11,261
Share-based compensation	11	(34)	213	152	351
		15,938	28,104	26,686	58,947
Operating income (loss)		1,296	(3,081)	(681)	(5,801)
Finance expense	13(c)	(130)	(224)	(170)	(449)
Interest income		510	-	927	-
Foreign exchange loss		(225)	(79)	(231)	(51)
Gain on sale of property and equipment		13	62	143	139
(Loss) income from equity investments		(430)	35	(57)	128
Impairment		-	(8,679)	-	(8,679)
Income (loss) before income taxes from continuing operations		1,034	(11,966)	(69)	(14,713)
Current income tax expense		(532)	(343)	(499)	(850)
Deferred income tax (expense) recovery		(413)	(7,921)	27	(7,240)
Tax expense		(945)	(8,264)	(472)	(8,090)
Net income (loss) from continuing operations		\$ 89	\$ (20,230)	\$ (541)	\$ (22,803)
Net loss from discontinued operations	5	\$ (186)	\$ (33)	\$ (181)	\$ (131)
Net loss		\$ (97)	\$ (20,263)	\$ (722)	\$ (22,934)
Net loss per share – basic and diluted	10(b)	\$ (0.00)	\$ (0.42)	\$ (0.01)	\$ (0.47)

	Three-months ended June 30		Six-months ended June 30	
	2023	2022	2023	2022
Net loss for the period	\$ (97)	\$ (20,263)	\$ (722)	\$ (22,934)
Other comprehensive income (loss):				
<i>Item that may be reclassified subsequently to net loss:</i>				
Foreign currency translation income (expense) for foreign operations	(1,049)	1,991	(1,094)	1,073
Comprehensive loss for the period	\$ (1,146)	\$ (18,272)	\$ (1,816)	\$ (21,861)

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	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balance at December 31, 2022		\$ 169,554	\$ 14,685	\$ 27,853	\$(96,861)	\$ 115,231
Net loss for the period		-	-	-	(722)	(722)
Dividends		-	-	-	(1,460)	(1,460)
Other comprehensive loss – foreign currency translation loss		-	-	(1,094)	-	(1,094)
Purchase of common shares for cancellation		(64)	39	-	-	(25)
Share-based compensation	11	-	152	-	-	152
Balance at June 30, 2023		\$ 169,490	\$ 14,876	\$ 26,759	\$(99,043)	\$ 112,082
Balance at December 31, 2021		\$ 169,697	\$ 13,818	\$ 23,421	\$(58,085)	\$ 148,851
Net loss for the period		-	-	-	(22,934)	(22,934)
Dividends		-	-	-	(487)	(487)
Other comprehensive income – foreign currency translation income		-	-	1,073	-	1,073
Share-based compensation	11	-	351	-	-	351
Balance at June 30, 2022		\$ 169,697	\$ 14,169	\$ 24,494	\$(81,506)	\$ 126,854

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

HIGH ARCTIC ENERGY SERVICES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF STATEMENTS OF CASH FLOWS

(Unaudited)

(Stated in Thousands of Canadian Dollars)

	Note	Three-months ended June 30		Six-months ended June 30	
		2023	2022	2023	2022
Cash flows from operating activities					
Net income (loss) from continued operations		\$ 89	\$ (20,230)	\$ (541)	\$ (22,803)
Adjustments for:					
Depreciation and amortization	4	3,040	5,847	5,772	11,261
Impairment		-	8,679	-	8,679
Deferred income tax expense (recovery)		413	7,921	(27)	7,240
Share-based compensation	11	(34)	213	152	351
Non-cash finance (income) expense		(236)	87	(296)	178
Foreign exchange loss		225	79	231	51
Gain on sale of property and equipment	4	(13)	(59)	(143)	(136)
Equity loss (earnings) on investments		430	(35)	57	(128)
		3,914	2,502	5,205	4,693
Changes in non-cash working capital	14	(2,832)	3,502	(3,807)	1,556
Cash flow from continuing operations		1,082	6,004	1,398	6,249
Cash flow from discontinued operations		(129)	116	(72)	171
Net cash flows from operating activities		953	6,120	1,326	6,420
Cash flows from investing activities					
Purchase of property and equipment	4	(702)	(1,710)	(1,098)	(3,280)
Proceeds from disposal of property and equipment	4	-	70	28,101	1,107
Changes in non-cash working capital	14	(67)	121	(33)	248
Cash flow from continuing operations		(769)	(1,519)	26,970	(1,925)
Cash flow from discontinued operations		-	(20)	29	(32)
Net cash flows from (used in) investing activities		(769)	(1,539)	26,999	(1,957)
Cash flows from financing activities					
Lease obligation payments	8(b)	(732)	(464)	(885)	(931)
Dividend payments		(730)	(487)	(1,460)	(487)
Repayment of long-term debt	9	(43)	(81)	(99)	(135)
Purchase of common shares for cancellation		-	-	(25)	-
Changes in non-cash working capital	14	-	244	-	244
Net cash flows used in financing activities		(1,505)	(788)	(2,469)	(1,309)
Effect of foreign exchange rate changes		(5)	(137)	4	(93)
(Decrease) increase in cash		(1,326)	3,656	25,860	3,061
Cash, beginning of period		46,745	11,442	19,559	12,037
Cash, end of period		\$ 45,419	\$ 15,098	\$ 45,419	\$ 15,098

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

(Unaudited)

(Stated in Thousands of Canadian Dollars)

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 – 5th Ave SW Calgary, Canada T2P 0L4.

As of June 30, 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. In addition, High Arctic directors and officers collectively own 2,697,749 common shares, representing 5.5% 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 6) in Team Snubbing and a note receivable (see Note 7). The fair valuation was arrived at using going concern premise at the valuation date by applying discounted cash flow method as primary valuation method to value the business operations of Team Snubbing and adjusted net asset approach and market approach as a secondary valuation method.

On May 11, 2023, the Corporation announced that the Board of Directors intends to recommend to shareholders a return of capital relating to the Well Servicing Transaction, and a reorganization of the Corporation at a special meeting of the Shareholders expected to be held before the end of September 2023. The intent to reorganize is subject to all applicable regulatory approvals and further examination by High Arctic’s Board of Directors.

On June 19, 2023, High Arctic entered into an agreement to sell its Canadian Nitrogen transportation, hauling and pumping services business (the “Nitrogen Transaction”) for cash consideration of \$1,350. Consideration of \$50 was received in Q2-2023 and the balance of \$1,300 was received on the closing of the transaction which occurred on July 31, 2023 (see Note 5).

HIGH ARCTIC ENERGY SERVICES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Stated in Thousands of Canadian Dollars)

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 August 3, 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.

(d) Disposal of non-current assets

Once a disposal group is identified as *held for sale*, all associated assets are reclassified as current and presented separately in the statement of financial position. In addition, any liabilities directly associated with assets *held for sale* are also reclassified and presented as a separate financial statement line item. An asset or disposal group identified as *held for sale* may also be considered a *discontinued operation* if a component of an entity is disposed. A component must comprise operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes. A component must also represent a major line of business or a geographical segment. Judgment is required in determining whether an asset or disposal group identified as *held for sale* is considered a *discontinued operation*.

At June 30, 2023, the Corporation has concluded that the assets held in connection with the Nitrogen Transaction are appropriately disclosed as *assets held for sale* and is considered a *discontinued operation* as the Corporation is disposing of all of its nitrogen transportation, hauling and pumping business and assets. There are no retained liabilities directly associated with these assets.

The Corporation has concluded that its PNG business does not meet the definition of an asset held for sale or distribution as a result of the intended Reorganization at June 30, 2023. While the Board of Directors had the intention to proceed with the Reorganization, uncertainties remained as to, amongst others, the plan, the structure, and the valuation of the distribution at June 30, 2023.

(e) Re-presentation of comparatives

Pursuant to the terms of the Nitrogen Transaction, the Corporation agreed to sell all of its Canadian Nitrogen transportation, hauling and pumping services business. Accordingly, certain comparative figures of these Interim Financial Statements have been re-presented to present operations of High Arctic’s Canadian Nitrogen transportation, hauling and pumping services business as a discontinued operation (Note 5).

HIGH ARCTIC ENERGY SERVICES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Stated in Thousands of Canadian Dollars)

3. Accounts receivable

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

	As at June 30, 2023	As at December 31, 2022
Less than 31 days	\$ 7,692	\$ 3,049
31 to 60 days	4,969	2,636
61 to 90 days	2,913	2,173
Greater than 90 days	2,637	3,279
Expected credit losses	(31)	(45)
	\$ 18,180	\$ 11,092

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

	As at June 30, 2023	As at December 31, 2022
Canadian dollars	\$ 1,054	\$ 2,064
US dollars ("USD") (2023 – USD \$12,935, 2022 – USD \$6,666)	17,126	9,028
	\$ 18,180	\$ 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 June 30, 2023 was as follows:

	Less than 31 days	31-60 days	61-90 days	Over 90 days	Total
Investment grade receivables	\$ 6,801	\$ 4,877	\$ 2,864	\$ 2,444	\$ 16,986
Non-investment grade receivables	891	92	49	193	1,225
Total receivables	\$ 7,692	\$ 4,969	\$ 2,913	\$ 2,637	\$ 18,211
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	\$ (5)	\$ (1)	\$ (3)	\$ (7)	\$ (16)
ECL provision – non-investment grade	(1)	(1)	(1)	(12)	(15)
Total provision for ECL	\$ (6)	\$ (2)	\$ (4)	\$ (19)	\$ (31)

HIGH ARCTIC ENERGY SERVICES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Stated in Thousands of Canadian Dollars)

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
<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	\$ -	\$ (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	-	548	-	-	550	1,098
Disposals	-	(34)	-	-	-	(34)
Transfers	49	467	21	-	(537)	-
Reclassification – assets held- for-sale	(1,526)	(15,608)	-	-	-	(17,134)
Effect of foreign exchange	(2)	(3,881)	(20)	-	-	(3,903)
At June 30, 2023	\$ 418	\$ 183,087	\$ 3,110	\$ 6,866	\$ 13	\$ 193,494
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	6	5,191	54	86	-	5,337
Disposals	-	(26)	-	-	-	(26)
Reclassification – assets held-for-sale	(1,497)	(14,945)	-	-	-	(16,442)
Effect of foreign exchange	(2)	(2,937)	(20)	-	-	(2,959)
At June 30, 2023	\$ 392	\$ 141,660	\$ 2,774	\$ 1,589	\$ -	\$ 146,415
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 June 30, 2023	\$ 26	\$ 41,427	\$ 336	\$ 5,277	\$ 13	\$ 47,079

HIGH ARCTIC ENERGY SERVICES INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Stated in Thousands of Canadian Dollars)

5. Assets held-for-sale and discontinued operations

As at June 30, 2023, the asset held-for-sale with respect to the Nitrogen Transaction is comprised of the following assets:

Assets held-for-sale as at June 30, 2023	Total
Inventory	\$ 15
Prepaid expenses	93
Total current assets	108
Property and equipment	692
Total assets held-for-sale	\$ 800

There is no cumulative income, or losses included in other comprehensive income relating to the asset held-for-sale.

The operating results of the Corporation's nitrogen transportation, hauling and pumping services business reported herein as discontinued operations for the three and six-months ended June 30, 2023 and 2022, respectively, are as follows:

	Three-months ended		Six-months ended	
	June 30		June 30	
	2023	2022	2023	2022
Revenue	\$ 448	\$ 683	\$ 1,202	\$ 1,256
Expenses				
Oilfield services	484	523	1,059	1,014
General and administration	99	39	214	69
Depreciation	51	151	111	301
Loss (gain) on sale of property and equipment	-	3	(1)	3
Net loss from discontinued operations	\$ (186)	\$ (33)	\$ (181)	\$ (131)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

6. Equity investments

	As at June 30, 2023	As at December 31, 2022
Equity investment – Team Snubbing	\$ 7,532	\$ 7,589
Equity investment – Seh’ Chene	150	150
	\$ 7,682	\$ 7,739

On July 27, 2022, as part of the consideration for the Snubbing Transaction, High Arctic received a 42% ownership in the common shares of Team Snubbing. The Corporation recognized the initial investment at \$7,738. The fair value of the share consideration is level 3 and was determined based on an independent third-party evaluation, utilizing a combination of valuation approaches including the discounted cash flow method, adjusted net asset approach, and market approach.

7. Note receivable

	As at June 30, 2023	As at December 31, 2022
Convertible promissory note	\$ 3,365	\$ 3,365
Less: Interest accretion	(594)	(761)
	\$ 2,771	\$ 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.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

8. Right-of-use assets and lease liabilities

a) Right-of-use assets

Cost	Total
At December 31, 2022	\$ 1,560
Additions	1,462
Disposals	(589)
Effect of foreign exchange rate changes	(56)
At June 30, 2023	\$ 2,377

Accumulated amortization	Total
At December 31, 2022	\$ 186
Additions	657
Disposals	(143)
Effect of foreign exchange rate changes	(12)
At June 30, 2023	\$ 688

Net book value	
At December 31, 2022	\$ 1,374
At June 30, 2023	\$ 1,689

b) Lease liabilities

	Total
At December 31, 2022	\$ 1,482
Lease additions	1,462
Lease disposals	(372)
Lease payments	(885)
Lease finance expense	131
Effect of foreign exchange rate changes	15
At June 30, 2023	\$ 1,833

	Total
Current	\$ 608
Non-current	1,225
At June 30, 2023	\$ 1,833

The lease liabilities relate to various types of real estate assets and vehicles which are recorded as right-of-use assets in 8a).

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

(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 June 30, 2023 are as follows:

	Total
Less than one year	\$ 822
One to five years	1,278
More than five years	-
Total undiscounted liabilities	\$ 2,100

9. 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 3.4 years with a fixed interest rate of 4.30% with payments occurring monthly.

	As at, June 30, 2023	As at, December 31, 2022
Current	\$ 176	\$ 186
Non-current	3,939	4,028
Total	\$ 4,115	\$ 4,214

The Corporation's mortgage financing contains certain non-financial covenants requiring lenders consent including changes to the underlying business. In conjunction with the Nitrogen Transaction (see Note 1 and Note 5), the terms of Corporation's mortgage financing were amended. The amendments resulted in a one-time repayment of \$500 of mortgage principal on July 28, 2023, the release of the sold assets from the general security of the mortgage and reduced reporting obligations.

b) Overdraft facility

The Corporation currently maintains an overdraft facility in the amount of \$478 with security interest over its cash balances in Canada. The amount of \$16 of this facility was drawn at June 30, 2023.

10. 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.

	Six-months ended June 30, 2023		Year ended December 31, 2022	
Common shares issued and outstanding:	Shares	Amount	Shares	Amount

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

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 the first six months of 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 and six-months ended June 30, 2023 and 2022, as the effects of all stock options and units are anti-dilutive.

	Three-months ended June 30,			
	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	48,673,568	\$ (0.00)	48,733,145	\$ (0.42)

	Six-months ended June 30,			
	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	48,673,568	\$ (0.01)	48,733,145	\$ (0.47)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

11. Share-based compensation

The Corporation has four equity-based compensation plans under which up to 4,867,357 common shares (being 10% of all outstanding shares) may be issued as at June 30, 2023.

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

	Six-months ended June 30, 2023	Year ended December 31, 2022
Stock options	217,000	250,000
Performance share unit plan – restricted units	536,867	524,965
Performance share unit plan – performance units	363,320	407,945
Deferred share units	1,053,256	1,107,970
Balance, end of period	2,170,443	2,290,880
Common shares available for grants	4,867,357	4,869,186
Percentage used of total available	45%	47%
Remaining common shares available for grants	2,696,914	2,578,306

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

	Three-months ended June 30, 2023	June 30, 2022
Stock options	\$ 8	\$ 24
Performance share unit plan – restricted units	24	40
Performance share unit plan – performance units	33	86
Deferred share units	(99)	63
Total expense	\$ (34)	\$ 213

	Six-months ended June 30, 2023	June 30, 2022
Stock options	\$ 18	\$ 53
Performance share unit plan – restricted units	74	74
Performance share unit plan – performance units	77	104
Deferred share units	(17)	120
Total expense	\$ 152	\$ 351

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 June 30, 2023, a total of 217,000 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 five years and are 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.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

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	(33,000)	(1.44)
At June 30, 2023	217,000	1.38

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	40,500	4.20	1.30	-	-
\$1.37	100,000	3.46	1.37	34,000	1.37
\$1.44	76,500	3.46	1.44	30,600	1.44
At June 30, 2023	217,000	3.59	1.38	64,600	1.40

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	11,902	9,260	21,162
Forfeited/Cancelled	-	(53,885)	(53,885)
At June 30, 2023	536,867	363,320	900,187

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.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

Deferred Share Unit Plan ("DSU")

Details regarding the DSUs and related activity is as follows:

	Six-months ended June 30, 2023	Year ended December 31, 2022
Outstanding, beginning of period	1,107,970	836,743
Granted	87,681	246,410
Forfeited/Cancelled	(167,307)	-
Dividends re-invested	24,912	24,817
Outstanding, end of period	1,053,256	1,107,970

The weighted average fair value of each DSU granted during 2023 was \$1.25 (2022 - \$1.76), equivalent to the previous 5-day weighted average share price at the time of grant.

DSUs granted in 2023 pursuant to the Board Directors' election to have quarterly compensation for services rendered settled in DSUs rather than cash were 87,681 DSUs (2022 – 67,289 DSUs).

12. Revenue

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

Three-months ended June 30, 2023	Drilling Services	Ancillary Services	Production Services	Inter- Segment Elimination	Total
Service revenue:					
Canada	\$ -	\$ -	\$ -	\$ -	\$ -
PNG	10,860	-	-	-	10,860
	10,860	-	-	-	10,860
Equipment rental revenue:					
Canada	-	664	-	-	664
PNG	2,577	3,133	-	-	5,710
	2,577	3,797	-	-	6,374
Total revenue	\$ 13,437	\$ 3,797	\$ -	\$ -	\$ 17,234

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

Three-months ended June 30, 2022	Drilling Services	Ancillary Services	Production Services ⁽¹⁾	Inter-Segment Elimination	Total
Service revenue:					
Canada	\$ -	\$ -	\$14,945	\$ -	\$ 14,945
PNG	5,953	-	-	-	5,953
	5,953	-	14,945	-	20,898
Equipment rental revenue:					
Canada ⁽²⁾	-	1,313	1,134	(724)	1,723
PNG	148	2,254	-	-	2,402
	148	3,567	1,134	(724)	4,125
Total revenue	\$ 6,101	\$3,567	\$16,079	\$ (724)	\$ 25,023

(1) Service revenue for the three-months ended June 30, 2022 associated with the Canadian Well Servicing and Snubbing businesses sold in 2022 totaled \$16,079.

(2) Equipment rental revenue for the three-months ended June 30, 2022 associated with the assets sold in the Canadian Well Servicing Transaction included in Ancillary services totaled \$943.

Six-months ended June 30, 2023	Drilling Services	Ancillary Services	Production Services	Inter-Segment Elimination	Total
Service revenue:					
Canada	\$ -	\$ -	\$ -	\$ -	\$ -
PNG	16,515	-	-	-	16,515
	16,515	-	-	-	16,515
Equipment rental revenue:					
Canada	-	1,333	-	-	1,333
PNG	3,198	4,959	-	-	8,157
	3,198	6,292	-	-	9,490
Total revenue	\$19,713	\$ 6,292	\$ -	\$ -	\$26,005

Six-months ended June 30, 2022	Drilling Services	Ancillary Services	Production Services ⁽¹⁾	Inter-Segment Elimination	Total
Service revenue:					
Canada	\$ -	\$ -	\$ 29,448	\$ -	\$29,448
PNG	15,527	-	-	-	15,527
	15,527	-	29,448	-	44,975
Equipment rental revenue:					
Canada ⁽²⁾	-	2,894	1,693	(1,387)	3,200
PNG	148	4,823	-	-	4,971
	148	7,717	1,693	(1,387)	8,171
Total revenue	\$15,675	\$ 7,717	\$ 31,141	\$ (1,387)	\$53,146

(1) Service revenue for the six-months ended June 30, 2022 associated with the Canadian Well Servicing and Snubbing businesses sold in 2022 totaled \$31,141.

(2) Equipment rental revenue for the six-months ended June 30, 2022 associated with the assets sold in the Canadian Well Servicing Transaction included in Ancillary services totaled \$2,074.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

13. Supplementary expense disclosure – continuing operations

a) Oilfield services expenses by nature

	Three-months ended		Six-months ended	
	June 30		June 30	
	2023	2022	2023	2022
Personnel	\$ 4,079	\$ 13,456	\$ 7,555	\$ 26,230
Equipment operating and maintenance	407	3,422	726	9,457
Material and supplies	3,619	1,445	4,726	4,751
Drilling rig rental	2,579	178	3,206	199
Other	84	746	433	1,504
	\$ 10,768	\$ 19,247	\$ 16,646	\$ 42,141

b) General and administrative expenses by nature

	Three-months ended		Six-months ended	
	June 30		June 30	
	2023	2022	2023	2022
Personnel	\$ 1,156	\$ 2,149	\$ 2,432	\$ 3,910
Professional, legal, and advisory fees	448	319	681	534
Information technology services	194	161	394	470
Corporate	150	107	288	238
Office and warehouse	67	48	154	72
Recovery of expected credit losses	(2)	(45)	(15)	(122)
Vehicle, supplies and other	40	58	71	92
	\$ 2,053	\$ 2,797	\$ 4,005	\$ 5,194

c) Interest and finance expense

	Three-months ended		Six-months ended	
	June 30		June 30	
	2023	2022	2023	2022
Interest on long-term debt and standby fees	\$ 45	\$ 128	\$ 93	\$ 253
Accretion of note receivable	(47)	-	(91)	-
Lease finance expense	116	90	131	178
Other	16	6	37	18
	\$ 130	\$ 224	\$ 170	\$ 449

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

14. Supplementary cash flow information – continuing operations

Changes in non-cash working capital balances:

	Three-months ended		Six-months ended	
	2023	June 30 2022	2023	June 30 2022
Source (use) of cash:				
Accounts receivable	\$ (7,019)	\$ 6,694	\$ (7,088)	\$ 3,038
Inventory, prepaid expenses and other assets ¹	1,638	(2,163)	986	(990)
Accounts payable and accrued liabilities	2,186	(1,840)	2,219	(1,017)
Dividend payable	-	244	-	244
Income taxes payable	326	(11)	324	114
Income taxes receivable	19	406	(244)	431
Impact of foreign exchange on working capital	(49)	537	(36)	228
	\$ (2,899)	\$ 3,867	\$ (3,839)	\$ 2,048
Attributable to:				
Operating activities	\$ (2,832)	\$ 3,502	\$ (3,806)	\$ 1,556
Investing activities	(67)	121	(33)	248
Financing activities	-	244	-	244
	\$ (2,899)	\$ 3,867	\$ (3,839)	\$ 2,048

¹ Three and six-month periods ended June 30, 2023 includes amounts reclassified to assets held-for-sale of \$108 (June 30, 2022 - \$183).

15. Financial instruments and risk management

Financial instrument measurement and classification

The Corporation's financial assets and liabilities consist of accounts receivable, note receivable, accounts payable and accrued liabilities, dividends payable, long-term debt and lease liabilities. The carrying values of accounts 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 June 30, 2023, the estimated fair value of the Corporation's note receivable was \$2,771 (December 31, 2022 - \$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.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

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 9a). 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 June 30, 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 expand its LNG export capacity.

The Corporation had no risk management contracts that would be affected by commodity prices in place at June 30, 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 and six-months ended June 30, 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 \$148 and \$194 respectively (2022: \$102 and \$233 respectively)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

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 June 30, 2023, USD \$1,657 (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.

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 creditworthiness 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 range of customers comprised of small independent, intermediate and large multinational oil and gas producers in North America and predominantly large global customers in PNG.

The Corporation provided services to two large multinational customers who individually accounted for greater than 10% of its consolidated revenues during the three-months ended June 30, 2023 with total sales of \$12,792 and \$1,170 respectively (2022: four customers with revenues of \$6,007, \$3,886, \$2,982 and \$2,925 respectively).

The Corporation provided services to two large multinational customers who individually accounted for greater than 10% of its consolidated revenues during the six-months ended June 30, 2023 with total sales of \$17,165

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

and \$2,495 respectively (2022: four customers with revenues of \$10,582, \$8,535, 5,908 and \$5,615 respectively).

As at June 30, 2023, two customers represented a total of \$13,203 or 73% 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 Well Servicing and Snubbing Transactions its legacy revolving credit facility was terminated.

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 historically 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 service rig in PNG.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

(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 and six-months ended and as at June 30, 2023 and 2022 in the tables which follow.

2023	PNG	Canada	Total
Revenue – three-months ended	\$ 16,570	\$ 664	\$ 17,234
Revenue – six-months ended	24,673	1,332	26,005
Non-current assets	40,220	19,001	59,221
Total assets related to continued operations	71,950	60,755	132,705
Assets held-for-sale related to discontinued operations	\$ -	\$ 800	\$ 800

2022	PNG	Canada	Total
Revenue – three-months ended	\$ 8,355	\$ 16,668	\$ 25,023
Revenue – six-months ended	20,499	32,647	53,146
Non-current assets excluding deferred tax assets ⁽¹⁾	44,847	19,832	64,679
Total assets excluding deferred tax assets for continued operations ⁽¹⁾	68,649	64,491	133,140
Total assets related to discontinued operations ⁽¹⁾	\$ -	\$ 817	\$ 817

⁽¹⁾ Revenue represents balances for the three and six-month periods ended June 30, 2022. Total assets excluding deferred tax assets represents balances as at December 31, 2022.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

Three-months ended June 30, 2023	Drilling Services	Ancillary Services	Production Services	Corporate	Inter- segment eliminations	Total
Revenue	\$ 13,437	\$ 3,797	\$ -	\$ -	\$ -	\$17,234
Expenses						
Oilfield Services	9,657	1,111	-	-	-	10,768
General and administrative	847	28	9	1,169	-	2,053
Depreciation and amortization	1,936	817	378	20	-	3,151
Share-based compensation	-	-	-	(34)	-	(34)
	<u>12,440</u>	<u>1,956</u>	<u>387</u>	<u>1,155</u>	<u>-</u>	<u>15,938</u>
	997	1,841	(387)	(1,155)	-	1,296
(Loss) income from equity						
Investments	-	-	(430)	-	-	(430)
Foreign exchange loss	-	-	-	(225)	-	(225)
Gain on sale of property and equipment	-	13	-	-	-	13
Interest Income	-	-	-	510	-	510
Interest and finance expense	-	-	-	(130)	-	(130)
Income (loss) before income taxes from continued operations	\$ 997	\$ 1,854	\$ (817)	\$ (1,000)	\$ -	\$1,034
Loss before income taxes from discontinued operations	\$ -	\$ (186)	\$ -	\$ -	\$ -	\$ (186)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

Three-months ended June 30, 2022	Drilling Services	Ancillary Services	Production Services	Corporate	Inter- segment eliminations	Total
Revenue	\$ 6,101	\$ 3,567	\$ 16,079	\$ -	\$ (724)	\$25,023
Expenses						
Oilfield Services	4,637	1,399	13,935	-	(724)	19,247
General and administrative	1,046	101	872	778	-	2,797
Depreciation and amortization	1,777	1,009	3,017	44	-	5,847
Share-based compensation	-	-	-	213	-	213
	7,460	2,509	17,824	1,035	(724)	28,104
	(1,359)	1,058	(1,745)	(1,035)	-	(3,081)
Impairment	-	-	(8,679)	-	-	(8,679)
(Loss) income from equity	-	-	-	35	-	35
Investments	-	-	-	-	-	35
Foreign exchange loss	-	-	-	(79)	-	(79)
Gain on sale of property and equipment	-	42	20	-	-	62
Interest and finance expense	-	-	-	(224)	-	(224)
Income (loss) before income taxes						
from continued operations	\$ (1,359)	\$ 1,100	\$ (10,404)	\$ (1,303)	\$ -	\$(11,966)
Loss before income taxes from						
discontinued operations	\$ -	\$ (33)	\$ -	\$ -	\$ -	\$(33)

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

Six-months ended/As at June 30, 2023	Drilling Services	Ancillary Services	Production Services	Corporate	Inter- Segment Elimination	Total
Revenue	\$ 19,713	\$ 6,292	\$ -	\$ -	\$ -	\$26,005
Expenses						
Oilfield Services	14,742	1,904	-	-	-	16,646
General and administrative	1,853	190	22	1,940	-	4,005
Depreciation and amortization	3,475	1,600	758	50	-	5,883
Share-based compensation	-	-	-	152	-	152
	20,070	3,694	780	2,142	-	26,686
	(357)	2,598	(780)	(2142)	-	(681)
(Loss) income from equity						
Investments	-	-	(57)	-	-	(57)
Foreign exchange loss	-	-	-	(231)	-	(231)
Gain on sale of property and equip	7	112	-	24	-	143
Interest Income	-	-	-	927	-	927
Interest and finance expense	-	-	-	(170)	-	(170)
Income (Loss) before income tax from continued operations	\$ (350)	\$ 2,710	\$(837)	\$(1,592)	\$ -	(\$69)
Loss before income taxes from discontinued operations	\$ -	\$ (181)	\$ -	\$ -	\$ -	\$(181)
Property and equipment	28,316	14,807	3,638	318	-	47,079
Right-of-use assets	951	267	-	471	-	1,689
Assets held for sale for discontinued operations	-	800	-	-	-	800
Total assets from continued operations	\$ 53,570	\$ 64,773	\$ 14,373	\$ 789	\$ -	\$133,505

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Interim Consolidated Financial Statements

As at and for the periods ended June 30, 2023 and 2022

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

Six-months ended/As at June 30, 2022	Drilling Services	Ancillary Services	Production Services	Corporate	Inter- Segment Elimination	Total
Revenue ⁽¹⁾	\$ 15,675	\$ 7,717	\$ 31,141	\$ -	\$ (1,387)	\$53,146
Expenses ⁽¹⁾						
Oilfield Services	12,114	2,664	28,750	-	(1,387)	42,141
General and administrative	1,907	204	1,599	1,484	-	5,194
Depreciation and amortization	3,613	1,843	5,727	78	-	11,261
Share-based compensation	-	-	-	351	-	351
	17,634	4,711	36,076	1,913	(1,387)	58,947
	(1,959)	3,006	(4,935)	(1,913)	-	(5,801)
Impairment	-	-	(8,679)	-	-	(8,679)
Foreign exchange loss	-	-	-	(51)	-	(51)
Gain on sale of property and equipment	(133)	699	(427)	-	-	139
(Loss) income from equity						
Investments	-	-	-	128	-	128
Interest and finance expense	-	-	-	(449)	-	(449)
Loss before income tax from continued operations	\$ (2,092)	\$ 3,705	\$(14,041)	\$ (2,285)	\$ -	\$(14,713)
Loss before income taxes from discontinued operations	\$ -	\$ (131)	\$ -	\$ -	\$ -	\$(131)
Property and equipment ⁽¹⁾	31,787	19,990	-	382	-	52,159
Right-of-use assets ⁽¹⁾	314	490	-	570	-	1,374
Total assets less deferred tax assets for continued operations⁽¹⁾	\$ 52,256	\$ 80,314	\$ -	\$ 570	\$ -	\$133,140
Total assets from discontinued operations⁽¹⁾	\$ -	\$ 817	\$ -	\$ -	\$ -	\$ 817

⁽¹⁾ Revenue and expenses represents balances for the three and six-month periods ended June 30, 2022. Total assets excluding deferred tax assets represents balances as at December 31, 2022.

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 \$8,122 at June 30, 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, June 30, 2023, the Corporation has recorded a current obligation of \$3,197 (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.