



CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
December 31, 2022 and 2021**

AMENDED AND RESTATED



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of High Arctic Energy Services Inc.

Opinion

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

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

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

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



Emphasis of Matter – Restatement of Financial Statements

We draw attention to Note 2(f) to the financial statements which describes i) that the financial statements that we originally reported on March 28, 2023 have been amended and restated, and ii) the matter that gives rise to the restatement of the financial statements.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of indicators of impairment for the Entity's Canadian Nitrogen Operations, Canadian Rentals Operations and PNG Operations cash generating units ("CGUs")

Description of the matter

We draw attention to note 2, note 3 and note 7 to the financial statements. The carrying amounts of the Entity's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. The assessment of impairment or impairment reversal indicators is based on significant judgment of whether there are internal and external factors that would indicate that a CGU and specifically the non-financial assets within the CGU, either are impaired or no longer impaired. These factors include revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") forecasts, expected industry activity levels, commodity price developments and market capitalization. The Entity determined that there were no indicators of impairment for the Canadian Nitrogen Operations, Canadian Rentals Operations and PNG Operations CGUs at December 31, 2022.

Why the matter is a key audit matter

We identified the assessment of indicators of impairment for the Entity's Canadian Nitrogen Operations, Canadian Rentals Operations and PNG Operations CGUs at December 31, 2022 as a key audit matter. Significant auditor judgment was required in evaluating the internal and external factors included in the Entity's impairment indicators analysis.

How the matter was addressed in the audit

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

We compared the Entity's 2022 actual revenues and EBITDAs for the Canadian Nitrogen Operations, Canadian Rentals Operations and PNG Operations CGUs to the 2022 budgeted revenues and EBITDAs to assess the Entity's ability to accurately forecast.



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

- comparing internal and external factors, including expected industry activity levels and commodity price developments analyzed by the Entity to relevant external market data or internal source documents
- comparing the Entity's budgeted 2023 revenues and EBITDAs for the Canadian Nitrogen Operations, Canadian Rentals Operations and PNG Operations CGUs to actual 2022 revenues and EBITDAs and considering the impact of changes in conditions and events affecting the Canadian Nitrogen Operations, Canadian Rentals Operations and PNG Operations CGUs
- evaluating the changes in market capitalization over the year and its impact on the Entity's impairment indicator analysis.

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

A handwritten signature in black ink that reads 'KPMG LLP'.

Chartered Professional Accountants

Calgary, Canada

November 6, 2023

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in Thousands of Canadian Dollars)

	Note	As at December 31 2022	As at December 31 2021
Assets			
Current assets			
Cash and cash equivalents		\$ 19,559	\$ 12,037
Accounts receivable	4	11,092	20,714
Asset sale receivable	5	28,000	-
Inventory	6	9,099	9,136
Prepaid expenses and other assets		1,046	2,239
Current portion of income tax receivable	16(f)	482	1,006
		69,278	45,132
Non-current assets			
Property and equipment	7	52,962	125,309
Equity Investments	8	7,739	-
Note receivable	9	2,604	-
Right-of-use assets	10(a)	1,374	5,268
Income tax receivable	16(f)	-	2,000
Deferred tax asset	16(b)	-	7,743
Total Assets		\$ 133,957	\$ 185,452
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 8,671	\$ 13,367
Income taxes payable		227	664
Current portion of lease liabilities	10(b)	490	1,081
Current portion of Long-term debt	11	186	296
Dividend payable		243	-
		9,817	15,408
Non-current liabilities			
Lease liabilities	10(b)	992	7,364
Long-term debt	11	4,028	7,779
Deferred tax liability	16 (b)	3,889	6,050
Total Liabilities		18,726	36,601
Shareholders' Equity			
Share capital	12(a)	169,554	169,697
Contributed surplus		14,685	13,818
Accumulated other comprehensive income		27,853	23,421
Deficit		(96,861)	(58,085)
		115,231	148,851
Total Liabilities and Shareholders' Equity		\$ 133,957	\$ 185,452

Commitments and contingencies (Note 22)

Subsequent events (Note 23)

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 consolidated financial statements.

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

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

For the years ended December 31		2022	2021
	Note		
Revenue	14	\$ 80,020	\$ 76,442
Expenses			
Oilfield services	15(a)	68,103	61,226
General and administrative	15(b)	10,124	10,298
Depreciation and amortization	7,10	17,698	23,639
Share-based compensation expense	13	784	709
		96,709	95,872
Operating loss		(16,689)	(19,430)
Impairment	7	(9,667)	-
Interest and finance expense	15(c)	(1,283)	(706)
Foreign exchange loss		(191)	(197)
Gain on sale of property and equipment	7	134	417
Income from equity investments	8	1	-
Loss before income taxes		(27,695)	(19,916)
Current income tax expense	16(a)	(3,687)	(905)
Deferred income tax (expense) recovery	16(a)	(5,201)	2,214
		(8,888)	1,309
Net loss for the year		\$ (36,583)	\$ (18,607)
Net loss per common share – basic and diluted	12(b)	\$ (0.75)	\$ (0.38)

For the years ended December 31		2022	2021
Net loss for the year		\$ (36,583)	\$ (18,607)
Other comprehensive gain (loss):			
<i>Items that may be reclassified subsequently to net loss</i>			
Foreign currency translation gain (loss) for foreign operations		4,432	(570)
Comprehensive loss for the year		\$ (32,151)	\$ (19,177)

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

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Stated in Thousands of Canadian Dollars)

	Note	Share capital Note 9(a)	Contributed surplus	Accumulated other comprehensive gain (loss)	Deficit	Total shareholders' equity
Balance at December 31, 2021		\$ 169,697	\$ 13,818	\$ 23,421	\$(58,085)	\$ 148,851
Net loss for the year		-	-	-	(36,583)	(36,583)
Dividends		-	-	-	(2,193)	(2,193)
Other comprehensive gain (loss) –						
Foreign currency translation gain		-	-	4,432	-	4,432
Purchase of common shares for cancellation		(143)	83	-	-	(60)
Share-based compensation	13	-	784	-	-	784
Balance at December 31, 2022		\$ 169,554	\$ 14,685	\$ 27,853	\$(96,861)	\$ 115,231
Balance at December 31, 2020		\$ 169,220	\$ 13,741	\$ 23,991	\$(29,731)	\$ 177,221
Net loss for the year		-	-	-	(18,607)	(18,607)
Dividends		-	-	-	(9,747)	(9,747)
Other comprehensive gain (loss) –						
Foreign currency translation loss		-	-	(570)	-	(570)
Purchase of common shares for cancellation		(274)	172	-	-	(102)
Share-based compensation	13	-	709	-	-	709
Exercise of performance share units	13	751	(804)	-	-	(53)
Balance at December 31, 2021		\$ 169,697	\$ 13,818	\$ 23,421	\$(58,085)	\$ 148,851

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

HIGH ARCTIC ENERGY SERVICES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in Thousands of Canadian Dollars)

For the years ended December 31	Note	2022	2021
Operating activities			
Net loss for the year		\$ (36,583)	\$ (18,607)
Adjustments for:			
Depreciation and amortization	7,10	17,698	23,639
Impairment	7	9,667	-
Deferred income tax expense (recovery)	16(a)	5,201	(2,214)
Share-based compensation expense	13	784	709
Non-cash finance expense		197	390
Foreign exchange loss		191	197
Gain on sale of property and equipment	7	(134)	(417)
Income from equity investments	8	(1)	-
Funds flow from operations		(2,980)	3,697
Changes in non-cash working capital	18	10,843	(5,494)
Cash flow from (used in) operating activities		7,863	(1,797)
Investing activities			
Purchase of property and equipment	7	(4,073)	(7,242)
Proceeds from disposal of property and equipment	7	11,401	1,196
Changes in non-cash working capital	18	(676)	474
Cash flow from (used in) investing activities		6,652	(5,572)
Financing activities			
Repayment of long-term debt	11	(3,861)	(10,000)
Dividend payments		(2,193)	(9,747)
Lease obligation payments	10(b)	(866)	(1,615)
Purchase of common shares for cancellation		(60)	(102)
Proceeds from long-term debt	11	-	8,075
Changes in non-cash working capital	18	243	-
Cash flow used in financing activities		(6,737)	(13,389)
Effect of foreign exchange rate changes on cash		(256)	197
Increase (decrease) in cash		7,522	(20,561)
Cash, beginning of year		12,037	32,598
Cash, end of year		\$ 19,559	\$ 12,037

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

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2022 and 2021

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

1. Nature of Business

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

The following table lists the Corporation’s principal subsidiaries, the jurisdiction of formation or incorporation of such subsidiaries and the percentage of share owned, directly or indirectly, by the Corporation as at December 31, 2022:

Name of Subsidiary	Jurisdiction of formation or incorporation	Percentage ownership of shares beneficially owned or controlled (in) directly by the Corporation
High Arctic Energy Services Cyprus Limited	Cyprus	100%
High Arctic Energy Services PNG Limited	PNG	100%
PNG Industry Manpower Solutions Limited	PNG	100%
High Arctic Energy Services (Singapore) PTE Ltd.	Singapore	100%
High Arctic Energy Services Australia PTY Ltd.	Australia	100%
HAES SD Holding Corp.	Alberta	100%
Powerstroke Well Control, Inc.	United States	100%
Seh’ Chene GP Inc.	Alberta	49%
Seh’ Chene Well Services Limited Partnership	Alberta	49%
Team Snubbing Services Inc.	Alberta	42%

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

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

2. Basis of Presentation

(a) Statement of compliance and approval

These consolidated financial statements (“Financial Statements”) have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

The Financial Statements were authorized for issuance by the Board of Directors on November 6, 2023. The Financial Statements were originally issued on March 28, 2023. See Note 2(f) that details the explanation for the re-issuance of the Corporation’s Financial Statements.

(b) Basis of preparation

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

(c) Functional and presentation currency

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

The US dollar is the functional currency of five of the Corporation’s subsidiaries, with one subsidiary utilizing

HIGH ARCTIC ENERGY SERVICES INC.

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

the Australian dollar as its functional currency.

(d) Use of Judgements and estimates

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

Critical accounting judgements and estimates:

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

i) Expected credit loss

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

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

ii) Deferred income taxes

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

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

iii) Functional currency

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

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

HIGH ARCTIC ENERGY SERVICES INC.

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

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

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

iv) Identification of CGUs & Impairment of property and equipment

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

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

The assessment of impairment or impairment reversal indicators is based on significant judgment of whether there are internal and external factors that would indicate that a cash generating unit and specifically the non-financial assets within the cash generating unit, either are impaired or are no longer impaired. These factors include revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") forecasts, expected industry activity levels, commodity price developments and market capitalization. The Corporation's CGUs consist of Canadian Nitrogen Operations, Canadian Rentals Operations, and PNG Operations as at December 31, 2022.

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

v) Business combinations

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

HIGH ARCTIC ENERGY SERVICES INC.

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statement of loss and comprehensive loss.

vi) Joint arrangements

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

vii) Inventory obsolescence provision

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

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

viii) Equity Investments

In accordance with IFRS, equity investments are classified into two categories: investments in associates and joint ventures. Investments in associates are companies in which an entity has significant influence, defined in IFRS 10 Consolidated Financial Statements, as the power to participate in the financial and operating decisions of the investee, but not control. In this case, the equity method of accounting is used, as outlined in IAS 28 Investments in Associates and Joint Ventures, to recognize its share of the investee's profit or loss in the investor's financial statements. On the other hand, joint ventures are businesses that are jointly controlled by the investor and other venturers. The equity method is also applied in this case, as the investor recognizes its share of the joint venture's profits and losses.

ix) Long-term debt and note receivable

Long-term debt and note receivable are treated as financial liabilities and financial assets and are measured at initial recognition at fair value, including transaction costs, if any. The subsequent measurement of these financial instruments depends on their classification as either fair value through other comprehensive income (FVOCI) or amortized cost. If classified as FVOCI, the financial instrument is measured at fair value with changes in fair value recognized in other comprehensive income. If classified as amortized cost, they are measured at amortized cost using the effective interest rate method, this involves calculating the discount rate that reflects the market conditions at the time of initial recognition and the terms of the financial instrument. The effective interest rate is then applied to the carrying amount of the financial instrument to determine the interest expense or income recognized in the profit or loss over the life of the instrument.

x) Depreciation

Depreciation of the Corporation's property and equipment incorporates estimates of useful lives, salvage values and depreciation methodology that is estimated to best reflect usage. Equipment under construction

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is not depreciated until it is available for use. All equipment is depreciated based on the straight-line method over the asset's useful life in years. Estimate details are presented in Note 3.

xi) Share-based compensation

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

Political developments and impact on estimation uncertainty

The conflict between Russia and Ukraine, which began in early 2022, has created significant political uncertainty globally. The war has contributed to global oil and gas price volatility, making it challenging for companies operating in the industry to accurately forecast future trends and plan accordingly. The imposition of international sanctions on Russia has created additional political uncertainty and tension. The ongoing conflict has also created challenges for energy demand in Europe, as the region has relied heavily on energy imports from Russia in the past. The uncertainty created by the continuation of the Russia-Ukraine war has far-reaching consequences for the global oil and gas industry and continues to create uncertainty on prices and future investments.

In 2022, inflation emerged as a major challenge for economies worldwide, leading to a significant increase in prices and reducing purchasing power. This uncertainty in the marketplace created a host of difficulties for consumers, businesses, and governments. In response to inflation, central banks around the world implemented monetary policy measures aimed at controlling inflation and maintaining price stability. Most central banks increased interest rates aimed at slowing the rate of inflation, which made borrowing more expensive. The impact of inflation on the economy has been felt by all participants, as rising prices make it more difficult to afford goods and services, leading to a decrease in real income. The uncertainty created by inflation has also made it more challenging for businesses to make long-term plans and investments, and for consumers to budget effectively. Inflation continues to create significant challenges for economies worldwide, highlighting the need for policymakers to closely monitor their economies and implement measures aimed at maintaining price stability. It is expected that inflation will remain a key concern for economies worldwide and policymakers into the future.

Environmental, Social, and Governance (ESG) refers to a set of non-financial factors that businesses consider in their operations and investments. ESG has gained significant importance to investors and other stakeholders in recent years, especially in the extractive energy industries, due to the carbon-intensive nature of activities and products. Companies are facing increased pressure from stakeholders to reduce their carbon footprint, improve their environmental performance, and promote good governance. ESG is also attracting the attention of lawmakers, as governments across the world implement legislation aimed at reducing carbon emissions. In the coming years, it is expected that ESG will play an increasingly important role and companies that fail to integrate ESG considerations into their operations and investments will face significant challenges. The global focus to address climate change has created a rotation of investment capital away from the extractive energy industries in certain markets with the potential to increase High Arctic's cost of capital and reduce access to growth funding.

HIGH ARCTIC ENERGY SERVICES INC.

Notes to the Consolidated Financial Statements

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(e) Disposal of assets

As disclosed in Notes 5, 7, 8 and 9 High Arctic sold specific assets associated with its well servicing and snubbing services operations in Canada. The Corporation applies judgement to determine whether a component of the Corporation that either has been disposed of, or is classified as held for sale, meets the criteria of a discontinued operation. The key area that involves management judgement in this determination is whether the component represents a separate major line of business.

The Corporation has concluded that the disposal of well servicing assets and snubbing assets do not meet the definition of discontinued operations because they do not represent the disposal of a separate major line of business. This is because the Corporation continues to conduct activities in its Production Services line of business through its investments in Team Snubbing Services Inc. and Seh' Chene Well Services Limited Partnership, and its well servicing assets in PNG. The Corporation also continues to own snubbing equipment and to assess opportunities in the United States.

(f) Restatement of operating segments note disclosure

During the third quarter of 2023, the Corporation identified that certain expenses and assets disclosed in Note 17 of the previously issued Financial Statements as at and for the year ended December 31, 2022 were allocated to certain incorrect reporting segments being Production Services, Ancillary Services, and Corporate. As a result, the Corporation restated Note 17 of the Financial Statements, with no impact to the consolidated statement of financial position, consolidated statement of net loss and comprehensive loss, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows. The following table summarizes the effects of the adjustments:

Year ended/As at December 31, 2022	Production Services			Ancillary Services			Corporate		
	Previously reported	Adjustment	Restated	Previously reported	Adjustment	Restated	Previously reported	Adjustment	Restated
Revenue	\$ 36,100	\$ -	\$ 36,100	\$ 14,850	\$ -	\$ 14,850	\$ -	\$ -	\$ -
Expenses									
Oilfield Services	33,625	6	33,631	6,749	(6)	6,743	-	-	-
General and administrative	1,745	-	1,745	452	-	452	3,658	-	3,658
Depreciation	6,194	617	6,811	4,558	(617)	3,941	165	-	165
Share-based compensation	-	-	-	-	-	-	784	-	784
	41,564	623	42,187	11,759	(623)	11,136	4,607	-	4,607
Net operating (loss) income	(5,464)	(623)	(6,087)	3,091	623	3,714	(4,607)	-	(4,607)
Impairment	(9,667)	-	(9,667)	-	-	-	-	-	-
Foreign exchange loss	-	-	-	-	-	-	(191)	-	(191)
Income from equity investments	-	1	1	-	-	-	1	(1)	-
Gain (loss) on sale of property & equipment	(423)	-	(423)	690	-	690	-	-	-
Interest and finance expense	-	-	-	-	-	-	(1,283)	-	(1,283)
(Loss) Earnings before income tax	(15,554)	(622)	(16,176)	3,781	623	4,404	(6,080)	(1)	(6,081)
Property and equipment	-	4,462	4,462	20,793	(4,462)	16,331	382	-	382
Right-of-use assets	-	-	-	490	-	490	570	-	570
Total assets	\$ -	\$ 12,773	\$ 12,773	\$ 81,131	\$ (53,868)	\$ 27,263	\$ 570	\$ 41,095	\$ 41,665

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3. Significant Accounting Policies

(a) Basis of Consolidation

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

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

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

(b) Business Combinations

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

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

(c) Foreign Currency

i. Functional currency:

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

ii. Foreign operations:

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

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

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

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iii. Transactions and balances:

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

(d) Joint Arrangements

When joint arrangements are entered, the Corporation determines whether it constitutes a joint venture or joint operation. Joint ventures are accounted for using the equity method of accounting, with income recorded in earnings (loss). Joint operations are recorded using proportionate consolidation.

(e) Revenue Recognition

Revenue is recognized from a variety of sources. In general, revenue is measured based on the consideration specified in a contract with a customer based upon an agreed transaction price. The Corporation's revenue is generated from short-term or spot market contracts and long-term arrangements. As referenced in Note 19 regarding economic dependence, large customers often have contract durations greater than one year and can include customers in both Canada and PNG.

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

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

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

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

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

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

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

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

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(f) Cash and cash equivalents

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

(g) Financial Instruments

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

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

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

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

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

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

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

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

(1) Amortized cost using an effective interest rate

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

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

High Arctic currently does not have any derivative financial instruments.

(h) Property and Equipment

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

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

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

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

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Property and equipment is depreciated as follows:

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

(1) UB rigs – Underbalanced rigs

(i) Inventory

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

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

(j) Impairment of assets

- Impairment of financial assets

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

- Impairment of non-financial assets

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

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

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

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

(k) Share-based and other compensation

Share-based plans:

- Stock Option Plan

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

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

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

- Performance Share Unit Plan

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

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

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

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

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

- **Deferred Share Units**

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

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

Other compensation:

- **Bonus Plans**

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

- **Defined Contribution Pension Plan**

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

(l) **Share capital**

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

(m) **Dividends**

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

(n) **Provisions**

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

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

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

(o) Interest and finance expenses

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

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

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

(p) Income tax

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

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

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

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

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

(q) Earnings (loss) per share

The Corporation presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net earnings or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is determined using the treasury stock method, whereby net earnings or loss attributable to common

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shareholders and the weighted average number of common shares outstanding is adjusted for the effects of all dilutive potential common shares. The treasury stock method assumes any proceeds obtained on the exercise of equity-based compensation arrangements would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the difference between the number of shares issued from the exercise of equity-based compensation arrangements and shares repurchased from the related proceeds.

(r) Segment reporting

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

The Corporation determines its operating segments based on internal information regularly reviewed by the Corporation's chief operating decision makers to allocate resources and assess performance. The Corporation has determined that it has three operating segments: Drilling Services, Production Services, Ancillary Services, supported by a Corporate segment, each of which has been presented as a reportable segment.

(s) Leases

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

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

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

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

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

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension, or termination

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option. When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

(t) Government assistance

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

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

4. Accounts receivable

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

	As at December 31, 2022		As at December 31, 2021	
Less than 31 days	\$	3,049	\$	11,803
31 to 60 days		2,636		6,415
61 to 90 days		2,173		2,522
Greater than 90 days		3,279		675
Expected credit losses		(45)		(701)
Total	\$	11,092	\$	20,714

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

	As at December 31, 2022		As at December 31, 2021	
Canadian dollars	\$	2,064	\$	11,177
US dollars (“USD”)				
(2022 – USD \$6,666, 2021 – USD \$7,523)		9,028		9,537
Total	\$	11,092	\$	20,714

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

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The 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)

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

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

5. Asset sale receivable

	As at December 31, 2022	As at December 31, 2021
Total	\$ 28,000	\$ -

On July 17, 2022, High Arctic entered into an agreement with Precision Drilling Corporation to sell its Canadian well servicing assets (the “Well Servicing Transaction”) for \$38,200 and retained working capital upon first closing. The transaction was structured with two closing dates.

The first closing occurred on July 27, 2022 with High Arctic receiving a cash payment of \$10,200. The remaining receivable balance of \$28,000 was paid to the Corporation in January 2023.

Additional information pertaining to the Well Servicing Transaction is disclosed in Note 7, Property and equipment, and Note 10, Right-of-use assets and lease liabilities.

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6. Inventory

As at December 31, 2022, the Corporation had inventory of \$9,099 (2021 - \$9,136), which is primarily comprised of parts and materials related to maintenance, recertification and refurbishment of rigs and rig-related equipment in the Corporation's drilling segment. In 2022, consumed parts and materials for equipment, which are included in oilfield services expense, amounted to \$250 (2021 - \$238). In 2022, the Corporation completed inventory counts and obsolescence reviews of its inventory located at all locations throughout Papua New Guinea which led to an inventory adjustment of \$4,450 and a reduction in the obsolescence provision of \$579. As at December 31, 2022, a cumulative provision of \$256 (2021 - \$835) remains for inventory held in PNG.

7. Property and equipment

Cost	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2021	\$7,799	\$340,401	\$4,469	\$10,782	\$7,272	\$370,723
Additions	-	-	-	-	4,073	4,073
Dispositions	(6,573)	(149,634)	(1,464)	(3,916)	(1,937)	(163,524)
Transfers	-	9,518	47	-	(9,565)	-
Reclassification from vehicle lease (Note 10a)	664	-	-	-	-	664
Impairment	-	(9,667)	-	-	-	(9,667)
Effect of foreign exchange	7	10,977	57	-	157	11,198
At December 31, 2022	\$1,897	\$201,595	\$3,109	\$6,866	-	\$213,467
Accumulated depreciation	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2021	\$7,177	\$232,672	\$3,834	\$1,731	\$-	\$245,414
Depreciation	186	16,391	155	216	-	16,948
Dispositions	(5,891)	(102,777)	(1,305)	(444)	-	(110,417)
Reclassification from vehicle lease (Note 10a)	408	-	-	-	-	408
Effect of foreign exchange	5	8,091	56	-	-	8,152
At December 31, 2022	\$1,885	\$154,377	\$2,740	\$1,503	\$-	\$160,505
Net book value	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2021	\$622	\$107,729	\$635	\$9,051	\$7,272	\$125,309
At December 31, 2022	\$ 12	\$47,218	\$369	\$5,363	\$-	\$ 52,962

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Cost	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2020	\$9,382	\$346,511	\$4,277	\$10,782	\$3,714	\$374,666
Additions	-	-	-	-	7,242	7,242
Dispositions	(1,727)	(8,788)	(124)	-	-	(10,639)
Transfers	28	3,347	320	-	(3,695)	-
Reclassification – vehicle lease	116	-	-	-	-	116
Effect of foreign exchange	-	(669)	(4)	-	11	(662)
At December 31, 2021	\$7,799	\$340,401	\$4,469	\$10,782	\$7,272	\$370,723
Accumulated depreciation	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2020	\$8,515	\$219,404	\$3,587	\$1,484	\$-	\$232,990
Depreciation	221	21,752	319	247	-	22,539
Dispositions	(1,668)	(8,121)	(71)	-	-	(9,860)
Reclassification – vehicle lease	110	-	-	-	-	110
Effect of foreign exchange	(1)	(363)	(1)	-	-	(365)
At December 31, 2021	\$7,177	\$232,672	\$3,834	\$1,731	\$-	\$245,414
Net book value	Vehicles	Oilfield equipment	Computer equipment	Land and building	Work-in-progress	Total
At December 31, 2020	\$867	\$127,107	\$690	\$9,298	\$3,714	\$141,676
At December 31, 2021	\$622	\$107,729	\$635	\$9,051	\$7,272	\$125,309

For the year ended December 31, 2022, High Arctic disposed of property and equipment for cash consideration of \$38,200. As at December 31, 2022, \$28,000 remained outstanding as an Assets Sale Receivable at year end with \$10,200 received in Q3-2022. In a separate disposal transaction, High Arctic also received non-cash equity investment (Note 8) and note receivable (Note 9) consideration.

On July 17, 2022 High Arctic entered into the Well Servicing Transaction and through a separate agreement agreed to sell its snubbing assets (the “Snubbing Transaction”). The first close of the Well Servicing Transaction and the close of the Snubbing Transaction occurred on July 27, 2022 (“the Sale Transactions”). The Corporation recognized impairment expense of \$9,667 (2021 – Nil) relating to the well servicing and snubbing CGU carrying value.

The Canadian well servicing assets were sold for a total cash consideration of \$38,200. This transaction resulted in the sale of the assets and transfer of field personnel and a large majority of office support personnel to the acquiring company. The net book value of assets and liabilities sold to the acquiring company was \$47,191 and the fair value less cost to sell was \$38,200, resulting in an impairment of \$8,991.

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The Canadian Snubbing assets were sold to a private entity, Team Snubbing Services Inc. (“Team Snubbing”). This transaction also resulted in the transfer of field personnel to Team Snubbing. As part of the consideration, High Arctic received a convertible promissory note from Team Snubbing for \$3,365. High Arctic received the remainder of the consideration of \$7,738 in the form of 420,000 common voting shares in Team Snubbing, representing 42% of the post-closing total outstanding shares in Team Snubbing. The net book value of assets and liabilities sold to the acquiring company was \$11,779 and the fair value less cost to sell was \$11,103, resulting in an impairment of \$676.

As disclosed in Note 2(e), High Arctic determined that the completion of the Sale Transactions did not result in the discontinuation, or disposal of, a separate major line of business for the Corporation and accordingly the Sale Transactions did not result in the presentation of discontinued operations under IFRS.

The Corporation determined that there were no indicators of impairment for the Canadian Nitrogen Operations, Canadian Rentals Operations, and PNG Operations CGUs at December 31, 2022.

High Arctic disposed of property and equipment and received cash proceeds of \$1,201 (2021 - \$1,196), resulting in a gain on sale of \$134 (2021 - \$417). Total cash proceeds of \$11,401 were received in 2022.

The asset cost and accumulated depreciation for vehicles purchased at the end of the lease term were reclassified from right-of-use asset to property and equipment at the salvage value amount.

8. Equity Investments

	As At December 31, 2022	As at December 31, 2021
Equity investment – Team Snubbing	\$ 7,589	\$ -
Equity investment – Seh’ Chene Well Services Limited Partnership	\$ 150	\$ -
Equity Investments	\$ 7,739	\$ -

a) Team Snubbing Services Inc.

On July 27, 2022, as part of the consideration for the Snubbing Transaction, High Arctic received a 420,000 common voting shares in Team Snubbing, representing 42% of the post-closing total outstanding shares. High Arctic appointed two directors to the five-member Board of Team Snubbing with key matters relating to the conduct of business requiring not less than 65% shareholder approval. In 2022, the Corporation recognized the initial investment at \$7,738 and recognized loss from equity investments of \$149 representing the Corporation’s proportionate interest of the losses of Team Snubbing from the effective date of the Snubbing Transaction. No dividends were paid by Team Snubbing since the date of the initial investment.

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The Corporation noted the following financial information for Team Snubbing:

Balance Sheet

	As At December 31, 2022
Cash	\$ 18
Current Assets excluding Cash	\$ 3,406
Non-current Assets	\$ 12,853
Current Liabilities	\$ 3,503
Non-current Liabilities	\$ 4,709

Income Statement

	For the year ended December 31, 2022 ⁽¹⁾
Revenue	\$ 6,050
Tax Expense	\$ (55)
Net Loss for the period	\$ (355)

⁽¹⁾ Income statement movements represents activity of Team Snubbing from the date of acquisition of the Corporation's investment in Team Snubbing of July 27, 2022 to December 31, 2022.

b) Seh' Chene Well Services Limited Partnership

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

Initial investment into the Partnership in 2020 was nominal with the Corporation's interest in earnings accumulating to \$150 as at December 31, 2022. No earnings were distributed from the Partnership in 2022 and 2021.

9. Note Receivable

On July 27, 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 considered a financial asset. The carrying value of the note is determined by discounting the anticipated future cash flow impact of the note using an effective interest rate of 13% which approximates the Corporation's cost of capital at the date of entering into the agreement. Accordingly, the initial value at the time of entering into the agreement was \$2,470 resulting in initial accretion expenses of \$895. Accretion income of \$134 recorded to the note receivable during 2022 resulted in a carrying value balance of \$2,604 as at December 31, 2022.

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

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10. Right-of-use assets and lease liabilities

a) Right-of-use assets

Cost	Total
At December 31, 2021	\$7,782
Additions	1,669
Disposals	(7,240)
Reclassification – Property and Equipment (Note 7)	(664)
Effect of foreign exchange rate changes	13
At December 31, 2022	\$1,560

Accumulated amortization	Total
At December 31, 2021	\$2,514
Amortization	750
Disposals	(2,688)
Reclassification – Property and Equipment (Note 7)	(408)
Effect of foreign exchange rate changes	18
At December 31, 2022	\$186

Net book value	
At December 31, 2021	\$5,268
At December 31, 2022	\$1,374

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

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As at and for the years ended December 31, 2022 and 2021

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

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

b) Lease liabilities

	Total
At December 31, 2021	\$8,445
Lease additions	1,395
Lease disposals	(7,695)
Lease payments	(866)
Lease finance expense (Note 15)	197
Effect of foreign exchange rate changes	6
At December 31, 2022	\$1,482
	Total
Current	\$490
Non-current	992
At December 31, 2022	\$1,482

	Total
At December 31, 2020	\$9,233
Lease additions	436
Lease payments	(1,615)
Lease finance expense (Note 12)	390
Effect of foreign exchange rate changes	1
At December 31, 2021	\$8,445
	Total
Current	\$1,081
Non-current	7,364
At December 31, 2021	\$8,445

The lease liabilities relate to various types of real estate assets and vehicles which are recorded as right-of-use assets in 10a). Disposal of lease liabilities relates to real estate assets transferred as part of the Well Servicing Transaction.

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

	Total
Less than one year	\$564
One to five years	1,093
More than five years	-
Total undiscounted liabilities	\$1,657

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

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

11. Long-term debt

	Year Ended December 31, 2022	Year ended December 31, 2021
Revolving loan	\$ -	\$ -
Mortgage financing⁽¹⁾	\$ 4,214	\$ 8,075

⁽¹⁾ Includes total of current and noncurrent amounts.

a) Revolving Credit Facility

At close of the Sale Transactions, the Revolving Credit Facility was cancelled effective July 28, 2022. The Corporation maintains an overdraft facility in the amount of \$600 with security interest over cash balances in Canada.

Prior to the Sale Transactions, the Corporation had a \$37,000 revolving facility with a maturity date of August 31, 2023 which was secured by a general security agreement over the Corporation's assets. In addition, the revolving credit facility allowed for up to \$5,000 to be available by way of account overdraft which was not subject to the covenant requirements.

The Corporation did not draw upon the facility during 2022.

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b) Mortgage Financing

During December 2021, the Corporation entered into a mortgage financing arrangement for \$8,100, secured by lands and buildings owned and occupied by High Arctic within Alberta, Canada. The mortgage has an initial term of 5 years with a fixed interest rate of 4.30% and an amortization period of 25 years with payments occurring monthly.

	As at, December 31, 2022		As at, December 31, 2021	
Current	\$	186	\$	296
Non-current		4,028		7,779
Total	\$	4,214	\$	8,075

The Well Servicing Transaction included the sale of certain Corporation owned land and buildings. At second closing in January 2023 of the Well Servicing Transaction, the Corporation transferred title to real estate locations to the purchaser of the well servicing assets. In December 2022, the Corporation repaid mortgage principal of \$3,565 associated with these properties.

12. Shareholders' equity

a) Share capital

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

	Year ended December 31, 2022		Year ended December 31, 2021	
	Shares	Amount	Shares	Amount
Common shares issued and outstanding:				
Balance, beginning of period	48,733,145	\$ 169,697	48,759,660	\$ 169,220
Exercise of performance share units (Note 13)	-	-	52,289	751
Purchase of common shares for cancellation	(41,281)	(143)	(78,804)	(274)
Balance, end of period	48,691,864	\$ 169,554	48,733,145	\$ 169,697

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 no shares have been purchased and cancelled in 2022.

The Corporation purchased and cancelled 24,905 shares outside of the NCIB during 2022 (2021 – Nil).

The Corporation's previous NCIB commenced on December 15, 2021 and terminated on December 14, 2022. Pursuant to this previous NCIB, in total 16,376 common shares were purchased and cancelled in 2022.

The Corporation's NCIB active during 2021 commenced on December 11, 2020 and terminated on December 10, 2021. Pursuant to this NCIB 78,804 common shares were purchased and cancelled in 2021.

b) Per common share amounts

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

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

	Year ended December 31,			
	2022		2021	
	Number of common shares	Net loss per common share	Number of common shares	Net loss per common share
Weighted average number of common shares used in basic and diluted net loss per share	48,730,195	\$ (0.75)	48,778,012	\$ (0.38)

c) Dividends

The Corporation announced recommencement of its monthly dividend beginning April 2022 of \$0.005 per share to holders of common shares. In total, \$2,193 was paid to holders of High Arctic common shares of record during 2022 (2021 - \$9,747). The dividend is designated as an “eligible dividend” for Canadian Income Tax purpose.

13. Share-based compensation

The Corporation has four equity-based compensation plans under which up to 4,869,186 common shares (being 10% of all outstanding shares) may be issued as at December 31, 2022.

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

	Year Ended December 31, 2022	Year ended December 31, 2021
Stock options	250,000	464,500
Performance share unit plan – restricted units	524,965	351,123
Performance share unit plan – performance units	407,945	389,435
Deferred share units	1,107,970	836,743
Balance, end of period	2,290,880	2,041,801
Common shares available for grants	4,869,186	4,873,314
Percentage used of total available	47%	42%
Remaining common shares available for grants	2,578,306	2,831,513

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

	Year Ended December 31, 2022	Year ended December 31, 2021
Stock options	\$ 45	\$ 39
Performance share unit plan – restricted units	174	113
Performance share unit plan – performance units	155	92
Deferred share units	410	465
Total expense	\$ 784	\$ 709

Stock Option Plan

The Corporation has a Stock Option Plan under which options to purchase common shares may be granted to directors, management, and certain employees. At December 31, 2022, a total of 250,000 stock options are outstanding and expire at various dates up to 2026, at exercise prices that range from \$1.30 to \$1.59 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, 2020	265,500	3.72
Granted	638,000	1.43
Expired	(85,000)	3.55
Forfeited/Cancelled	(354,000)	1.86
At December 31, 2021	464,500	2.02
Granted	30,000	1.30
Expired	(75,000)	3.75
Forfeited/Cancelled	(169,500)	2.02
At December 31, 2022	250,000	1.39

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	4.48	1.30	5,610	1.30
\$1.37	100,000	3.96	1.37	34,000	1.37
\$1.44	76,500	3.96	1.44	30,600	1.44
\$1.59	16,500	3.96	1.59	5,610	1.59
At December 31, 2022	250,000	4.08	1.39	75,820	1.41

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The Corporation values all its share options using the Black-Scholes model. The number of options granted during 2022 was 30,000. The weighted average fair value of stock options granted was \$0.45 and was estimated at the grant date using the following weighted average assumptions:

Expected volatility	56%
Risk-free rate	3%
Expected term	3.6 years
Expected dividends	4%
Share price	\$1.30
Exercise price	\$1.30

Performance Share Unit Plan (“PSUP”)

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

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

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

	RSUs	PSUs	Total
At December 31, 2020	422,181	376,053	798,234
Granted	10,000	80,000	90,000
Dividends re-invested	34,457	37,569	72,026
Exercised	(62,181)	(28,751)	(90,932)
Forfeited/Cancelled	(53,334)	(75,436)	(128,770)
At December 31, 2021	351,123	389,435	740,558
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

The weighted average fair value of each PSUP granted in 2022 was \$1.72 (2021 - \$1.56), equivalent to the previous 5-day weighted average share price at the time of grant. The estimated fair value using the Black-Scholes valuation model is equal to the share price at the time of grant, due to the PSUs granted having an exercise price of nil.

Deferred Share Unit Plan (“DSU”)

DSUs are granted to non-employee members of the Board of Directors. The DSU unit vest immediately, and the fair value of each unit is equivalent to the previous 5-day weighted average share price at the time of grant. DSUs are exercised through the issuance of common shares of the Corporation upon the holder ceasing to serve as a member of the Board of Directors.

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

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Details regarding the DSUs and related activity is as follows:

	Year Ended December 31, 2022	Year ended December 31, 2021
Outstanding, beginning of year	836,743	523,117
Granted	246,410	241,998
Dividends re-invested	24,817	71,628
Outstanding, end of year	1,107,970	836,743

The weighted average fair value of each DSU granted in the 2022 was \$1.50 (2021 - \$1.41), equivalent to the previous 5-day weighted average share price at the time of grant. The estimated fair value using the Black-Scholes valuation model is equal to the share price at the time of grant, due to the DSUs granted having an exercise price of nil.

DSUs granted in 2022 pursuant to the Board Directors' election to have quarterly compensation for services rendered settled in DSUs rather than cash were 156,410 DSUs (2021 – 151,998 DSUs).

14. Revenue

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

Year ended 31 December, 2022	Drilling Services	Production Services	Ancillary Services	Inter- Segment Elimination	Total
Service revenue:					
Canada ⁽¹⁾	\$ -	\$33,857	\$2,369	\$ -	\$36,226
PNG	30,227	-	-	-	30,227
	30,227	33,857	2,369	-	66,453
Equipment rental revenue:					
Canada ⁽²⁾	-	2,243	4,285	(1,601)	4,927
PNG	444	-	8,196	-	8,640
	444	2,243	12,481	(1,601)	13,567
Total revenue	\$30,671	\$36,100	\$14,850	\$(1,601)	\$80,020

(1) Service revenue associated with the Canadian well servicing and snubbing assets sold in 2022 totaled \$36,100.

(2) Equipment rental revenue associated with the assets sold in the Canadian Well Servicing Transaction included in Ancillary services \$2,495 during the period.

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

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

(1) Includes service revenue associated with the Canadian well servicing and snubbing assets sold in 2022.

(2) Equipment rental revenue associated with the assets sold in the Canadian Well Servicing Transaction included in Ancillary services and Production Services totaled \$3,189 during the period.

High Arctic has a 49% ownership interest in the Seh' Chene Well Services Limited Partnership (the "Partnership") and is one of two participants in the Partnership whose mission is to execute dependable high-quality energy services, focused on environmental stewardship, while creating opportunity for local Indigenous communities and individuals. The Partnership is governed by a Limited Partnership Agreement, which requires that unanimous consent be obtained from the participants for all significant operating and financing decisions. High Arctic has been appointed as manager to oversee the day-to-day operations of the Partnership, which includes providing drilling, well completion, well reclamation and abandonment, production workover and equipment rental services to third parties on behalf of the Partnership. High Arctic earned Production Services revenue for the year ended December 31, 2022 from the Partnership of \$3,903 (2021 - \$2,110).

15. Supplementary expense disclosure

a) Oilfield services expenses by nature

	Year ended December 31, 2022	Year ended December 31, 2021
Personnel ⁽¹⁾	\$ 37,905	\$ 36,414
Equipment operating and maintenance	12,056	15,913
Material and supplies	14,656	6,088
Drilling rig rental	540	126
Other ⁽²⁾	2,946	2,685
	\$ 68,103	\$ 61,226

(1) During 2021, the Canada Emergency Wage Subsidy (CEWS) program provided \$2,715 of support. Personnel costs are net of government assistance. The CEWS program ceased in 2021.

(2) During 2021, the Canada Emergency Rent Subsidy (CERS) program provided \$282 of support. Other costs are net of government assistance. The CERS program ceased in 2021.

HIGH ARCTIC ENERGY SERVICES INC.

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b) General and administrative expenses by nature

	Year ended December 31, 2022	Year ended December 31, 2021 ⁽¹⁾
Personnel ⁽²⁾	\$ 7,515	\$ 7,042
Professional, legal, and advisory fees	1,163	962
Information technology services	917	830
Corporate	473	496
Office and warehouse	211	296
Expense (recovery of) expected credit losses	(388)	(24)
Vehicle, supplies and other	233	696
	\$ 10,124	\$ 10,298

⁽¹⁾ 2021 expense groupings have been adjusted to align with 2022.

⁽²⁾ During 2021, the Canada Emergency Wage Subsidy (CEWS) program provided \$318 of support. Personnel costs are net of government assistance. The CEWS program ceased in 2021.

c) Interest and finance expense

	Year ended December 31, 2022	Year ended December 31, 2021
Interest and finance expense		
Interest expense on long term debt & standby fees (Note 11)	\$ 442	\$ 280
Accretion expense (Note 9)	761	-
Lease finance expense (Note 10)	198	390
Interest income	(210)	-
Other	92	36
	\$ 1,283	\$ 706

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16. Income tax

a) Income tax expense

	Year ended December 31, 2022		Year ended December 31, 2021	
Current income tax expense:				
Jurisdictions outside of North America	\$	3,687	\$	905
Total current income tax expense	\$	3,687	\$	905
Deferred income tax expense (recovery):				
Jurisdictions within North America	\$	7,743	\$	-
Jurisdictions outside of North America		(2,542)		(2,214)
Total deferred tax expense (recovery)	\$	5,201	\$	(2,214)
Total tax expense (recovery)				
Jurisdictions within North America	\$	7,743	\$	-
Jurisdictions outside of North America		1,145		(1,309)
Total tax expense (recovery)	\$	8,888	\$	(1,309)

	Year ended December 31, 2022		Year ended December 31, 2021	
Net loss before income tax	\$	(27,695)	\$	(19,916)
Canadian statutory tax rate		23.26%		23.61%
Expected income tax expense (recovery)	\$	(6,442)	\$	(4,702)
Increase (decrease) resulting from:				
Canada tax rate changes		595		(448)
Effect of foreign tax and rates		2,712		693
Non-deductible differences		194		178
Change in unrecognized deferred tax asset		11,637		2,714
Reconciliation to prior year provision		31		138
Other		162		118
Total income tax expense (recovery)	\$	8,888	\$	(1,309)
Effective tax rate		(32.1%)		6.6%

The provision for income tax differs from the result that would be obtained by applying the expected Canadian tax rate of 23.26% (2021 – 23.61%) against the net loss before income taxes. The Corporation's effective tax rate was impacted mainly by unrecognized deferred tax assets related to deductible temporary differences in Canada and the effective rate and deductible differences in international jurisdictions.

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b) Deferred tax assets (liabilities)

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

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

	Year ended December 31, 2022	Year ended December 31, 2021
North America:		
Deferred income tax assets (liabilities):		
Property & equipment	\$ 2,821	\$ (1,697)
Right of use assets	(137)	(1,198)
Lease liabilities	161	1,946
Non-capital losses	29,479	29,264
Capital losses	4,606	4,686
Unrecognized deferred tax asset	(36,939)	(25,302)
Other	9	44
	-	7,743
Jurisdictions outside of North America:		
Deferred income tax assets (liabilities):		
Property & equipment and inventory	(7,690)	(8,982)
Non-capital losses	3,764	2,489
Other	37	(7)
	(3,889)	(6,050)
Net deferred income tax assets (liabilities)	\$ (3,889)	\$ 1,693

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

	January 1, 2022	Recognized in net loss	Exchange differences	December 31, 2022
Canada:				
Deferred income tax assets (liabilities):				
Property & equipment	\$ (1,697)	\$ 4,518	\$ -	\$ 2,821
Right of use assets	(1,198)	1,061	-	(137)
Lease liabilities	1,946	(1,785)	-	161
Non-capital losses	29,264	215	-	29,479
Capital losses	4,686	(80)	-	4,606
Unrecognized deferred tax asset	(25,302)	(11,637)	-	(36,939)
Other	44	(35)	-	9
	7,743	(7,743)	-	-
Jurisdictions outside of Canada:				
Deferred income tax liabilities:				
Property & equipment and Inventory	(9,015)	710	615	(7,690)
Non-capital losses	2,489	1,415	(140)	3,764
Other	476	(439)	-	37
	(6,050)	1,686	475	(3,889)
Net deferred income tax (liabilities) assets	\$ 1,693	\$ (6,057)	\$ 475	\$ (3,889)

	January 1, 2021	Recognized in net loss	Exchange differences	December 31, 2021
Canada:				
Deferred income tax assets (liabilities):				
Property & equipment	\$ (4,405)	\$ 2,708	\$ -	\$ (1,697)
Right of use assets	(1,336)	138	-	(1,198)
Lease liabilities	2,069	(123)	-	1,946
Non-capital losses	29,105	159	-	29,264
Capital losses	4,622	64	-	4,686
Unrecognized deferred tax asset	(22,588)	(2,714)	-	(25,302)
Other	102	(58)	-	44
	7,569	174	-	7,743
Jurisdictions outside of Canada:				
Deferred income tax liabilities:				
Property & equipment and Inventory	(9,673)	520	138	(9,015)
Non-capital losses	1,055	1,485	(51)	2,489
Other	474	5	(3)	476
	(8,144)	2,010	84	(6,050)
Net deferred income tax (liabilities) assets	\$ (575)	\$ 2,184	\$ 84	\$ 1,693

During 2022, deferred tax assets created through the accumulation of non-capital losses in Canada were reviewed to assess the probability that future taxable profit could be utilized against such losses, and it was estimated that subsequent to the Sale Transactions the asset should be written down to nil.

HIGH ARCTIC ENERGY SERVICES INC.

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c) Unrecognized Non-capital losses

Total Canadian non-capital losses carried forward for income tax purposes was \$126,736 at December 31, 2022 (2021 - \$123,949), which expire in years 2027 through 2042.

d) Capital losses

At December 31, 2022 the capital losses carried forward for income tax purposes was \$39,603 (2021 - \$39,694), which can be carried forward indefinitely, but only used against capital gains. Increases to the capital losses in the year relates primarily to the Sale Transactions.

e) Withholding taxes

The government of PNG levies withholding taxes when funds are repatriated out of the country, which includes intercompany dividends. For the year ended December 31, 2022, withholding tax levied associated with such charges amounted to \$2,638 (2021 - \$207) and are recorded as part of current income tax expense. The average dividend withholding rate is estimated to be 15% (2021 – 15%).

The government of PNG levies foreign contractor withholding tax at 15% (2021 – 15%) on all PNG revenue earned by companies incorporated outside of PNG, which includes the Corporation's Singaporean entity. Customers deduct this tax and remit directly to the government in PNG. For the year ended December 31, 2022, this amounted to \$1,193 (2021 - \$621) and are recorded as part of current income tax expense.

f) Income tax receivable

Income tax receivable totaling \$482 to installment payments made to the PNG government (2021 - \$3,006). The Corporation can apply the prepayments to future income tax payments on earnings. Current income tax receivable is reflective of expected tax payments in 2023.

17. Operating segments

The Corporation determines its operating segments based on internal information reviewed by the executive management team and Board of Directors to allocate resources and assess performance. The Corporation's reportable operating segments are strategic operating units that offer different products and services. The Corporation operates in Canada and PNG. The Corporation had three operating segments in 2022, supported by a Corporate segment, as follows:

Drilling Services

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

Production Services

This segment consisted of the Corporation's well servicing and snubbing services provided in Canada that were sold as part of the Sale Transactions (See Note 7), snubbing assets in the US, its equity investments in Team Snubbing and Seh' Chene Well Services Limited Partnership, and its heli-portable workover rig in PNG. See Note 7 for Sale Transactions impacting well servicing and snubbing services.

Ancillary Services

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

Corporate

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

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

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December 31, 2022	Interco			Total
	PNG	Canada	Eliminations	
Revenue	\$ 38,867	42,754	(1,601)	\$ 80,020
Non-current assets	\$ 44,847	19,832	-	\$ 64,679
Total assets	\$ 68,649	65,308	-	\$133,957

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

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

Year ended/As at December 31, 2022	Drilling Services	Production Services (restated – Note 2(f))	Ancillary Services (restated – Note 2(f))	Corporate (restated – Note 2(f))	Inter- Segment Eliminati on	Total
Expenses						
Oilfield Services	29,330	33,631	6,743	-	(1,601)	68,103
General and administrative	4,269	1,745	452	3,658	-	10,124
Depreciation	6,781	6,811	3,941	165	-	17,698
Share-based compensation	-	-	-	784	-	784
	40,380	42,187	11,136	4,607	(1,601)	96,709
Net operating (loss) income	(9,709)	(6,087)	3,714	(4,607)	-	(16,689)
Impairment	-	(9,667)	-	-	-	(9,667)
Foreign exchange loss	-	-	-	(191)	-	(191)
Income from equity investments	-	1	-	-	-	1
Gain (loss) on sale of property & equipment	(133)	(423)	690	-	-	134
Interest and finance expense	-	-	-	(1,283)	-	(1,283)
(Loss) Earnings before income tax	(9,842)	(16,176)	4,404	(6,081)	-	(27,695)
Property and equipment	31,787	4,462	16,331	382	-	52,962
Right-of-use assets	314	-	490	570	-	1,374
Total assets	\$ 52,256	\$12,773	\$ 27,263	\$ 41,665	\$ -	\$133,957

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

18. Supplementary cash flow information

Changes in non-cash working capital:

	Year Ended December 31	
	2022	2021
Source (use) of cash:		
Accounts receivable	\$ 9,622	\$ (7,828)
Inventory and prepaid expenses and other assets	1,230	(1,270)
Accounts payable and accrued liabilities	(4,696)	4,287
Dividend payable	243	-
Income taxes payable	(437)	183
Income taxes receivable	2,524	-
Impact of foreign exchange on working capital	1,924	(392)
	\$ 10,410	\$ (5,020)

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Attributable to:		
Operating activities	\$ 10,843	\$ (5,494)
Investing activities	(676)	474
Financing activities	243	-
	\$ 10,410	\$ (5,020)

For the year ended December 31, 2022, interest of \$442 was paid (2021 - \$280). For the year ended December 31, 2022, income taxes paid of \$1,927 was paid (2021 - \$722).

19. Financial instruments and risk management

Financial and other risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes 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. This risk was significant in 2021 in relation to Covid-19. 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, cybersecurity 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 11b). The Corporation is exposed to interest rate risk upon renewal or expiration of the initial term. In addition, the Corporation is also exposed to interest rate risk on borrowing within its revolving credit facility, which is a floating rate credit facility and fluctuates in response to changes in the prime interest rates (Note 11a). The Corporation had no risk management contracts that would be affected by interest rates in place at December 31 2022 and 2021.

b) Commodity price risk

Commodity price risk is the risk that the Corporation's future cash flows will fluctuate due to changes in demand for High Arctic's services, where almost all the Corporation's customers are oil and gas producers. High Arctic's customer's activity and strategic decisions are impacted by the fluctuations of oil and gas pricing.

These prices are sensitive to not only the relationship between the Canadian and US dollar, but more importantly local, regional and world economic and geopolitical events. This includes implications from changing oil demand and supply, policy direction by OPEC, the ongoing effect of the war between Russia and Ukraine, climate change driven transitions to lower emission energy sources, the impact of future

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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.

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

The Corporation had no risk management contracts that would be affected by commodity prices in place at December 31, 2022 and 2021.

c) Foreign currency risk

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

Most of the Corporation's international revenue and expenses are effectively transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the year ended December 31, 2022, a \$0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in a change to the net loss amounting to \$341 (December 31, 2021 - \$560).

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 December 31, 2022, USD \$564 (December 31, 2021 - USD \$384) was on deposit with a large international bank in PNG. The Bank of PNG ("BPNG") has provided approval for High Arctic to maintain a USD bank account in accordance with the BPNG currency regulations. 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. However, if such approval is withdrawn in the future, or new contracts do not receive BPNG approval, funds may be received in PGK and the Corporation would be required to access the foreign currency market in PNG to meet its foreign currency obligations, thus exposing the Corporation to foreign exchange risk for the PGK.

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

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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 three large multinational/regional customers who individually accounted for greater than 10% of its consolidated revenues during year ended December 31, 2022 with total sales of \$44,481, (December 31, 2021 – two customers totaling \$24,611).

As at December 31, 2022, these three customers represented a total of \$6,415 or 58% of outstanding accounts receivable (December 31, 2021 - two customers represented a total of \$2,737 or 13% of outstanding accounts receivable).

Liquidity risk

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

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 is available under the revolving credit facility. High Arctic intends to fund working capital and capital expenditure needs from cash balances with a view to establish a new arrangement geared towards its Papua New Guinea ("PNG") business in due course once more meaningful revenue has been contracted.

20. Capital Management

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

The Corporation's management considers the capital structure to consist of long-term debt, including any current portion of long-term debt, and shareholders' equity. As at December 31, 2022, the Corporation had long-term debt outstanding \$4,214 (2021 - \$8,075) and \$115,231 (2021 - \$148,851) shareholders' equity. The Corporation's resulting long-term debt to equity ratio was 0.04 (2021 – 0.05) as at December 31, 2022.

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

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There were no significant changes to the Corporation's approach to capital management during the year ended December 31, 2022.

21. Related party transactions

Director and executive personnel

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

	Year ended December 31, 2022	Year ended December 31, 2021
Directors' fees, executive wages including short-term employee benefits	\$ 1,827	\$ 1,437
Share-based compensation	760	662
Total	\$ 2,587	\$ 2,099

Two executive officers have a change of control clause (2021 – two executive officer) that would result in additional wages and benefit expense being accrued if executed, as well as immediate vesting in outstanding share-based compensation plans.

Severance amounts of \$158 were paid during 2022 (2021 - \$nil) to executive personnel.

22. 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 \$8,309 at December 31, 2022 (2021 - \$7,244) by a customer for the Corporation's operations in PNG. 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 on hand and make a payment to the customer equivalent to any shortfall. As at December 31, 2022, the Corporation has recorded a current obligation of \$3,270 (2021 - \$434) 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.

23. Subsequent events

On June 19, 2023, the Corporation entered into an agreement to sell its Canadian Nitrogen transportation, hauling and pumping services business (the "Nitrogen Transaction") for cash consideration of \$1,350.

In conjunction with the Nitrogen Transaction, the terms of the 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 to the lender.